

This document, together with the attached prospectus which has been modified to comply with the listing rules made under Section 142 of the Financial Services Act 1986 ("the Listing Rules") and which forms part of a Registration Statement on Form F-1 under the United States Securities Act 1933 as amended ("the Prospectus"), comprises a prospectus relating to interactive investor international plc ("the Company") in accordance with the Listing Rules and has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of the Financial Services Act 1986.

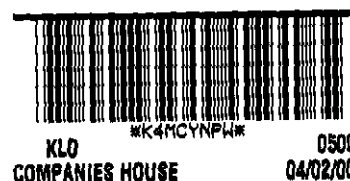
The Directors of the Company, whose names appear on page i of this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Directors of the Company (who have taken all reasonable care to ensure that such is the case), the information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

Application has been made to London Stock Exchange Limited ("the London Stock Exchange") for the ordinary shares of £0.01 each in the capital of the Company ("the Ordinary Shares") issued and to be issued in connection with the offer described in this Prospectus ("the Offer") to be admitted to the Official List of the London Stock Exchange (the "Official List") under Chapter 25 of the Listing Rules. It is expected that dealings on the conditional basis described on page ii of this Prospectus will commence on February 16, 2000. It is expected that admission of the Ordinary Shares to the Official List will become effective, and unconditional dealings will commence on, February 23, 2000 ("Admission"). American Depository Shares ("ADSs"), each representing ten Ordinary Shares and evidenced by American Depository Receipts ("ADRs"), are expected to be approved for quotation on the Nasdaq Stock Market's National Market, subject to official notice of issuance, under the symbol "IINV". All dealings prior to the commencement of unconditional dealings will be at the sole risk of the parties concerned.

This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, Ordinary Shares which are the subject of the Offer or ADSs in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution into the United States, Canada, Australia or Japan. The Shares have not been and will not be registered under the applicable securities laws of Canada, Australia and Japan and, subject to certain exceptions, may not be offered or sold within Canada, Australia or Japan or to any national, resident or citizen of Canada, Australia or Japan. The distribution of this Prospectus in other jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

All statements relating to the business, financial position and prospects of the Company should be viewed in light of the Year 2000 compliance issues which are set out in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in this Prospectus.

Prospective investors should be aware that an investment in the Company involves a high degree of risk. In particular, prospective investors should consider the section entitled "Risk Factors" commencing on page 10 of this Prospectus.



## interactive investor international plc

(incorporated in England and Wales under the Companies Act 1985 with registered number 3824695)

**Offer of 55,000,000 Ordinary Shares  
(at a price of between 120p and 150p)  
and admission to listing on the London Stock Exchange**

Authorised		Ordinary Shares following closing of the Offer	Issued, and to be issued, fully paid	
Number	Amount		Number	Amount
325,000,000	£3,250,000.00	Ordinary Shares of £0.01 each	164,149,425	£1,641,494.25

In connection with the Offer, Credit Suisse First Boston (Europe) Limited ("Credit Suisse First Boston") may over-allot or effect transactions which stabilise or maintain the market price of the Ordinary Shares or ADSs at levels above those which might otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange, the Nasdaq National Market or otherwise. Such stabilising, if commenced, may be discontinued at any time.

In connection with the Offer, Hollinger Digital, Inc., Porpoise Investments Limited and Mr. Alexander Heath, expect to grant Credit Suisse First Boston an option, exercisable for 30 days after Admission, to acquire up to an aggregate of 8,100,000 additional Ordinary Shares (all or a portion of which may, at the election of Credit Suisse First Boston, be in the form of ADSs) at the price at which each Ordinary Share is to be issued under the Offer ("the Offer Price") to cover over-allotments, if any, made in connection with the Offer ("the Over-Allotment Option"). The Underwriting Agreement will contain provisions designed to secure that the extent of any over-allotment is not disclosed. Credit Suisse First Boston does not intend to disclose the extent of any stabilising transactions or the amount of any long or short position.

Credit Suisse First Boston, which is regulated in the United Kingdom by The Securities and Futures Authority Limited, is advising the Company and no one else in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Credit Suisse First Boston, nor for providing advice in relation to the Offer, the contents of this Prospectus or any transaction or arrangement referred to herein.

**Global Coordinator, Bookrunner and Sponsor  
Credit Suisse First Boston**

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## **DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS**

### **Directors and Company Secretary**

Sherry Leigh Coutu (Non-executive Chairman)  
Peter Frederick Dicks (Non-executive Deputy Chairman)  
Daniel William Colson (Non-executive Deputy Chairman)  
Tomás Carruthers (Chief Executive Officer)  
Max William Simon Ashton (Chief Financial Officer and Company Secretary)  
Julian David Jaffe (Chief Operations Officer)  
Laurie Jean Yoler (Non-executive Director)  
Charles Bellamy Young (Non-executive Director)

All of First Floor, 2 East Poultry Avenue, London EC1A 9PT, the registered office of the Company

### **Advisers**

#### ***Global Coordinator, Bookrunner and Sponsor***

Credit Suisse First Boston (Europe) Limited  
One Cabot Square  
London E14 4QJ

#### ***Broker to the Company***

Credit Suisse First Boston de Zoete & Bevan Limited  
One Cabot Square  
London E14 4QJ

#### ***Legal Advisers to the Company***

*As to English law*  
S J Berwin & Co  
222 Grays Inn Road  
London WC1X 8HB

*As to U.S. law*  
Shearman & Sterling  
9 Appold Street  
London EC2A 2AP

#### ***Legal Advisers to the Underwriters and the Sponsor***

*As to English law*  
Herbert Smith  
Exchange House  
Primrose Street  
London EC2A 2HS

*As to U.S. law*  
Brobeck Hale and Dorr  
Hasilwood House  
60 Bishopsgate  
London EC2N 4AJ

#### ***Bankers***

Barclays Bank Plc  
PO Box 415  
14-16 Queen Street  
Bristol BS99 2DG

#### ***Registered Auditors and Reporting Accounts***

KPMG  
1 Puddle Dock  
London EC4V 3PD

#### ***Auditors of non-financial operating data***

ABC ELECTRONIC  
Saxon House  
211 High Street,  
Berkhamsted, Herts. HP4 1AD

#### ***Receiving Agent***

Lloyds TSB Registrars  
Antholin House  
71 Queen Street  
London EC4N 1SC

#### ***Registrars***

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA

#### ***Underwriters***

Credit Suisse First Boston (Europe) Limited  
One Cabot Square  
London E14 4QJ

Donaldson, Lufkin & Jenrette  
99 Bishopsgate  
London EC2M 3YF

Salomon Smith Barney International  
Victoria Plaza  
111 Buckingham Palace Road,  
London SW1W 0SB

## OFFER STATISTICS

Price Range (1) .....	120p to 150p
Number of Shares being offered (2) .....	55,000,000
—new Shares .....	52,000,000
—existing Shares .....	3,000,000
Market Capitalisation (3) .....	£221,601,724
Estimated net proceeds receivable by the Company (4) .....	£62,200,000

- (1) The Offer Price may be set within, above or below the indicative price range of the Offer shown on the cover page of this document (the "Price Range").
- (2) This assumes no exercise of the Over-Allotment Option.
- (3) The figure for market capitalisation is based on an Offer Price at the mid-point of the Price Range and assumes that 52,000,000 new Shares are subscribed for in the Offer. If the Offer Price is not set at such mid-point, the figure for market capitalisation will change. This figure also assumes that the purchase by the Company of 400,000 Ordinary Shares from Mr. Alexander Heath for cancellation has taken place.
- (4) The estimated net proceeds receivable by the Company are stated after deduction of the estimated commissions and other fees and expenses of the Offer of £8.0 million and are based on an Offer Price at the mid-point of the Price Range.

## EXPECTED TIMETABLE FOR THE OFFER

Latest date and time for receipt of completed Application Forms and cheques .....	12.00 noon on Monday February 14, 2000
Latest time for receipt of bids from institutional investors .....	5.00 pm on Tuesday February 15, 2000
Announcement of the Offer Price and allocations .....	Wednesday February 16, 2000
Conditional dealings in Shares expected to commence on the London Stock Exchange and ADSs quoted on Nasdaq subject to official notice of issuance .....	2.30 pm on Wednesday February 16, 2000
Admission and unconditional dealings in Shares commence on the London Stock Exchange and Shares credited to CREST accounts .....	8.00 am on Wednesday February 23, 2000
Authorisation and unconditional dealings in ADSs commence on Nasdaq .....	2.30 pm on Wednesday February 23, 2000
Despatch of definitive share certificates (where applicable) .....	Wednesday February 23, 2000

Each of the times and dates in this timetable may be subject to change. References to time are to London, United Kingdom time.

## PART I

### ACCOUNTANTS' REPORT

The following is the full text of a report by KPMG, chartered accountants.

The Directors  
interactive investor international plc  
2 East Poultry Avenue  
London  
EC1A 9PT



1 Puddle Dock  
London, EC4V 3PD

The Directors  
interactive investor limited  
2 East Poultry Avenue  
London  
EC1A 9PT

Credit Suisse First Boston (Europe) Limited  
One Cabot Square  
London  
E14 4QJ

4 February, 2000 ✓

Dear Sirs

**interactive investor limited**

We report on the financial information set out below. The financial information has been prepared for inclusion in the Prospectus dated 4 February, 2000 relating to the proposed flotation of interactive investor international plc.

#### **Basis of preparation**

The financial information set out in this report is based on the audited consolidated financial statements of interactive investor limited ("the company") and of its subsidiary undertakings (collectively referred to as the "Group") for the three years ended September 30, 1999 prepared on the basis described in note 2 after making such adjustments as we considered necessary.

#### **Responsibility**

Such financial statements are the responsibility of the directors of the company who approved their issue.

The directors of the Group are responsible for the contents of the Prospectus dated 4 February, 2000 in which this report is included.

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

#### **Basis of opinion**

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

#### **Opinion**

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

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
		£	£	£
Net revenues .....	3	656,991	1,429,789	2,578,328
Cost of revenues .....		<u>(470,040)</u>	<u>(937,777)</u>	<u>(1,846,619)</u>
Gross profit .....		186,951	492,012	731,709
Operating expenses .....		<u>(957,135)</u>	<u>(2,371,624)</u>	<u>(7,085,883)</u>
Operating loss .....		(770,184)	(1,879,612)	(6,354,174)
Net interest receivable/(payable) .....	7	<u>11,859</u>	<u>(7,247)</u>	<u>72,808</u>
Loss on ordinary activities before and after taxation and retained loss for the financial year .....	4	<u>(758,325)</u>	<u>(1,886,859)</u>	<u>(6,281,366)</u>
Loss per share (p) .....	9	<u>(4.99)</u>	<u>(11.99)</u>	<u>(26.06)</u>
Loss per share (p) adjusted to retroactively reflect January 13, 2000 bonus issue .....	9	<u>(1.66)</u>	<u>(4.00)</u>	<u>(8.69)</u>

The consolidated results for each of the periods shown above are derived from continuing operations.

There are no recognised gains or losses in the period other than those included in the profit and loss account.

There is no difference between the Group's historical cost loss and that reported in the profit and loss account.

The accompanying notes on pages viii to xxxv are an integral part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

	Notes	September 30, 1997 £	September 30, 1998 £	September 30, 1999 £
<b>Fixed assets</b>				
Tangible fixed assets . . . . .	10	61,905	301,298	932,199
		<u>61,905</u>	<u>301,298</u>	<u>932,199</u>
<b>Current assets</b>				
Debtors . . . . .	11	166,456	609,602	881,398
Cash at bank and in hand . . . . .		340,689	—	108,416
		<u>507,145</u>	<u>609,602</u>	<u>989,814</u>
<b>Creditors: amounts falling due within one year</b>				
Creditors . . . . .	12	(231,431)	(1,272,140)	(2,429,850)
Convertible loans . . . . .	13	—	(688,000)	—
Other loans . . . . .	13	—	(500,000)	(900,000)
		<u>(231,431)</u>	<u>(2,460,140)</u>	<u>(3,329,850)</u>
<b>Net current assets/(liabilities)</b> . . . . .		<u>275,714</u>	<u>(1,850,538)</u>	<u>(2,340,036)</u>
<b>Net assets/(liabilities)</b> . . . . .		<u>337,619</u>	<u>(1,549,240)</u>	<u>(1,407,837)</u>
<b>Capital and reserves</b>				
Share capital and share premium . . . . .	15	1,270,561	1,270,561	7,506,830
Warrant reserve . . . . .	17	—	—	47,500
Profit and loss account . . . . .	17	(932,942)	(2,819,801)	(8,962,167)
<b>Shareholders' funds/(deficit)</b> . . . . .		<u>337,619</u>	<u>(1,549,240)</u>	<u>(1,407,837)</u>
Equity/ (deficit) . . . . .		237,369	(1,649,490)	(1,407,837)
Non equity . . . . .		100,250	100,250	—
		<u>337,619</u>	<u>(1,549,240)</u>	<u>(1,407,837)</u>

The accompanying notes on pages viii to xxxv are an integral part of these consolidated financial statements.

## CONSOLIDATED CASHFLOW STATEMENTS

	Notes	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
		£	£	£
<b>Net cash outflow from operating activities</b> .....	22	(722,579)	(1,495,535)	(4,261,439)
<b>Returns on investments and servicing of finance</b>				
Interest received .....		12,157	5,697	73,224
Interest paid .....		(298)	(12,944)	(416)
<b>Net cash (inflow/outflow from returns on investment and servicing of finance)</b> .....		11,859	(7,247)	72,808
<b>Capital expenditure and financial investment</b>				
Payments to acquire tangible fixed assets .....		(72,703)	(300,516)	(891,641)
		(72,703)	(300,516)	(891,641)
<b>Net cash outflow before management of liquid resources and financing</b> .....		(783,423)	(1,803,298)	(5,080,272)
<b>Financing</b>				
Issue of ordinary share capital .....		1,020,711	—	5,751,297
Issue/(redemption) of debt .....		—	1,188,000	(288,000)
<b>Increase/(decrease) in cash</b> .....	23	237,288	(615,298)	383,025

The accompanying notes on pages viii to xxxv are an integral part of these consolidated financial statements.



# **CONSOLIDATED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS/(DEFICIT)**

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Opening shareholders' funds/(deficit) . . . . .	75,233	337,619	(1,549,240)
Shares issued . . . . .	1,020,711	—	5,703,797
Shares to be issued . . . . .	—	—	532,472
Warrant reserve . . . . .	—	—	47,500
Compensation expense . . . . .	—	—	139,000
Loss for the financial period . . . . .	(758,325)	(1,886,859)	(6,281,366)
	<u>337,619</u>	<u>(1,549,240)</u>	<u>(1,407,837)</u>

The accompanying notes on pages viii to xxxv are an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Description of business

interactive investor limited ('the company') was incorporated on August 11, 1995 and commenced trading on September 1, 1995. The year end of the company was changed from August 31, to September 30, during the period ended September 30, 1997. On February 1, 2000, the company changed its name from interactive investor international limited to interactive investor limited.

The principal activity of the company is the provision of investment information tools and value added services to private investors via the Internet. Revenue is derived from three principal areas: commission-shares, referral fees and subscriptions, advertising and Web development, hosting and consulting.

### 2 Accounting policies

The following significant accounting policies have been applied consistently in dealing with matters which are considered material in relation to the financial statements for each of the periods covered by this report.

#### *Basis of preparation*

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United Kingdom ("U.K. GAAP"), under the historical cost convention, and in accordance with applicable accounting standards.

#### *Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings. All intercompany transactions have been eliminated.

#### *Going concern*

The company and its subsidiaries have incurred losses from operations in the period from incorporation to September 30, 1999, totalling £8,962,167. For the year ended September 30, 1999 the company reported a net loss of £6,281,366 and net liabilities of £1,407,837.

On October 29, 1999, an additional £6 million was raised in connection with a rights offering. However, management anticipates incurring additional losses in the next 12 months and will require further funding.

In the event that this offering does not proceed, Telegraph Group Limited (a group company of Hollinger Digital, Inc., one of the company's principal shareholders) has provided a letter of support to the company confirming that it will provide sufficient funds up to a maximum of £4 million to enable the company to meet its liabilities as and when they fall due until the earlier of February 20, 2001 or when adequate funds are obtained through the company's proposed Initial Public Offering ("IPO"). Consequently, the directors have prepared the accounts on a going concern basis.

#### *Newly adopted U.K. accounting standards*

FRS 10, entitled "Goodwill and intangible assets", is mandatory for accounting periods ending on or after December 23, 1998. This standard requires goodwill and intangible assets to be capitalised on the balance sheet and amortised over their useful economic life. In the periods to September 30, 1999 the Group did not have goodwill or intangible assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2 Accounting policies (continued)

FRS 11, entitled "Impairment of fixed assets and goodwill", is mandatory for accounting periods ending on or after December 23, 1998. The standard sets factors that should be considered in determining whether an asset is impaired, the frequency with which this assessment should be made and the related disclosures. The financial results for the accounting period ended September 30, 1999 reflect the requirements of this standard. The adoption of this standard did not have a material impact on the consolidated financial statements.

FRS 12, entitled "Provisions, contingent liabilities and contingent assets", is mandatory for accounting periods ending on or after March 23, 1999. It addresses the circumstances in which provisions, contingent liabilities and contingent assets may be recognised. This standard was adopted in the consolidated financial statements for the year ended September 30, 1999. The adoption of this standard did not have a material impact on the consolidated financial statements.

FRS 13, entitled "Derivatives and other financial instruments disclosures", is mandatory for accounting periods ending on or after March 23, 1999. The Group did not have any hedging or other financial instruments that would require disclosures under FRS 13.

FRS 14, entitled "Earnings per share" is mandatory for accounting periods ending on or after December 23, 1998. This standard provides detailed guidance on the calculation of earnings per share. The loss per share calculation for each of the reported periods reflects the requirement of this standard.

#### *New U.K. accounting standards not yet adopted*

FRS 15, entitled "Tangible fixed assets," is mandatory for accounting periods ending on or after March 23, 2000. This standard provides detailed guidance on initial measurement, revaluation and depreciation of tangible fixed assets. The company will adopt the standard in the financial statements for the year ending September 30, 2000.

FRS 16, entitled "Current tax", is mandatory for accounting periods ending on or after March 23, 2000. This standard specifies how current tax, in particular withholding tax and tax credits, should be reflected in the financial statements. The company will adopt the standard in the financial statements for the year ending September 30, 2000.

#### *Use of estimates*

Preparation of financial statements in conformity with U.K. GAAP and U.S. GAAP requires management to make estimates and assumptions that reflect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for an accounting period. Such estimates and assumptions could change in the future as more information becomes known or circumstances change, such that the Group's results may differ from the amounts reported and disclosed in the financial statements.

#### *Net revenues*

Net revenues represent the amounts (excluding value added tax) derived from the following:

- commission-shares, referral fees and subscriptions;
- advertising; and
- Web site development, hosting and consulting.

Commission-shares and referral fees, which primarily consist of brochure requests generated from accessing the company's web-site, are billed on a flat fee basis and are recognised in the period the service is

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2 Accounting policies (continued)

delivered. Subscription income is recognised over the period to which the subscription relates, generally one month or one year. Refunds related to cancellations are only given for the unused portion of subscription. All commission-shares, referral fees and subscription revenue is billed and recognised as revenue in the period that the transaction occurs.

Advertising revenue is based on delivering a required number of page views as specified in contracts with advertising customers. Upfront or periodic payments are deferred and recognised as revenue over the period and based on the number of page views or impressions delivered during the period in relation to the total number of page views or impressions specified in the contract. Advertising revenue is also earned under revenue share arrangements with content providers. Sponsorship fees, a form of advertising, are recognised rateably over the period of sponsorship.

Revenue from web site development, hosting and consulting is earned either based on time incurred or a fixed fee basis. Revenue is recognised in the profit and loss account on fixed fee contracts based on the percentage completion method. Provision is made for losses to completion when it is anticipated that a loss will arise.

#### *Fixed assets and depreciation*

Depreciation is provided in order to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment . . . . .	3 years
Office furniture . . . . .	4 years

#### *Impairment*

The Group evaluates its fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable value an impairment in value is recognised in the profit and loss account.

#### *Employee share options*

Employee share options are accounted for in accordance with UITF No. 17: Employee Share Schemes. The difference between the exercise price and the market value at date of grant is recognised as a charge in the profit and loss account on a straight line basis over the vesting period.

#### *Pensions*

The company contributes to individual employees' personal pension schemes. The assets of the schemes are held separately from those of the company in funds administered by independent third parties. The pension cost charge represents contributions payable by the company to the fund.

#### *Foreign currencies*

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

The assets and liabilities of overseas subsidiary undertakings are translated at closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these transactions are taken to reserves.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2 Accounting policies (continued)

#### *Deferred taxation*

Deferred taxation, using the liability method, is provided at the rates of corporation tax which are expected to apply at the time the additional tax is expected to become payable on all timing differences, to the extent that it is probable that a liability will crystallise in the foreseeable future.

#### *Leases*

Assets held under finance leases are treated as tangible fixed assets. Depreciation is provided accordingly and the deemed capital element of future rentals is included within creditors. Deemed interest is charged as interest payable over the period of the lease.

The rental costs arising from operating leases are charged to the profit and loss account as the related expenditure is incurred.

#### *Cash and liquid resources*

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

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

### 3 Segmental information

interactive investor limited's activities comprise one business segment, being the provision of investment information tools and value added services to private investors via the Internet. This activity is undertaken in the United Kingdom, Hong Kong and South Africa.

Net revenues, loss on ordinary activities before taxation and net assets/(liabilities) are analysed by source geographical market below.

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
<i>Net revenues</i>			
U.K. ....	656,991	1,422,344	2,477,059
Hong Kong ....	—	3,593	30,272
South Africa ....	—	3,852	70,997
	<u>656,991</u>	<u>1,429,789</u>	<u>2,578,328</u>
<i>Loss on ordinary activities before taxation</i>			
U.K. ....	(758,325)	(1,615,194)	(5,520,968)
Hong Kong ....	—	(267,901)	(580,721)
South Africa ....	—	(3,764)	(179,677)
	<u>(758,325)</u>	<u>(1,886,859)</u>	<u>(6,281,366)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3 Segmental information (continued)

	September 30, 1997	September 30, 1998	September 30, 1999
	£	£	£
Gross assets			
U.K. ....	569,050	858,814	1,816,926
Hong Kong ....	—	23,224	66,405
South Africa ....	—	28,862	38,682
	<u>569,050</u>	<u>910,900</u>	<u>1,922,013</u>
	September 30, 1997	September 30, 1998	September 30, 1999
	£	£	£
Net assets/(liabilities)			
U.K. ....	337,619	(1,277,579)	(375,782)
Hong Kong ....	—	(267,901)	(852,388)
South Africa ....	—	(3,760)	(179,667)
	<u>337,619</u>	<u>(1,549,240)</u>	<u>(1,407,837)</u>

Net revenues and operating expenses are analysed further as follows:

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Net revenues			
Commission-shares, referral fees and subscription .....	3,197	31,232	426,149
Advertising .....	111,060	276,259	766,160
Web site development, hosting and consulting .....	542,734	1,122,298	1,386,019
	<u>656,991</u>	<u>1,429,789</u>	<u>2,578,328</u>
	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Operating expenses			
Sales and marketing .....	55,935	471,344	2,124,047
Technology and development .....	284,463	435,223	1,759,002
General and administrative .....	616,737	1,465,057	3,202,834
	<u>957,135</u>	<u>2,371,624</u>	<u>7,085,883</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4 Loss on ordinary activities before and after taxation

*Loss on ordinary activities before and after taxation is stated after charging:*

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Auditors' remuneration:			
—audit .....	8,500	9,000	19,750
—tax advice .....	—	—	2,200
—Securities and Futures Authority related .....	—	—	15,000
Rentals payable under operating leases			
—land and buildings .....	37,700	37,700	124,853
—equipment .....	49,287	53,192	106,769
Depreciation .....	<u>30,259</u>	<u>61,123</u>	<u>260,740</u>

### 5 Staff numbers and costs

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

	Number of employees		
	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Client service .....	13	20	41
Administration .....	2	6	17
Sales .....	<u>3</u>	<u>7</u>	<u>15</u>
	<u>18</u>	<u>33</u>	<u>73</u>

*The aggregate payroll costs for these persons were as follows:*

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Wages and salaries .....	537,394	1,458,667	3,065,531
Social security costs .....	55,201	114,925	338,668
Pension costs .....	6,467	49,567	85,317
Compensation expense .....	—	—	139,000
	<u>599,062</u>	<u>1,623,159</u>	<u>3,628,516</u>

Compensation expense represents the difference between the exercise price of options granted and the market value of those options at the date of grant and is recognised in accordance with the stated accounting policy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6 Directors' remuneration and interests

### Directors' remuneration

Director	Year ended September 30, 1997		Year ended September 30, 1998		Year ended September 30, 1999					
	Total before pension £	Total including pension £	Total before pension £	Total including pension £	Salary/ Fees £	Benefits in kind £	Bonus £	Pension £	Compensation for loss of office £	Total
<b>Chairman</b>										
S L Coutu . . . . .	59,334	59,334	81,078	87,478	90,000	1,141	10,000	6,688	—	107,829
<b>Other Executives</b>										
T Carruthers . . . . .	5,417	5,417	62,610	63,910	49,583	231	—	3,967	—	53,781
M Ashton . . . . .	—	—	—	—	11,618	—	—	929	—	12,547
<b>Non-executives</b>										
P Dicks . . . . .	—	—	—	—	30,000*	—	—	—	—	30,000
D Colson . . . . .	—	—	—	—	—	—	—	—	—	—
L Yoler . . . . .	—	—	—	—	15,000*	—	—	—	—	15,000
<b>Resigned</b>										
G Lafferty . . . . .	—	—	—	—	—	—	—	—	—	—
S Coop . . . . .	—	—	21,667	22,967	65,000	377	7,500	5,200	—	78,077
J A Cooper . . . . .	—	—	—	—	—	—	—	—	—	—
F C Holtz . . . . .	—	—	—	—	20,000	—	—	—	—	20,000
J Jaffe . . . . .	12,070	12,070	67,335	72,018	10,350	69	—	828	—	11,247
E Mallinckrodt . . . . .	—	—	—	—	—	—	—	—	—	—
A Heath . . . . .	32,400	32,400	76,800	80,000	6,667	185	—	533	42,258	49,643
M Liebreich . . . . .	—	—	—	—	—	—	—	—	—	—
K le Claire . . . . .	—	—	—	—	—	—	—	—	—	—
J Hodes . . . . .	16,250	16,250	32,633	35,233	—	—	—	—	—	—
R M Ingleton . . . . .	—	—	—	—	—	—	—	—	—	—
	<u>125,471</u>	<u>125,471</u>	<u>342,123</u>	<u>361,606</u>	<u>298,218</u>	<u>2,003</u>	<u>17,500</u>	<u>18,145</u>	<u>42,258</u>	<u>378,124</u>

\* The fees payable to P Dicks and L Yoler were satisfied by the grant of options to purchase 47,541 and 23,770 ordinary shares respectively at an exercise price of 1p per share compared to a market price of 63p per share.

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
Highest paid director			
Aggregate emoluments . . . . .	59,334	81,078	101,141
Pension contribution . . . . .	—	6,400	6,688
	<u>59,334</u>	<u>87,478</u>	<u>107,829</u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6 Directors' remuneration and interests (continued)

### *Directors interests' in shares and options*

	Shares			Options		
	September 30, 1997	September 30, 1998	September 30, 1999	September 30, 1997	September 30, 1998	September 30, 1999
<b>Ordinary shares</b>						
S L Coutu .....	10,200,000*	10,200,000*	9,604,012*	—	—	—
T Carruthers (1) .....	—	34,000	34,000	100,000	100,000	1,466,000
M Ashton (2) .....	—	—	158,730	—	—	784,291
J Jaffe (3) .....	—	—	—	—	—	600,000
P Dicks (4) .....	—	—	—	—	—	47,541
D Colson .....	—	—	—	—	—	—
L Yoler (5) .....	—	—	—	—	—	23,770
G Lafferty .....	—	—	—	—	—	—
S Coop (3) .....	—	—	—	—	—	600,000
J A Cooper .....	1,700,000	1,700,000	—	—	—	—
F C Holtz .....	1,700,000	1,700,000	—	—	—	—
E Mallinckrodt (6) ...	25,000	25,000	—	—	—	10,205
A Heath (7) .....	—	—	—	2,200,000	2,200,000	700,000
M Liebreich (8) .....	—	—	—	—	—	42,301
K le Claire .....	—	—	—	—	—	—
J Hodes (9) .....	—	—	—	510,000	—	—
RM Ingleton .....	—	—	—	—	—	—
	<u>13,625,000</u>	<u>13,659,000</u>	<u>9,796,742</u>	<u>2,810,000</u>	<u>2,300,000</u>	<u>4,274,108</u>
<b>10% redeemable preference shares</b>						
J A Cooper .....	50,000	—	—	—	—	—
F C Holtz .....	50,000	50,000	—	—	—	—
	<u>100,000</u>	<u>50,000</u>	<u>—</u>	—	—	—
<b>Deferred 'C' ordinary shares</b>						
S L Coutu .....	25,000	—	—	—	—	—

\* Held by Porpoise Investments Limited, a company owned by the Porpoise Trust in which members of Sherry Leigh Coutu's immediate family have an interest.

- (1) 100,000 options were granted on March 7, 1997, out of which 66,000 options lapsed during the year to September 30, 1999 and 34,000 were exercised on January 29, 1999. The exercise price was 1p per share and the gain on exercise was £20,910. On January 29, 1999, Tomás Carruthers was granted 1,466,000 options at an exercise price of 1p per share.
- (2) Granted on August 5, 1999 at an exercise price of 61.2p per share.
- (3) Granted on January 29, 1999 at an exercise price of 1p per share.
- (4) Granted on January 29, 1999 at an exercise price of 1p per share.
- (5) Granted on March 1, 1999 at an exercise price of 1p per share.
- (6) 7,464 options were granted on January 29, 1999 and 2,741 options were granted on June 11, 1999. In both cases the exercise price is 1p per share.
- (7) Granted on March 7, 1997 at an exercise price of 1p per share. 1,000,000 of the above options lapsed during the year ended September 30, 1999 and 500,000 options were exercised on November 24, 1998. The gain on exercise was £307,500.
- (8) 38,135 options were granted on January 29, 1999 and 4,166 options were granted on June 11, 1999. In both cases the exercise price is 1p per share.
- (9) Options granted to Jonathan Hodes lapsed on his resignation on March 6, 1998.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7 Net interest receivable/(payable) and similar charges

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Interest receivable . . . . .	12,157	5,697	73,224
Interest payable on bank loans and overdrafts . . . . .	(298)	(12,944)	(416)
	<u>11,859</u>	<u>(7,247)</u>	<u>72,808</u>

### 8 Taxation

There is no tax charge in any of the periods in view of the taxable loss in each period.

The Group's activities are materially affected only by the corporation tax regime of the United Kingdom. The Group had tax losses carried forward at September 30, 1999 of approximately £8.2 million.

The tax losses carried forward do not expire provided that the trade continues, but are subject to restriction where a major change in the nature or conduct of trade occurs together with a change in ownership.

A reconciliation between the theoretical tax (expense)/credit computed on the pre-tax loss at the statutory rate and the actual income tax (provision)/asset is as follows:

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Loss before taxation . . . . .	(758,325)	(1,886,859)	(6,281,366)
Tax computed at the statutory rate . . . . .	235,081	584,926	1,947,223
(Increase)/decrease in tax resulting from:			
Accelerated capital allowance . . . . .	1,103	21,038	(69,021)
Permanent disallowance . . . . .	(8,044)	(22,555)	(133,467)
Valuation allowance . . . . .	(228,140)	(583,409)	(1,744,735)
Actual tax credit/(charge) . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

The potential deferred tax asset arising has not been recognised in the accounts in view of the uncertainty that this will be realised from future profits in the foreseeable future.

### 9 Loss per share

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Loss for the financial period (£) . . . . .	(758,325)	(1,886,859)	(6,281,366)
Weighted average shares outstanding . . . . .	15,187,528	15,740,095	24,102,121
Loss per ordinary share (p) . . . . .	(4.99)	(11.99)	(26.06)
Weighted average shares outstanding adjusted to reflect January 13, 2000 bonus issue . . . . .	45,562,584	47,220,285	72,306,363
Loss per ordinary share (p) adjusted to reflect January 13, 2000 bonus issue . . . . .	<u>(1.66)</u>	<u>(4.00)</u>	<u>(8.69)</u>

Loss per ordinary share is calculated in accordance with U.K. Financial Reporting Standard No. 14 — Earnings per share ("FRS14").

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 10 Tangible fixed assets

	Computer and office equipment
	<u>£</u>
<b>Cost</b>	
At October 1, 1997 .....	98,909
Additions .....	300,516
At October 1, 1998 .....	399,425
Additions .....	891,641
At September 30, 1999 .....	<u>1,291,066</u>
<b>Depreciation</b>	
At October 1, 1997 .....	37,004
Charge for the year .....	61,123
At October 1, 1998 .....	98,127
Charge for the year .....	260,740
At September 30, 1999 .....	<u>358,867</u>
<b>Net book value</b>	
At September 30, 1999 .....	<u>932,199</u>
At September 30, 1998 .....	<u>301,298</u>
At September 30, 1997 .....	<u>61,905</u>

### 11 Debtors

	September 30, 1997	September 30, 1998	September 30, 1999
	<u>£</u>	<u>£</u>	<u>£</u>
Trade debtors .....	110,065	504,524	430,660
Prepayments .....	56,391	105,078	225,521
Other debtors .....	—	—	225,217
	<u>166,456</u>	<u>609,602</u>	<u>881,398</u>

Trade debtors are shown net of the following allowances for doubtful debts:

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	<u>£</u>	<u>£</u>	<u>£</u>
<b>Allowance for doubtful debts</b>			
At beginning of period .....	—	11,564	21,406
Charged/(released) for the period .....	11,564	9,842	(2,686)
Utilised during the period .....	—	—	(18,720)
At end of period .....	<u>11,564</u>	<u>21,406</u>	<u>—</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	September 30, 1997	September 30, 1998	September 30, 1999
	£	£	£
Bank loans and overdrafts .....	—	274,609	—
Trade creditors .....	55,192	543,055	1,384,532
Other creditors including taxation and social security .....	40,962	47,008	129,191
Accruals .....	32,157	269,943	505,003
Deferred income .....	103,120	137,525	411,124
	<u>231,431</u>	<u>1,272,140</u>	<u>2,429,850</u>

### 13 Convertible and other loans: amounts falling due within one year

	September 30, 1997	September 30, 1998	September 30, 1999
	£	£	£
Convertible loans .....	—	688,000	—
Other loans .....	—	500,000	900,000
	<u>—</u>	<u>1,188,000</u>	<u>900,000</u>

#### *Convertible loans*

On December 14, 1997, the company issued £588,000 of unsecured convertible loans for cash at par.

On August 10, 1998, the company issued £100,000 of unsecured convertible loans for cash at par.

On October 9, 1998, the company issued £185,000 of convertible loans for cash at par. These loans were issued together with warrants to acquire 1p ordinary shares at a price of 1p per share.

All of these loans originally included conversion rights which required their conversion at the time of a significant subscription for the company's shares at a conversion price dependent on the subscription price. The convertible loans did not have a stated interest rate.

On November 24, 1998, the original conversion rights attached to the convertible debt were renegotiated such that all of the outstanding loan stock (£873,000) together with 50,000 warrants were converted into ordinary shares at the rate of 50p per share, which represented a 20% discount from the 62p per share price paid by Hollinger Digital, Inc. on that date.

#### *Other loans — unsecured loan*

The company received an unsecured loan of £500,000 in September 1998 from Hollinger Digital, Inc.. This loan bore interest at 2% above the base rate quoted by Barclays Bank. It was repayable on August 22, 1999 or, if earlier, on the unconditional completion of any financing the proceeds of which are in excess of £1 million. The loan represented a deposit pending the issue of 8,066,723 equity shares on November 24, 1998 for consideration of £5,000,000.

On September 8, 1999 Hollinger Digital, Inc. agreed to provide a short term loan facility at an interest rate of 7% per annum. At September 30, 1999, £900,000 was outstanding under this facility. The company repaid this facility using the loan facility entered into on October 1, 1999 with Credit Suisse First Boston, London branch and Hollinger Digital, Inc. for £3.5 million (see details in note 26).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14 Deferred Tax

No provision has been made in the accounts for deferred taxation liabilities, since net operating losses are available. The potential deferred tax asset is as set out below. This asset has not been recognised in the accounts in view of the uncertainty that it will be recovered in the foreseeable future.

	September 30, 1997	September 30, 1998	September 30, 1999
	£	£	£
Tax losses carried forward . . . . .	888,491	2,770,457	8,233,847
Accelerated capital allowances . . . . .	(6,589)	(93,502)	(230,668)
	<u>881,902</u>	<u>2,676,955</u>	<u>8,003,179</u>
Potential deferred tax asset . . . . .	264,571	803,087	2,400,954
Valuation allowance . . . . .	(264,571)	(803,087)	(2,400,954)
Net deferred tax asset . . . . .	<u>—</u>	<u>—</u>	<u>—</u>

### 15 Called up share capital

	September 30, 1997	September 30, 1998	September 30, 1999
	£	£	£
Share capital (see below) . . . . .	257,651	257,651	259,823
Shares to be issued . . . . .	—	—	532,472
Share premium (note 17)			
— capitalised on January 13, 2000 bonus issue . . . . .	515,302	515,302	519,646
— share premium after January 13, 2000 bonus issue . . . . .	497,608	497,608	6,194,889
Total share premium . . . . .	<u>1,012,910</u>	<u>1,012,910</u>	<u>6,714,535</u>
Total share capital and share premium . . . . .	<u>1,270,561</u>	<u>1,270,561</u>	<u>7,506,830</u>

	September 30, 1997	September 30, 1998	September 30, 1999
	£	£	£
<b>Authorised</b>			
25,000 deferred 'C' ordinary shares of 1p each . . . . .	250	250	—
100,000 10% redeemable preference shares of £1 each . . . . .	100,000	100,000	—
22,700,000 / 22,700,000 / 26,032,597 ordinary shares of 1p each . .	227,000	227,000	260,326
25,375,000 'A' shares of 1p each . . . . .	—	—	253,750
	<u>327,250</u>	<u>327,250</u>	<u>514,076</u>

#### Allotted, called up and fully paid

25,000 deferred 'C' ordinary shares of 1p each . . . . .	250	250	—
100,000 10% redeemable preference shares of £1 each . . . . .	100,000	100,000	—
15,740,095 / 15,740,095 / 17,915,597 ordinary shares of 1p each . .	157,401	157,401	179,156
8,066,723 'A' shares of 1p each . . . . .	—	—	80,667
	<u>257,651</u>	<u>257,651</u>	<u>259,823</u>

Shares to be issued: 859,061 'A' shares of 1p each . . . . . — — 532,472

#### Redeemable preference shares

The terms of redemption for the redeemable preference shares were that they would be redeemed for cash at par in two equal instalments on or before December 1, 1997 and December 1, 1998 unless, in the opinion of the directors, the pre tax profits were insufficient to finance the redemption.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15 Called up share capital (continued)

Holders of the redeemable preference shares had a right to receive, in preference to the other shares, a fixed cumulative preferential dividend of 10% per annum from December 1, 1998 until the date on which the shares were redeemed. The preference dividend accrued from day to day and was payable quarterly.

On a return of capital on liquidation or otherwise, the holders of redeemable preference shares would have come first in order of preference over other shareholders. The redeemable preference shares did not confer any voting rights.

On November 24, 1998 the company and the redeemable preference shareholders agreed to convert the £100,000 redeemable preference shares into 160,772 ordinary shares.

#### *Shares to be issued*

Shares to be issued of £532,472 represents the costs of advertising services provided by Hollinger Digital, Inc. as of September 30, 1999 for which 'A' shares were issued subsequent to the year end.

#### *Deferred 'C' ordinary shares*

The deferred 'C' ordinary shares conferred no right to participate in the profits of the company except for certain conversion rights which could be exercised if specified performance criteria were achieved. These performance criteria were not achieved and these shares were ultimately retired on December 16, 1998, in exchange for £1 in aggregate. The share capital balance associated with this class of shares was then transferred to share premium.

#### *Ordinary shares and 'A' shares*

On November 24, 1998, the authorised ordinary share capital of the company was increased by £283,108 by the creation of 25,375,000 'A' shares and 2,935,772 ordinary shares. The ordinary shares and the 'A' shares rank pari passu in all respects, except that the 'A' shares have preferential rights to participate in any surplus arising on a winding up.

On August 19, 1999 the authorised ordinary share capital was increased by £3,968 by the creation of 396,825 ordinary shares.

On November 24, 1998 the company entered into a subscription and shareholders' agreement (the 'Agreement') with Hollinger Digital, Inc. under which Hollinger agreed to subscribe for 8,066,723 of new 'A' shares. Upon completion of the Agreement, Hollinger invested £5,000,000 for the 'A' shares, which represented 25% of the company's share capital. This resulted in an increase in share premium of £4,919,333.

On November 24, 1998 Hollinger agreed to render the company without charge up to £1,000,000 of advertising in the calendar year 1999 from the Hollinger Group in exchange for up to an additional 1,613,344 'A' shares at the same issue price per share as the initial investment, which represents a further 5% of fully diluted share capital. At September 30, 1999, advertising services with a stated cost of £532,472 were provided to the Group and are included in operating expenses and in shareholders equity as shares to be issued. On October 29, 1999 the group issued 1,613,344 'A' shares to Hollinger in anticipation of Hollinger providing the remaining £467,528 of advertising by the beginning of January 2000, and this advertising was provided in this period.

The Agreement contained ratchet provisions entitling Hollinger to subscribe for further 'A' shares dependent on future performance. These ratchet provisions were superseded by a supplemental agreement entered into on October 1, 1999, whereby Hollinger terminated its entitlement under the ratchet in return for the grant to Hollinger of warrants to acquire 5,441,807 'A' shares at an aggregate price of £1,450,000 (26.65p per share).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15 Called up share capital (continued)

Under the Agreement, the company granted Hollinger and Porpoise Investments Limited (one of the company's principal shareholders as described in note 25) veto rights over among other things, any change to the company's share capital and constitution.

On November 24, 1998, the company granted 16 former holders of convertible loan notes, 1p warrants to subscribe for up to, in aggregate, 2,817,900 of the company's ordinary shares. These warrants provided the former loan note holders with anti-dilution protection to encourage them to approve the Agreement. The warrants entitle the holders to subscribe for ordinary shares at an exercise price equal to the average subscription price of 'A' shares subscribed by Hollinger pursuant to the Agreement less a discount of 20%. The warrants may be exercised at any time after the exercise by Hollinger of its further subscription rights under the Agreement.

Hollinger exercised its rights to subscribe for 5,441,807 'A' shares on October 28, 1999. Under the terms of a supplemental agreement entered into on October 1, 1999, the rights of the former holders of convertible loan notes were therefore determined as a right to subscribe for, in aggregate, 659,892 ordinary shares at an exercise price of 21.32p per share.

In connection with the Hollinger investment described above, the company also executed the following transactions on November 24, 1998:

- the £100,000 of redeemable preference shares were converted into 160,772 ordinary shares at a price of 62p per ordinary share; and
- the company issued 1,796,000 ordinary shares upon conversion of £873,000 of convertible loans and the exercise of 50,000 warrants resulting in an increase in share premium of £855,050.

At September 30, 1999 there were in issue 125,000 10p warrants to acquire ordinary shares which were exercisable immediately together with the 8,259,707 (comprising 5,441,807 in respect of 'A' shares and 2,817,900 in respect of ordinary shares) warrants described above.

### 16 Employee share option schemes

Details of options held on September 30, 1999 are as follows:

Options held by executive directors and employees

<u>Date of grant</u>	<u>Exercise price (p)</u>	<u>Number at September, 30 1999</u>
November 21, 1996 .....	0.08	125,000
December 11, 1996 .....	0.08	250,000
February 1, 1997 .....	107.00	2,251
May 15, 1997 .....	1.00	75,890
April 7, 1998 .....	50.00	290,000
January 29, 1999 .....	1.00	2,590,110
January 29, 1999 .....	52.70	760,000
May 21, 1999 .....	52.70	30,000
August 5, 1999 .....	61.20	784,291
August 17, 1999 .....	80.00	495,000
September 21, 1999 .....	80.00	75,000
September 21, 1999 .....	100.00	1,007,844
		6,485,386
Option held by ex-employee under fixed plan (granted on March 7, 1997) .....		700,000
		<u>7,185,386</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Employee share option schemes (continued)

Options granted up to February 26, 1997 can be exercised any time before September 30, 2000. Options granted on April 7, 1998 are exercisable in tranches from April 7, 1999, April 7, 2000 and April 7, 2001. Options granted on January 29, 1999 and later are exercisable only upon the initial public offering of shares of the company or a sale of the company.

The directors consider that carefully chosen share incentive plans for employees benefit the long term growth of the Group. The Group operates a number of share option arrangements details of which are given below.

#### Share options with no performance criteria ("fixed plans")

The Group has one share option scheme as at September 30, 1999 with no performance criteria.

All options granted prior to January 29, 1999 were granted over a fixed number of shares. Options were granted on five dates with different exercise prices and vesting provisions attaching to each tranche.

	Year ended September 30, 1997		Year ended September 30, 1998	
	Number of shares	Weighted average exercise price (p)	Number of shares	Weighted average exercise price (p)
Number of share options outstanding at beginning of period . . . . .	—	—	2,303,141	0.14
Granted . . . . .	2,303,141	0.14	360,000	50.00
Exercised . . . . .	—	—	—	—
Cancelled . . . . .	—	—	(50,000)	0.01
Number of share options outstanding at end of period . . . . .	<u>2,303,141</u>	<u>0.14</u>	<u>2,613,141</u>	<u>7.01</u>
Options exercisable at year end . . . . .	253,141	1.25	937,141	0.34
Weighted average fair value of options granted during the period (p) . . . . .		87.77		50.00

	Year ended September 30, 1999	
	Number of shares	Weighted average exercise price (p)
Number of share options outstanding at beginning of period . . . . .	2,613,141	7.01
Granted . . . . .	—	—
Exercised . . . . .	(534,000)	—
Cancelled . . . . .	(636,000)	5.50
Number of share options outstanding at end of period . . . . .	<u>1,443,141</u>	<u>10.27</u>
Options exercisable at year end . . . . .	1,249,807	4.12
Weighted average fair value of options granted during the period (p) . . . . .		—

As described in note 25, Porpoise Investments Limited has agreed to transfer 1.7 million of its ordinary shares in the company to the company to enable it to satisfy its obligations under options granted to employees. Porpoise's business reason for agreeing to satisfy the options, granted to employees of the company, is to reward and retain employees to maintain the value of its investment. Therefore, the economic substance of this transaction is no different than if the company were going to issue new shares to satisfy these options. Upon exercise of these options, the company will record an increase in cash and shareholders equity for the amount received.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Employee share option schemes (continued)

Summarised information about the above options is as follows:

Range of exercise prices (p)	Options outstanding			Options exercisable	
	Number outstanding at September 30, 1999	Weighted average remaining contractual life (months)	Weighted average exercise price (p)	Number exercisable at September 30, 1999	Weighted average exercise price (p)
0.08	375,000	12	0.08	375,000	0.08
1.00	75,890	17	1.00	75,890	1.00
50.00	290,000	34	50.00	96,666	50.00
107.00	2,251	28	107.00	2,251	107.00
	<u>743,141</u>			<u>549,807</u>	

### Share options with performance criteria ("variable plans")

The Group has one share option scheme with performance criteria.

The remuneration committee determines the price of the option on the date that it is granted, provided that the price may not be less than the nominal value of the ordinary shares.

Provided that the aggregate value ascribed to all classes of equity share capital carrying rights to participate in the profits of the company, otherwise than solely by way of dividends at a fixed rate, is £30,000,000 or more and any special performance conditions are satisfied, if there is a change in ownership or if the shares become listed on the London Stock Exchange or another recognised investment exchange, options granted under the scheme become exercisable as to 30% of the shares under option. If the value ascribed to the equity share capital is £100,000,000 or more, options granted under the scheme become exercisable as to 100% of the shares under option. Between these two limits, a sliding scale applies on a straight line basis, to determine the extent to which options become exercisable. A change of ownership takes place when a person acquires shares conferring more than 50% of the total voting rights in the company and the right to vote at all general meetings.

Upon listing of the shares, options over the appropriate number of shares, as determined above, become exercisable immediately with respect to 50% of the shares and 50% of the remainder becomes exercisable on each of the first and second anniversaries of the effective date of the listing, provided that the option holder remains an employee. If, prior to the second anniversary of the listing, the option holder ceases to be an employee because of death, incapacity, illness, accident or because employment is terminated by the company for any reason other than breach or misconduct, the remaining tranches of options shall become exercisable for 30 days. Otherwise if an option holder ceases to be an employee before the second anniversary of listing, only a proportion of the remaining tranches of his option become exercisable for 30 days.

Options that have not become exercisable or that have not been exercised lapse on the earliest of:

- two years and six months following the effective date of the listing;
- in cases where the option holder ceases to be employed by any member of the Group, immediately following listing if options have not yet become exercisable, or 30 days after employment ceases if options have become exercisable but have not been exercised;
- ten years from the date that the option was granted; and
- immediately following listing if prior to the listing we notify all option holders that they must exercise their options.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Employee share option schemes (continued)

If there are conditions that have yet to be fulfilled relating to the exercise of an option, the option shall not lapse until it becomes impossible for the conditions to be fulfilled or six months after the conditions have been fulfilled. The company may notify option holders in advance of a pending change of ownership or listing. In this case, each option holder shall be entitled to exercise his options subject to the change of ownership or listing taking place. Option holders can be required to conditionally exercise their options in this way.

An analysis of the movements in the number of options outstanding granted under the scheme is as follows:

	Year ended September 30, 1999	
	Number of shares	Weighted average exercise price (p)
Number of share options outstanding at beginning of period .....	—	—
Granted .....	6,092,245	42.92
Exercised .....	—	—
Cancelled .....	(350,000)	52.7
Number of share options outstanding at end of period .....	5,742,245	42.32
Options exercisable at period end .....	—	

No compensation expense has been recorded under either U.K. GAAP or U.S. GAAP related to the variable plan as the probability criteria that these options will vest is not considered to be met until the IPO or another triggering event is completed. However, assuming the company completes its IPO in the year ended September 30, 2000, compensation expense would be recorded under U.K. GAAP as follows:

	U.K. GAAP compensation expense £m
Year ended September 30,	
2000 .....	1.8
2001 .....	0.3
2002 .....	0.1
	<u>2.2</u>

The above performance related scheme was not in existence for years ended September 30, 1998 and September 30, 1997.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

## 16 Employee share option schemes (continued)

Range of exercise prices (p)	Options outstanding		Options exercisable	
	Number outstanding as at September 30, 1999	Weighted average exercise price (p)	Number exercisable at September 30, 1999	Weighted average exercise price (p)
1.00	2,590,110	1.00	—	—
52.70	790,000	52.70	—	—
61.20	784,291	61.20	—	—
80.00	570,000	80.00	—	—
100.00	1,007,844	100.00	—	—
	<u>5,742,245</u>			

The weighted average fair value at the grant date of options granted were as follows:

	Year to September 30, 1997	Year to September 30, 1998	Year to September 30, 1999
Fixed plans			
Weighted average grant date fair value (£) . . . . .	0.86	0.31	0.61
Weighted average assumptions:			
Risk free rate . . . . .	7%	6%	5%
Expected life . . . . .	5	6	10
Expected volatility . . . . .	60%	60%	60%
Dividend yield . . . . .	<u>nil</u>	<u>nil</u>	<u>nil</u>

## 17 Share premium and reserves

	Share premium account	Warrant Reserve	Profit and loss account	Total
	£	£	£	£
At September 30, 1997 . . . . .	1,012,910	—	(932,942)	79,968
Loss for the year . . . . .	—	—	(1,886,859)	(1,886,859)
At September 30, 1998 . . . . .	1,012,910	—	(2,819,801)	(1,806,891)
Premium on shares issued . . . . .	5,701,625	—	—	5,701,625
Consideration for issue of warrants . . . . .	—	47,500	—	47,500
Write-back of deferred compensation expense . . . . .	—	—	139,000	139,000
Loss for the year . . . . .	—	—	(6,281,366)	(6,281,366)
At September 30, 1999 . . . . .	<u>6,714,535</u>	<u>47,500</u>	<u>(8,962,167)</u>	<u>(2,200,132)</u>

## 18 Commitments

### Capital commitments:

There were no commitments as at September 30, 1997, September 30, 1998 or September 30, 1999.

### Leasing commitments:

Rent free periods are amortised to the date of the first break clause on December 25, 2003.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18 Commitments (continued)

The Group has no finance lease or hire purchase contract obligations in the periods covered by these financial statements.

The Group had annual commitments under non-cancellable operating leases in respect of land and buildings as set out below:

	September 30, 1998	September 30, 1999
	£	£
<b>Leases expiring:</b>		
After more than five years .....	<u>37,700</u>	<u>186,700</u>

The Group had annual commitments under non-cancellable operating leases in respect of equipment as set out below:

	September 30, 1998	September 30, 1999
	£	£
<b>Leases expiring:</b>		
Within one year .....	59,965	4,965
Between one and two years .....	6,327	1,362
Between two and three years .....	<u>340</u>	<u>165,904</u>

#### *Commitments with content providers*

The Group has commitments with content providers. These contracts cover periods ranging from 2 to 5 years and are primarily based on a fixed monthly or annual fee or advertising revenue sharing arrangements. The major types of information purchased are global shares data, stock exchange prices, brokerage data, personal finance features, unit trusts data and market/company profiles.

The Group had minimum annual commitments to purchase content for its web site under non-cancellable agreements in the following amounts:

	£
<b>Payable in year ended:</b>	
September 30, 2000 .....	384,000
September 30, 2001 .....	131,000
September 30, 2002 .....	131,000
September 30, 2003 .....	131,000
September 30, 2004 .....	25,000

### 19 Contingent liabilities

The Group had no contingent liabilities at September 30, 1998. At September 30, 1999, the Group had a contingent liability in respect of the rent due to the landlord of its former premises. The annual rental due under this lease amounts to £37,700 and the lease expires in March 2001. The lease was sublet on the same terms as the previous lease, but the Group remains liable to the landlord in respect of any default by the sub-lessee.

The Group is currently in dispute with Hemmington Scott, a provider of financial and other information which was sublicensed by the Group. Hemmington Scott has alleged that the Group has infringed its copyright and database rights, and has requested a court injunction, return of infringing material, damages and other

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 19 Contingent liabilities (continued)

remedies and costs. Management believes that the company will prevail in this claim and that in the event that the company is not successful, the maximum amount of damages potentially payable to Hemmington Scott is not material. Accordingly, management believes that this case will not have a material effect on the company's financial position or results of operations.

#### Year 2000

The company's Year 2000 project has evaluated the impact of the Year 2000 date change on all their critical internal information systems, key suppliers and information providers. The project has identified some remediation work, most of which has been carried out as part of the company's normal IT operations. Testing of the majority of internal information systems was completed by the end of October 1999. Contingency plans to address the reasonably likely worst case scenarios which have been identified are being prepared.

Management recognises that despite their efforts on remediating and testing their own internal systems, there remains some risk of failure for which contingency plans will be needed.

Estimated direct project costs to date relating to external consultants are around £50,000 with a further £30,000 anticipated to complete testing. The cost of developing and implementing contingency plans could be material, but this will depend on the final scope of these plans.

The third parties on which the company relies, including information providers, governmental bodies, utility companies, internet access companies and others outside our control may not be Year 2000 compliant. This could prevent the company from delivering services to customers, decrease the use of the Internet generally, prevent users specifically from accessing its web sites or disable electronic payment methods. This could materially and adversely affect the business, financial condition and results of operations.

### 20 Financial instruments

The following table presents the carrying amounts and estimated fair values of the company's financial instruments.

	At September 30, 1997		At September 30, 1998		At September 30, 1999	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	£	£	£	£	£	£
<b>Financial assets</b>						
Cash at bank and in hand . . . . .	340,689	340,689	—	—	108,416	108,416
Debtors . . . . .	166,456	166,456	609,602	609,602	881,398	881,398
<b>Financial liabilities</b>						
Creditors . . . . .	(231,431)	(231,431)	(1,272,140)	(1,272,140)	(2,429,850)	(2,429,850)
Other unsecured borrowings . . . . .	—	—	(1,188,000)	(1,188,000)	(900,000)	(900,000)

The carrying amounts shown in the table above are included in the consolidated balance sheets under the indicated captions.

The Group has not historically made use of derivative financial instruments to hedge its future revenues and expenditures denominated in foreign currencies as these have not comprised a material part of the Group's operations. This policy will be reviewed as the company expands overseas.

#### Concentration of credit risk

Potential concentrations of credit risk to the Group comprise principally cash and cash equivalents and trade debtors. The Group maintains cash deposits with several major banks. Management periodically reviews

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### 20 Financial instruments (continued)

the credit rating of the institutions and believes that any possible credit risk is minimal. The company has historically derived a significant proportion of its revenues from a small number of customers. In the year ended September 30, 1997 one customer in consulting and systems construction represented 11% of net revenues. In the year ended September 30, 1998, there were two consulting and systems construction customers each of which represented 12% of net revenues. No customer represented more than 10% of net revenues in the year ended September 30, 1999.

### 21 Principal subsidiaries

The principal subsidiaries of the company as at September 30, 1998 and September 30, 1999 were:

	Country of incorporation or registration	% ordinary issued shares held by company
interactive markets limited . . . . .	England and Wales	100%
interactive investors information limited . . . . .	England and Wales	100%
interactive investor (overseas) limited . . . . .	England and Wales	100%
interactive investor trading limited . . . . .	England and Wales	100%
interactive investor international (Asia) limited . . . . .	Hong Kong	100%
interactive markets (Asia) limited . . . . .	Hong Kong	100%
interactive investor international (SA) proprietary limited . . . . .	South Africa	100%

interactive markets limited, interactive investors information limited, interactive investor (overseas) limited, interactive investor trading limited and interactive markets (Asia) limited have not traded in the period from incorporation to September 30, 1999.

interactive investor international (Asia) limited and interactive investor international (SA) proprietary limited undertake the same activity as the parent company.

interactive investor international (Asia) limited has an accounting reference date of November 30, 1999. Its results for the period ended September 30, 1999 have been incorporated into the consolidated financial statements.

All shares are directly held. The proportion of voting rights held by the company in each of its principal subsidiaries is the same as the proportion of ordinary shares held.

### 22 Reconciliation of operating loss to net cash outflow from operating activities

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Operating loss . . . . .	(770,184)	(1,879,612)	(6,354,174)
Depreciation charges . . . . .	30,259	61,123	260,740
Expenditure paid by the issue of shares . . . . .	—	—	532,472
Deferred compensation expense . . . . .	—	—	139,000
Increase in debtors . . . . .	(91,353)	(443,146)	(271,796)
Increase in creditors . . . . .	108,699	766,100	1,432,319
Net cash outflow from operating activities . . . . .	<u>(722,579)</u>	<u>(1,495,535)</u>	<u>(4,261,439)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23 Reconciliation of net cash flow to movement in net (debt)/funds

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
(Decrease)/increase in cash in the period	237,288	(615,298)	383,025
Cash inflow from increase in debt	—	(1,188,000)	—
Cash outflow from redemption of debt	—	—	288,000
Movement in net (debt)/funds in the period	237,288	(1,803,298)	671,025
Net funds at start of period	103,401	340,689	(1,462,609)
Net funds at end of period	<u>340,689</u>	<u>(1,462,609)</u>	<u>(791,584)</u>

### 24 Analysis of changes in net funds/(debt)

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£	£
Cash in hand, at bank	340,689	—	108,416
Overdrafts	—	(274,609)	—
Debt due within one year	—	(1,188,000)	(900,000)
Net cash outflow from operating activities	<u>340,689</u>	<u>(1,462,609)</u>	<u>(791,584)</u>

### 25 Ultimate parent company

As at September 30, 1998, the immediate parent undertaking of the company was Porpoise Investments Limited ('Porpoise'), a trust company registered in Jersey owned by the Porpoise Trust.

The principal beneficiaries of the Porpoise Trust include certain members of the immediate family of Sherry Leigh Coutu, non-executive Chairman of the company. At each of September 30, 1997, September 30, 1998 and September 30, 1999, Porpoise held 9,604,012 ordinary shares in the company respectively. Porpoise has entered into an agreement with the company, pursuant to which, Porpoise will transfer up to 1.7 million ordinary shares to the company's optionholders to enable it to satisfy its obligations under options granted to employees. In the period to September 30, 1999, 595,988 shares have been transferred with the balance of 1,104,012 available to satisfy future exercises of options. There were no transactions between the company and Porpoise other than as disclosed in note 16.

Subsequent to September 30, 1998 the equity investment from Hollinger Digital, Inc. has resulted in the dilution of the holding of Porpoise to less than 50%. Consequently, at September 30, 1999 the company was not a subsidiary undertaking of this or any other entity.

At September 30, 1999, Porpoise and Hollinger Digital, Inc., held 37% and 31% of the issued ordinary shares in the company respectively. Porpoise and Hollinger are related parties of the company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26 Post balance sheet events

On October 1, 1999, the company entered into a loan agreement to secure a 90 day loan facility of £3.5 million with Credit Suisse First Boston, London branch and Hollinger Digital, Inc. one of its principal shareholders. Interest is payable on this loan at 8.25%. The loan is repayable on the earlier of (i) three months from the date of advance and (ii) December 31, 1999. The loan is secured by a fixed and floating charge (i.e. a lien) over all the assets of the company and its U.K. subsidiaries and is guaranteed by all of its subsidiaries. The facility was drawn in full on October 1, 1999. The company repaid in full this facility using part of the proceeds of the rights issue referred below.

Between October 27, 1999 and January 28, 2000 the holders of 840,446 warrants, in aggregate, exercised their rights to convert the warrants into 840,446 ordinary shares of 1p each at an aggregate price of £153,744.

On October 28, 1999, Hollinger Digital, Inc. exercised its subscription warrants in respect of 5,441,807 'A' shares. On October 29, 1999, the company issued 1,613,344 'A' shares to Hollinger Digital, Inc., pursuant to the arrangements relating to advertising services referred to above. In addition the company issued 50,000 'A' shares to Hollinger Digital, Inc. for a consideration of £13,325.

On October 28, 1999, the company announced to its shareholders proposals to raise approximately £6 million of additional equity finance through a 1 for 10 rights issue of 3,371,967 ordinary shares at £1.77 per share. Hollinger Digital, Inc. agreed to take up its rights entitlement of 1,517,187 'A' shares and agreed to subscribe for any rights issue shares not taken up by other shareholders. The rights issue proceeds of approximately £6 million were received by the company on November 19, 1999.

On October 28, 1999, 15,873 ordinary shares were issued for consideration of £10,000.

On November 19, 1999, 33,334 options were exercised and 33,334 ordinary shares issued for a consideration of £16,667.

On January 13, 2000, the issued share capital of the company was increased by a two-for-one bonus issue.

On January 14, 2000, iii limited acquired all of the issued share capital of the company in a share for share exchange. iii limited was established for the purpose of acquiring the company. Immediately following the share exchange, iii limited had an identical share structure to the company. iii limited re-registered as a public company on January 27, 2000, changed its name to interactive investor international plc on February 1, 2000 and is the float vehicle.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 27 Companies Act 1985

The consolidated financial statements do not constitute 'statutory accounts' within the meaning of the Companies Act 1985 of Great Britain for any of the periods presented. Statutory accounts for the years ended September 30, 1997, 1998 and 1999 have been filed with the United Kingdom's Registrar of Companies. The auditor has reported on these accounts. The reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

These consolidated financial statements exclude certain parent company statements and other information required by the Companies Act 1985, however they include all material disclosures required by generally accepted accounting principles in the United Kingdom including those Companies Act disclosures relating to the profit and loss account and balance sheet items.

Yours faithfully

KPMG  
Chartered Accountants

## ACCOUNTANTS' REPORT

The following is the full text of a report by KPMG, chartered accountants.

The Directors  
interactive investor international plc  
2 East Poultry Avenue  
London  
EC1A 9PT

Credit Suisse First Boston (Europe) Limited  
One Cabot Square  
London  
E14 4QJ

4 February, 2000

Dear Sirs

**interactive investor international plc**



1 Puddle Dock  
London, EC4V 3PD

We report on the financial information set out below. This financial information has been prepared for inclusion in the Prospectus dated 4 February, 2000 relating to the proposed flotation of interactive investor international plc.

### **Basis of preparation**

The financial information set out in this report is based on the audited financial statements of interactive investor international plc ("the company") for the period from incorporation to September 30, 1999 to which no adjustments were considered necessary.

### **Responsibility**

Such financial statements are the responsibility of the directors of the company who approved their issue.

The directors of the company are responsible for the contents of the Prospectus dated 4 February, 2000 in which this report is included.

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

### **Basis of opinion**

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the company as at September 30, 1999 and of its results and its cash flow for the period from incorporation to that date.

## interactive investor international plc

### 1. Profit and loss account

The company has not traded and consequently there were no recognised gains or losses in the period from incorporation to September 30, 1999.

### 2. Balance Sheet

*As at September 30, 1999*

	£
Current assets	
Debtors .....	1
Net assets .....	1
Share capital .....	1
Shareholders' funds .....	1

### 3. Cashflow statement

The company had not traded and consequently there were no cashflows in the period from incorporation to September 30, 1999.

### 4. Notes to the financial statements

#### 4.1 Incorporation

Creditstand Limited was incorporated on August 13, 1999 and changed its name to iii limited on September 28, 1999. It prepared its first accounts for the period from incorporation to September 30, 1999. It did not trade in this period. On January 27, 2000, the company re-registered as a public company with the name iii plc. On February 1, 2000 the company changed its name to interactive investor international plc.

#### 4.2 Accounting policies

interactive investor international plc has adopted the accounting policies set out below.

The following significant accounting policies are applied consistently in dealing with matters which are considered material in relation to the financial statements.

##### *Basis of preparation*

The financial statements are prepared in conformity with accounting principles generally accepted in the United Kingdom ("U.K. GAAP"), under the historical cost convention, and in accordance with applicable accounting standards. The accounting reference date for the company is September 30.

##### *Basis of consolidation*

The financial statements include the financial statements of the company and its subsidiary undertakings. All intercompany transactions will be eliminated.

##### *Net revenues*

Net revenues represent the amounts (excluding value added tax) derived from trading transactions, advertising and consulting and systems construction.

Transaction-related revenue is derived from three types of transactions: subscription to information services, pre-purchase transactions and purchase transactions. Subscription income is recognised over the period to which the subscription relates, generally one month or one year. Refunds related to cancellations are only given for the unused portion of subscription. Pre-purchase transactions, which primarily consist of brochure requests generated from accessing the company's web-site, are billed on a flat fee basis and are recognised in the period the service is delivered. All purchase transaction-related revenue is billed and recognised as revenue in the period that the transaction occurs.

Advertising revenue is based on delivering a required number of page views as specified in contracts with advertising customers. Upfront or periodic payments are deferred and recognised as revenue over the period and based on the number of page views or impressions delivered during the period in relation to the total number of page views or impressions specified in the contract. Advertising revenue is also earned under revenue share arrangements with content providers. Sponsorship fees, a form of advertising, are recognised rateably over the period of sponsorship.

Revenue from consulting and systems construction is earned either based on time incurred or a fixed fee basis. Revenue is recognised in the profit and loss account on fixed fee contracts based on the percentage completion method. Provision is made for losses to completion when it is anticipated that a loss will arise.

#### *Fixed assets and depreciation*

Depreciation is provided in order to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment .....	3 years
Office furniture .....	4 years

#### *Impairment*

The Group evaluates its fixed assets for financial impairment where events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. When such evaluations indicate that the carrying value of an asset exceeds its recoverable value an impairment in value is recognised in the profit and loss account.

#### *Employee share options*

Employee share options are accounted for in accordance with UITF No17. Employee Share Schemes. The difference between the exercise price and the market value at date of grant is recognised as a charge in the profit and loss account on a straight line basis over the vesting period.

#### *Pensions*

The company contributes to individual employees' personal pension schemes. The assets of the schemes are held separately from those of the company in funds administered by independent third parties. The pension cost charge represents contributions payable by the company to the fund.

#### *Foreign currencies*

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

The assets and liabilities of overseas subsidiary undertakings are translated at closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these transactions are taken to reserves.

#### *Deferred taxation*

Deferred taxation, using the liability method, is provided at the rates of corporation tax which are expected to apply at the time the additional tax is expected to become payable on all timing differences, to the extent that it is probable that a liability will crystallise in the foreseeable future.

#### *Leases*

Assets held under finance leases are treated as tangible fixed assets. Depreciation is provided accordingly and the deemed capital element of future rentals is included within creditors. Deemed interest is charged as interest payable over the period of the lease.

The rental costs arising from operating leases are charged to the profit and loss account as the related expenditure is incurred.

#### *Cash and liquid resources*

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

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

#### **4.3 Debtors**

	£
Unpaid share capital .....	<u>1</u>

#### **4.4 Share Capital**

	£
Authorised 1,000 ordinary shares of £1 each .....	<u>1,000</u>
Allotted and called up 1 ordinary share of £1 .....	<u>1</u>

**4.5** The authorised share capital of the company on incorporation was £1,000 divided into 1,000 ordinary shares of £1 each. The subscribers to the memorandum of association of the company agreed to take one ordinary share of £1 in the company.

#### **4.6 Post balance sheet events**

On January 13, 2000, the authorised share capital of the company was subdivided into 100,000 ordinary shares of 1p each and increased to £1,486,983.63 by the creation of 85,331,482 additional ordinary shares of 1p each and 63,266,881 'A' shares of 1p each. On January 14, 2000 the company issued an additional 60,281,153 ordinary shares and 51,704,871 'A' shares to acquire 100% of the issued share capital of interactive investor limited.

On February 2, 2000, an agreement was reached between the company and Mr. Alexander Heath under which the company will purchase 400,000 ordinary shares for, in aggregate, £10 conditionally upon shareholders approving the transaction.

On February 4, 2000, the company issued 90,000 shares to each of Laurie Yoler, Peter Dicks and Daniel Colson at a price of £0.21 per share.

Yours faithfully

KPMG

Chartered Accountants

## PART 2

### ACCOUNTANTS' LETTER ON PRO-FORMA FINANCIAL INFORMATION

The following is a copy of the letter received from KPMG.

The Directors  
interactive investor international plc  
2 East Poultry Avenue  
London  
EC1A 9PT



1 Puddle Dock  
London, EC4V 3PD

The Directors  
interactive investor limited  
2 East Poultry Avenue  
London  
EC1A 9PT

Credit Suisse First Boston (Europe) Limited  
One Cabot Square  
London E14 4QJ

4 February, 2000

Dear Sirs

**interactive investor international plc**

We report on the pro forma net asset statement set out in Part 3 of the prospectus dated 4 February, 2000, which has been prepared, for illustrative purposes only, to provide information about how the flotation might have affected the financial information presented.

#### **Responsibilities**

It is the responsibility solely of the Directors of interactive investor international plc to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules.

It is our responsibility to form an opinion, as required by the Listing Rules of the London Stock Exchange, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue and the responsibility imposed by Section 152 (1) (e) of The Financial Services Act 1986.

#### **Basis of opinion**

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

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

## **Opinion**

In our opinion:

- the pro forma net asset statement has been properly compiled on the basis set out therein;
- such basis is consistent with the accounting policies of interactive investor international plc; and
- the adjustments are appropriate for the purposes of the pro forma net asset statement as disclosed pursuant to paragraph 12.29 of the Listing Rules of the London Stock Exchange.

Yours faithfully

KPMG

### PART 3

#### UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

The unaudited pro-forma consolidated net asset statement set out below has been prepared to show the effect of the Offer for illustrative purposes only and, because of its nature, may not give a true picture of the consolidated financial position of the Group at September 30, 1999. It is extracted from the audited consolidated balance sheet of interactive investor limited and its subsidiaries as at September 30, 1999 and takes into account the adjustments detailed below.

The following pro-forma consolidated net asset statement does not purport to represent what the Group's financial position would actually have been had completion of the Offer occurred on September 30, 1999 or the financial position of the Group at any future date.

#### Unaudited Pro-Forma Consolidated Net Asset Statement as at September 30, 1999

	September 30, 1999	Adjustments 1999	Pro-forma 1999
	£000	£000	£000
	—	—	—
<b>Fixed Assets</b>	932	—	932
	932	—	932
<b>Current Assets</b>			
Cash	108	62,200	62,308
Debtors	882	—	882
<b>Creditors:</b> Amounts falling due within one year	(3,330)	—	(3,330)
Net current liabilities	(2,340)	62,200	59,860
Total assets less current liabilities	(1,408)	62,200	60,792
Provisions for liabilities and charges	—	—	—
Net liabilities/assets	(1,408)	62,200	60,792

#### Notes to the Unaudited Pro-Forma Net Asset Statement

The pro-forma assumes that interactive investor international plc acquired 100% of the issued share capital of interactive investor limited on September 30, 1999 in a share for share exchange.

The pro-forma assumes net proceeds of the Offer receivable by the Group, based on gross proceeds of £70.2 million and expenses of £8.0 million and an Offer Price at the mid-point of the Price Range.

No account has been taken of the trading results of the Group since September 30, 1999, nor have any adjustments been made to reflect equity transactions subsequent to the year end.



## **PART 4**

### **THE OFFER**

#### **Size**

Assuming no exercise of the Over-Allotment Option, 52,000,000 Shares will be offered by the Company and 3,000,000 Shares will be offered by the Selling Shareholder.

#### **Structure**

The Offer will be made:

- to those members of the general public who have an address in the U.K., Jersey or the Isle of Man, who have completed the authentication process and opened a registered account with the Company, and then have registered online for the Offer on or before the close of the registration period at 11.59 pm on February 1, 2000 (the "U.K. Retail Offer");
- to institutional investors outside the United States and Canada;
- by means of a public offering to investors in the United States; and
- by means of private placements in Canada.

Also, as part of the U.K. Retail Offer, Shares will be offered to Eligible Employees and friends and suppliers of the Company.

The Shares offered pursuant to the Offer will rank *pari passu* in all respects with the Ordinary Shares of the Company and will carry the right to receive all dividends and distributions declared, made or paid on or in respect of the existing Ordinary Shares after Admission.

#### **Application for Shares in the U.K. Retail Offer**

The terms and conditions of application for the Shares are set out in Part 5 of this Prospectus.

The minimum application is £500. There is no maximum application. If demand for Shares in the Offer exceeds the number of Shares made available in the Offer, Credit Suisse First Boston, in consultation with the other Underwriters, Hollinger Digital, Inc., the Selling Shareholder and the Company, will determine the basis of allocation of Shares. Accordingly, an applicant may not receive all of the Shares applied for and it is possible that he/she may not receive any.

The number of Shares available to the public in the U.K., Jersey and the Isle of Man under the U.K. Retail Offer, and the Offer Price will be decided after the closing date for applications in the Offer and is expected to be announced to the national press on or about Wednesday February 16, 2000.

Preference will be given to applications received under the Friends and Employees Offer for up to a total of approximately two million Shares at the Offer Price. If applications under the Friends and Employees Offer exceed this level, the excess may be treated as a separate application in the U.K. Retail Offer. Applicants under the Friends and Employees Offer may not receive all of the Shares applied for and it is possible that they may not receive any.

Because the Offer Price will not be known until after the closing date for applications, applications for Shares should be based on the amount of money an applicant wishes to invest and not the number of Shares.

Application Forms should be used by investors who registered online for the U.K. Retail Offer on or before the close of the registration period at 11.59 pm on February 1, 2000, whereas applicants under the Friends and Employees Offer should use the Friends and Employees Application Form.

### **No Multiple Applications**

Multiple applications are not permitted. Applicants may only apply once for Shares in the Offer.

### **Action Required to Apply for Shares**

If an applicant decides to apply for Shares in the U.K. Retail Offer, he or she should complete the relevant application form (carefully following the instructions in the guidance notes accompanying the application form) and return it with a cheque or banker's draft as soon as possible **but in any event so that it is received by 12.00 noon on February 14, 2000.**

### **Pricing**

All successful applicants will pay the same price for the Shares. This price is called the Offer Price and is expected to be between 120p and 150p per Share, although the actual price could be above or below this range.

Prior to this Offer, there has been no public market for the Shares or the ADSs. The Offer Price for the Shares will be determined by negotiation between the Company, the Underwriters, the Selling Shareholder and Hollinger Digital, Inc..

Among the factors to be considered in determining the Offer Price will be prevailing market and economic conditions, revenue and earnings of the Company, market valuations of other companies engaged in activities similar to the Company, estimates of the business potential and prospects of the Company, the present state of the Company's business operations, the Company's management and other factors deemed relevant. The estimated Offer Price range set out on the cover page of this Prospectus is subject to change as a result of the above factors. The Company cannot assure you that a regular trading market for the Shares or the ADSs can be sustained. Accordingly the Offer Price will not necessarily be the highest price at which all of the Shares and ADSs subject to the Offer could be sold. The prices at which the Shares or ADSs will sell in the public markets after this Offer may be lower than the price at which the Shares or ADSs are sold by the Underwriters in this Offer.

## PART 5

### TERMS AND CONDITIONS OF APPLICATION FOR THE U.K. RETAIL OFFER

1. If you are a member of the general public who has an address in the U.K., Jersey or the Isle of Man who has completed the authentication process and opened a registered account with the Company and then registered online for the Offer on or before 11.59 pm on February 1, 2000 you may apply for Shares on an Application Form. Application Forms are only available to those members of the public who have registered online. If you have been invited to participate in the Friends and Employees Offer, you may apply for shares on a Friends and Employees Application Form. The relevant application form will be included with the Mini-Prospectus published in connection with the Offer. By applying for Shares on an Application Form or on a Friends and Employees Application Form, you will be agreeing with the Company, Credit Suisse First Boston, the Selling Shareholder, and the Receiving Agent as follows:

2. By completing and delivering an Application Form or a Friends and Employees Application Form you, and if signing on behalf of a person or corporation, that person or corporation:

(a) offer to acquire at the Offer Price the maximum number of Shares that may be applied for with the amount specified in the relevant Application Form or Friends and Employees Application Form as the amount that you wish to invest (or any smaller amount in respect of which your offer is accepted) provided that your application must be for a minimum of £500, subject to these terms and conditions, the terms of the relevant Application Form or Friends and Employees Application Form and accompanying guide, this Prospectus, the Mini-Prospectus and the Memorandum and Articles of Association of the Company;

(b) authorise the Receiving Agent to send you a definitive share certificate and/or a sterling cheque for any monies returnable (without interest) crossed "Account Payee" or your cheque, banker's draft or money order, by post at the risk of the person(s) entitled to it, to your address (or in the case of joint applicants, to the address of the first named applicant as set out in your Application Form or Friends and Employees Application Form), and to ensure that your name (and the name of any joint applicants) is/are placed on the register of members of the Company in respect of the Shares, if any, for which your application is accepted;

(c) in consideration of the Selling Shareholder agreeing that it will not, prior to the date of Admission, or such later date as the Company specifies, sell to any person any Shares other than by means of the procedure referred to in this Prospectus, and in consideration of the Company making the Offer, and as a collateral contract between you and the Company, Credit Suisse First Boston, the Selling Shareholder and the Receiving Agent which will become binding on you on despatch by post or delivery to the Receiving Agent of your Application Form or Friends and Employees Application Form:

(i) agree that your application may not be revoked by you until after 5.00 pm on March 7, 2000 in the event Admission has not taken place;

(ii) undertake to pay the Offer Price for the Shares (payable in full on application) in respect of which your application is accepted and warrant that your remittance will be honoured on first presentation, failing which you will not be entitled to receive a share certificate, nor to enjoy or receive any rights in respect of such Shares unless and until you make payment in cleared funds for such Shares and such payment is accepted by the Receiving Agent (which acceptance shall be in its absolute discretion and on the basis that you indemnify the Receiving Agent in respect of any costs, expenses, losses or liabilities incurred as a result) and, pending receipt of cleared funds, the Receiving Agent, on behalf of the Company, Credit Suisse First Boston and the Selling Shareholder, may terminate the agreement to allocate Shares to you and re-allocate the Shares to another person;

(iii) agree that any share certificate to which you or any of the persons specified in paragraph 2(b) above may become entitled, and any monies returnable to you, may be retained pending clearance of your remittance or pending investigation of any suspected breach of any of the warranties contained in paragraphs 10(a), 10(b), 10(f), 10(g), 10(i), 10(j), 10(k), 10(l), 10(m), 10(n)

and 10(o) below and that any interest accruing on any such retained monies shall accrue to and for the benefit of the Company;

(iv) agree, on request by Credit Suisse First Boston or the Receiving Agent, to disclose promptly in writing to Credit Suisse First Boston and the Receiving Agent such information as they may request in connection with your application, and to authorise them to disclose to any person any information relating to your application which they may consider appropriate;

(v) agree, that any share certificate in respect of any Shares to which you or any of the persons specified in paragraph 2(b) above may become entitled, and any monies returnable to you, may be retained pending clearance of your remittance, investigation of any suspected breach of these terms and conditions and any verification of identity which is, or which Credit Suisse First Boston, the Selling Shareholder or the Receiving Agent considers may be, required for the purposes of the Money Laundering Regulations 1993, and that any interest accruing on such retained monies shall accrue to and for the benefit of the Company;

(vi) agree that, if evidence of identity satisfactory to Credit Suisse First Boston or the Receiving Agent is not provided on or before 5.00 pm on March 7, 2000, the Company or the Selling Shareholder (as the case may be) may terminate the contract of allocation with you and, in any such case, the Shares which would otherwise have been allocated to you will be sold as soon as is reasonably practicable (and for which purpose you hereby irrevocably authorise the Company or any person appointed by it for this purpose to execute on your behalf any instrument of transfer which may be necessary to effect such sale) and, as soon as is reasonably practicable after such sale, your application monies (or, if less, an amount equal to the proceeds of such sale net of all expenses of the sale) will be returned to the bank or other account on which the cheque or other remittance accompanying the application was drawn and you agree that, in such event, you will have no claim against the Company, the Selling Shareholder, Credit Suisse First Boston or the Receiving Agent or any of their respective officers, agents or employees in respect of the balance of your application monies, if any (such balance being retained by the Company as compensation for breach of contract), or for any loss arising from the price, the timing or the manner of such sale or otherwise in connection therewith;

(vii) agree that you are not applying on behalf of a person engaged in money laundering;

(viii) undertake to ensure that, in the case of an application signed by someone else on your behalf, the original of the relevant power of attorney (or a complete copy certified by a solicitor or notary) is enclosed with your Application Form or Friends and Employees Application Form;

(ix) agree that any future communication sent by the Company to you in your capacity as a shareholder of the Company may be in the English language.

3. If your Application Form or Friends and Employees Application Form is not completed correctly or is amended or if the accompanying cheque, banker's draft or money order is for the wrong amount or currency or if your Application Form or Friends and Employees Application Form is not accompanied by a power of attorney or other authority where required, it may still be treated as valid. In these circumstances, the Company's decision as to whether to treat your application as valid, and how to construe, amend or complete the Application Form or Friends and Employees Application Form, shall be final. You will not, however, be treated as having offered to invest a higher amount than is indicated in your application.

4. Any application may be rejected in whole or in part. Applications will not be accepted in names that are, or are suspected to be, fictitious, or which are otherwise unsuitable for share registration purposes. Applications in the Friends and Employees Offer may only be accepted from the persons to whom the Friends and Employees Offer is made.

#### **Acceptance of your Offer**

5. Credit Suisse First Boston may on behalf of the Company and the Selling Shareholder accept your offer to purchase (if your application is received by the due date, is valid (or treated as valid), is processed and is not rejected) either:

(a) by notifying the London Stock Exchange of the basis of allocation (in which case the acceptance will be on that basis); or

(b) by notifying acceptance to the Receiving Agent.

6. The Company and the Selling Shareholder will endeavour to satisfy valid applications made on Application Forms and Friends and Employees Application Forms. However, if demand for Shares exceeds the number of Shares available in the Offer, Credit Suisse First Boston, on behalf of the Underwriters, in consultation with the Company, Hollinger Digital, Inc. and the Selling Shareholder, will determine the basis of allocation of Shares. Accordingly, you may not receive all of the Shares you apply for and you may not receive any at all.

#### **Conditions**

7. The contract arising from acceptance of applications (in whole or in part) under the Offer under which you will be required to acquire the Shares (at the Offer Price in respect of which your application has been accepted) will be entered into by you (if you are a successful applicant) and either the Company or the Selling Shareholder and will be conditional upon (a) Admission becoming effective in accordance with paragraph 7.1 of the Listing Rules of the LSE on or before February 23, 2000 or such later date as Credit Suisse First Boston, the Company and the Selling Shareholder may agree (not being later than March 7, 2000) and (b) the Underwriting Agreement referred to in the section entitled "Underwriting" in this Prospectus becoming wholly effective and, thereafter, wholly unconditional and not being terminated before Admission and (c) the right of termination under paragraph 18 below not having been exercised prior to Admission and (d) the Offer Price having been determined prior to Admission.

8. You will not be entitled to exercise any remedy of rescission for innocent misrepresentation (including pre-contractual representations) at any time after acceptance. This does not affect any other right you may have.

#### **Return of application monies**

9. If any application is not accepted or if any contract created by acceptance does not become unconditional, your cheque, banker's draft or money order, or a cheque from the Receiving Agent for the relevant amount, will be returned to you by post at the risk of the applicant(s) not later than March 7, 2000. If any application is accepted for an amount lower than that offered, subject as hereinafter provided, the balance of the amount paid on application (as the case may be) will be returned by cheque crossed "Account Payee" in favour of the relevant payee without interest by post at the risk of the applicant(s) not later than March 7, 2000. In the meantime, application monies will be retained by the Receiving Agent in an account designated for the purposes of the Offer and any interest accrued on the application monies shall be retained by, and for the benefit of, the Company. The cheque and/or banker's draft and/or money order accompanying your application may be presented on receipt and before acceptance of your application, but this will not constitute acceptance of your application, either in whole or in part. The proceeds of this presentation will be held pending acceptance and, if your application is accepted and the conditions of paragraph 7 above are satisfied, will be applied in discharging the total amount due for the Shares you have been allocated. Share certificates and surplus application monies (if any) may be retained pending clearance of the applicant's cheque and/or banker's draft and/or money order. The right is also reserved to reject any application in respect of which the applicant's cheque, banker's draft or, as the case may be, money order has not been cleared on first presentation and, in any event, by 12.00 noon on February 22, 2000. The Company may require an applicant to pay interest or other resulting costs (or both) if the cheque, banker's draft or money order accompanying his application is not honoured on first presentation. No refund cheques will be issued for amounts less than the Offer Price and any such amount will be donated to a charity nominated by the Company. Sums refunded will be paid in sterling.

#### **Warranties**

10. By completing and submitting an Application Form or Friends and Employees Application Form, you:

(a) warrant that, if the laws of any territory outside the U.K. are relevant to your application, in connection with your application, you have complied with all such laws, obtained all governmental and

other consents which may be required, complied with all requisite formalities and paid any issue, transfer or other taxes due in connection with your application in any territory, other than the U.K., and that you have not taken any action or omitted to take any action which will or may result in Credit Suisse First Boston, the Company, the Selling Shareholder, the Receiving Agent or any of their respective officers, agents or employees acting in breach of the regulatory or legal requirements of any territory outside the U.K. in connection with the Offer or your application;

(b) warrant that, if you sign an Application Form or Friends and Employees Application Form on behalf of somebody else, you have the authority to do so and that such other person will be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained in these terms and conditions and undertake to enclose your power of attorney or other authority or a complete copy thereof duly certified by a solicitor where required by the instructions contained in the guide to completing the Application Form or Friends and Employees Application Form and otherwise comply with such instructions;

(c) confirm that, in making an application, neither you nor any person on whose behalf you are applying is relying on any information or representation in relation to the Company other than such as may be contained in this Prospectus and you agree that none of Credit Suisse First Boston, the Company, the Selling Shareholder, the Receiving Agent or any person acting on behalf of all or any of them or any person responsible solely or jointly for this Prospectus, the Mini-Prospectus or any part of either of them, shall have any liability for any such information or representation;

(d) agree that, having had the opportunity to obtain and read this Prospectus, you shall be deemed to have noted all information and representations, and all the matters identified as Risk Factors, concerning the Company or any other member of the Group contained in this Prospectus;

(e) acknowledge that no person is authorised in connection with the Offer to give any information or make any representation other than as contained in this Prospectus and, if given or made, any information or representation must not be relied upon as having been made by Credit Suisse First Boston, the Company, the Selling Shareholder or the Receiving Agent;

(f) confirm that you have reviewed the restrictions contained in paragraph 13 below and warrant, to the extent relevant, that you (and any person on whose behalf you apply) comply or have complied with the provisions of paragraph 13 below;

(g) warrant that you are not a person who is under 18 years of age (20 years of age in the case of a person resident in Jersey) on the date of your application;

(h) agree that all documents in connection with the Offer and any returned monies will be sent at your risk and may be sent by post to you at your address (or, in the case of joint applicants in the Offer, the address of the first-named applicant) set out in the Application Form or Friends and Employees Application Form;

(i) warrant that if you have used an Application Form, that, unless Credit Suisse First Boston and the Company agree, you are a member of the general public who has an address in the U.K., Jersey or the Isle of Man, and who has completed the authentication process and opened a registered account with the Company, and then has registered online for the Offer on or before 11.59 pm on February 1, 2000 (or, if you are signing on behalf of another person, that other person is such a person);

(j) if you have used a Friends and Employees Application Form as an Eligible Employee, then you are (or, if you are signing on behalf of another person, that other person is) employed by the Group in the U.K. as at January 28, 2000, and if as a friend or supplier, then you are the person to whom the Friends and Employees Application Form is addressed;

(k) warrant that only one application (whether in your sole name or jointly) has been made by you or on your behalf in the Offer;

(l) warrant that you are not applying as, or as nominee or agent of, a person who is or may be a person mentioned in any of Sections 67, 70, 93 or 96 of the Finance Act 1986 (depository receipts and clearance services);

(m) warrant that, unless you are applying under the Friends and Employees Offer, you are a resident of the U.K., Jersey or the Isle of Man and are not, and are not acting on behalf of, a U.S. person or a person or other entity in the United States, Canada, Australia or Japan;

(n) warrant that, if you are applying under the Friends and Employees Offer, you are not resident in the United States, Canada, Australia or Japan; and

(o) warrant that, if you are applying under the Friends and Employees Offer where such offer has been made because of your relationship as a supplier to the company, that relationship is continuing.

### **Money laundering**

11. You agree that, in order to ensure compliance with the Money Laundering Regulations 1993, the Receiving Agent may at its absolute discretion require verification of identity from any person lodging an Application Form or Friends and Employees Application Form who either (i) tenders payment by way of a banker's draft or cheque or money order drawn on, or by way of telegraphic transfer or similar electronic means from, an account in the name of another person or persons or (ii) appears to the Receiving Agent to be acting on behalf of some other person. In the former case, verification of identity of the applicant may be required. In the latter case, verification of identity of any persons on whose behalf the applicant appears to be acting may be required. Failure to provide the necessary evidence of identity may result in application(s) being rejected or delays in the despatch of documents.

12. Without prejudice to the generality of paragraph 11 above, verification of the identity of applicants may be required if the value of the Shares applied for (at the Offer Price) exceeds £10,000 in the case of an application made in the U.K.. If, in such circumstances, you use a building society cheque, banker's draft or money order you should ensure that the bank or building society enters the name, address and account number of the person whose account is being debited on the reverse of the cheque, banker's draft or money order and adds its stamp. If in such circumstances you use a cheque drawn by a third party, you may be requested to provide a copy of the applicant's passport or driving licence certified by a solicitor or a recent original bank or building society statement or utility bill in the applicant's name and showing his current address (which originals will be returned by post at the applicant's risk).

### **Overseas Investors**

13. It is the responsibility of any person outside the U.K. wishing to make an application in the Offer to satisfy himself as to full observance of the laws of the relevant territory in connection therewith, including obtaining any requisite governmental or other consents or approvals, observing any other formalities requiring to be observed in such territory and paying any issue, transfer or other taxes required to be paid in such territory. No person receiving a copy of this Prospectus, the Mini-Prospectus or an Application Form or a Friends and Employees Application Form in any territory may treat the same as constituting an invitation or offer to him nor should he in any event use such Application Form or Friends and Employees Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form or Friends and Employees Application Form could lawfully be used by him without contravention of any registration or other requirements. Neither this Prospectus nor the Mini-Prospectus has been submitted to the clearance procedures of any authorities other than the London Stock Exchange, as the competent authority in the U.K.. Other than in the case of applications made pursuant to the Friends and Employees Offer, any application made by or on behalf of a person outside the U.K., Jersey or the Isle of Man may be rejected.

### **Miscellaneous**

14. To the extent permitted by law, all representations, warranties and conditions, express or implied and whether statutory or otherwise (including without limitation pre-contractual representations but excluding any

fraudulent representations), are expressly excluded in relation to the Shares, the Offer and the U.K. Retail Offer.

15. Save where the context requires otherwise, terms defined in this Prospectus bear the same meaning when used in the Application Form or Friends and Employees Application Form and in the guide to completing the Application Form or Friends and Employees Application Form. In the case of a joint application in the U.K. Retail Offer, references in these terms and conditions to "you" or the "applicant" are to each joint applicant (and "you" shall be construed accordingly) and the liability of joint applicants is joint and several.

16. The rights and remedies of the company, Credit Suisse First Boston, the Selling Shareholder and the Receiving Agent under these terms and conditions are in addition to any rights and remedies which would otherwise be available to any of them and the exercise or partial exercise of any one will not prevent the exercise of others or full exercise.

17. Credit Suisse First Boston reserves the right to delay the closing time of the Offer from 12.00 noon on February 14, 2000 by giving notice to the London Stock Exchange. In this event, the revised closing time will be published in such manner as Credit Suisse First Boston in its absolute discretion determines subject, and having regard, to the listing requirements of the London Stock Exchange.

18. The Underwriting Agreement is expected to provide that the Offer may be terminated in certain circumstances at any time prior to Admission. If the Offer is so terminated, applications received up to the date of termination will automatically lapse, applications received after that date will be of no effect and any application monies relating thereto will be returned to you without interest.

19. You agree that all applications, acceptances of applications and contracts resulting from them under the Offer shall be governed by and construed in accordance with English law and that you submit to the jurisdiction of the English courts and agree that nothing shall limit the company's right to bring any action, suit or proceedings arising out of or in connection with any such application, acceptances or contracts in any other manner permitted by law or in any court of competent jurisdiction.

20. You authorise the company, on your behalf, to make any appropriate returns to the Inland Revenue in relation to stamp duty reserve tax (if any) on any contract arising on acceptance of your application and in relation to stamp duty (if any) payable on any transfer of shares as a result of such contract.

21. You agree that Credit Suisse First Boston will not treat you as its customer by virtue of an application being accepted and that Credit Suisse First Boston will not be responsible for providing to you the protections afforded to its customers and that Credit Suisse First Boston owes you no duties or responsibilities concerning the price of the Shares or concerning the suitability of the Shares for you as an investment or (save as expressly set out in these terms and conditions) otherwise in connection with the Offer.

22. You authorise the Receiving Agent and its agents to do all things necessary to effect registration into your name(s) of any Shares acquired by you and authorise any representative of the Receiving Agent to execute and/or complete any document of title required therefor.

23. The dates and times referred to in these terms and conditions may be altered by the company, the Selling Shareholder and Credit Suisse First Boston.



**PART 6**  
**ADDITIONAL INFORMATION**

**1. The Company**

1.1 The Company was incorporated and registered in England and Wales under the Act on August 13, 1999 with registered number 3824695 as a private company limited by shares with the name Creditstand Limited. On September 28, 1999 the name of the Company was changed to iii limited. On January 27, 2000 the Company was re-registered under the Act as a public company with the name iii plc. On February 1, 2000, the Company changed its name to interactive investor international plc.

1.2 The registered and head office of the Company is First Floor, 2 East Poultry Avenue, London EC1A 9PT. The principal legislation under which the Company operates is the Act.

**2 Share Capital**

*interactive investor international plc*

2.1 The following changes to the share capital of the Company have taken place since incorporation on August 13, 1999.

2.2 On incorporation, the authorised share capital of the Company was £1,000.00 divided into 1,000 ordinary shares of £1.00 each, one of which was issued nil paid to Instant Companies Limited of 1 Mitchell Lane, Bristol, BS1 6BU as subscriber. On September 9, 1999, the one issued ordinary share was transferred to Max Ashton.

2.3 On January 13, 2000, written resolutions of the Company were passed sub-dividing each of the issued and unissued ordinary shares of £1.00 each in the capital of the Company into 100 ordinary shares of £0.01 each, increasing the Company's authorised share capital from £1,000.00 to £1,486,983.63 by the creation of 85,331,482 new ordinary shares of £0.01 each and 63,266,881 new 'A' shares of £0.01 each, and authorising the Directors to allot shares up to an aggregate nominal amount of £1,486,983.63, such authority to expire on January 10, 2005.

2.4 On January 14, 2000, pursuant to the Share Exchange Agreement, the holders of ordinary shares and 'A' shares in interactive were issued a like number of ordinary shares and 'A' shares in the Company in exchange for their ordinary shares and 'A' shares in interactive.

2.5 By special resolution of the Company passed on January 27, 2000, the Company resolved to re-register as a public company, and made certain consequential amendments to its Memorandum and Articles of Association.

2.6 By special resolution of the Company passed on January 27, 2000, conditionally on Admission becoming effective not later than March 31, 2000:

(a) the ordinary shares and 'A' shares in the capital of the Company were re-designated as one class of Ordinary Shares of £0.01 each;

(b) the authorised share capital of the Company was increased from £1,486,983.63 to £3,250,000.00 divided into 325,000,000 Ordinary Shares;

(c) in substitution for all existing authorities, the Directors were generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £1,891,540.32 such authority to expire at the earlier of the conclusion of the next annual general meeting of the Company and June 30, 2001 (provided that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired);

(d) in substitution for all existing authorities, the Directors were empowered pursuant to Section 95 of the Act, during the period expiring on the earlier of the date 15 months after the date on which the resolution was passed and the date of the annual general meeting of the Company to be held in 2001, to allot or make offers or agreements to allot equity securities (within the meaning of Section 94(2) of the Act) wholly for cash pursuant to the authority referred to in sub-paragraph (c) above as if Section 89(1) of the Act (offers to shareholders to be on a pre-emptive basis) did not apply to any such allotments, that power being limited to:

(i) the allotment of up to 100,000,000 Ordinary Shares in connection with the Offer;

(ii) the allotment after Admission of equity securities having an aggregate nominal value of up to £775,151.32 or, if less, equity securities equal to up to 33.3% of the issued share capital of the Company immediately following Admission in connection with a rights issue in favour of the holders of Ordinary Shares, or in connection with any other form of issue of such securities in which holders are offered the right to participate in proportion (as nearly as may be) to the respective number of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in relation to fractional entitlements or legal or practical problems arising in connection with the laws of, or of the requirements of any generally recognised regulatory body or stock exchange in, any territory; and

(iii) to the allotment after Admission (otherwise than pursuant to sub-paragraphs (i) or (ii) (above)) of equity securities up to an aggregate nominal amount of £116,389.00 or, if less, the amount equal to 5% of the issued share capital of the Company immediately following Admission;

and such power expiring on the earlier of the conclusion of the next annual general meeting of the Company and June 30, 2001, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and

(e) that:

(i) upon and subject to the terms and conditions set out in the resolution, the Directors be authorised from time to time to capitalise, out of the amount from time to time standing to the credit of the Company's share premium account, an amount not exceeding £1,730.36;

(ii) the Directors be able to effect such capitalisation on each occasion (a "Specified Occasion") when a holder (a "Holder") of an option to subscribe Ordinary Shares pursuant to which the exercise price per share is less than the nominal value of each such share (a "Below Par Option") exercises any such option and, as a result of such exercise, is to be entered in the Company's register of members as the holder of Ordinary Shares ("New Shares"); and

(iii) upon the occurrence of a Specified Occasion, the Directors be able to capitalise such sum as shall equal the amount which the Directors determine is required (when added to the exercise price actually payable pursuant to the Below Par Option) to ensure that all the New Shares issued pursuant to the relevant Below Par Option are issued fully paid at par to such Holder, and shall apply such sum on behalf of the relevant Holder in paying up in full at par all of the New Shares, and shall issue and allot the New Shares credited as fully paid to the relevant Holder.

2.7 It is expected that the following special resolution of the Company will be passed on or prior to February 22, 2000:

(a) that, conditionally upon Admission becoming effective by no later than March 31, 2000 or such later date as the Company and Credit Suisse First Boston may agree, and with effect simultaneously with Admission, the proposed agreement between the Company and Mr. Alexander Heath relating to the purchase by the Company of 400,000 Ordinary Shares be approved and accordingly that the Company be authorised to purchase the shares on the terms set out in the proposed agreement (the authority conferred by this resolution to expire on March 31, 2001); and

(b) that, conditionally upon Admission:

(i) the Directors be authorised from time to time to capitalise, out of the amount from time to time standing to the credit of the Company's share premium account, an amount not exceeding £5,000.00;

(ii) the Directors shall effect such capitalisation on each occasion (a "Specified Occasion") when a holder (a "Holder") of an option to subscribe Ordinary Shares pursuant to which the exercise price per share is less than the nominal value of each such share (a "Below Par Option") exercises any such option and, as a result of such exercise, is to be entered in the Company's register of members as the holder of Ordinary Shares ("New Shares"); and

(iii) upon the occurrence of a Specified Occasion, the Directors shall capitalise such sum as shall equal the amount which the Directors determine is required (when added to the exercise price actually payable pursuant to the Below Par Option) to ensure that all the New Shares issued pursuant to the relevant Below Par Option are issued fully paid at par to such Holder, and shall apply such sum on behalf of the relevant Holder in paying up in full at par all of the New Shares, and shall issue and allot the New Shares credited as fully paid to the relevant Holder.

2.8 On January 28, 2000 the Company allotted 142,623 Ordinary Shares to Peter Dicks and 71,310 Ordinary Shares to Laurie Yoler at an exercise price of £0.01 per share in each case pursuant to the options described in paragraph 4.4 of this Part 6.

2.9 On February 4, 2000 the Company agreed to allot 90,000 Ordinary Shares to each of Daniel Colson, Laurie Yoler and Peter Dicks at a price of £0.21 per share pursuant to the exercise of prior option settlements, further details of which appear on page 71 of this document.

2.10 Save as aforesaid and save as disclosed in the sections entitled "Management" and "Certain Transactions and Relationships" in this Prospectus, no share or loan capital of the Company or any companies in the Group is under option or agreed, conditionally or unconditionally, to be put under option.

2.11 The provisions of Section 89 of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are or are to be paid up in cash, other than an allotment to employees under an employees' share scheme) apply to the authorised but unissued share capital of the Company except to the extent disapplied by the resolution referred to in paragraph 2.6 above. The disapplication will give the Directors limited flexibility to issue Ordinary Shares for cash following the Offer on a non pre-emptive basis. No such issue following the Offer is presently contemplated other than in connection with the share option schemes and option arrangements referred to in the section entitled "Management" and/or pursuant to or in connection with Admission.

2.12 The authorised and issued and fully paid up share capital of the Company following the Offer is set out below:

<u>Class of shares</u>	<u>Authorised</u>	<u>Issued and fully paid up</u>
Ordinary Shares of £0.01 each .....	325,000,000	164,149,425(1)

Notes:

- (1) This figure assumes that the purchase by the Company of 400,000 Ordinary Shares from Mr. Alexander Heath for cancellation has been completed.

2.13 Following the Offer, 15,508,215 Ordinary Shares will remain authorised but unissued of which an aggregate of 15,086,715 Ordinary Shares will be reserved for issue pursuant to the exercise of options granted under the Company's share option schemes and other option arrangements referred to in the section entitled "Management". No issue of Shares will be made by the Company which will effectively alter its control without the prior approval of the Company in general meeting.

2.14 The Company does not have in issue any securities not representing share capital and there are no outstanding convertible debt securities, exchangeable debt securities or debt securities with warrants issued by the Company.

2.15 Save as disclosed in paragraphs 2 and 6 of this Part 6 and in the section entitled "Underwriting" in this Prospectus, since its incorporation on August 13, 1999:

(a) no change in the amount of issued share or loan capital of the Company and no material change in the issued share or loan capital of any member of the Group has been or is proposed to be made, either for cash or a consideration other than cash; and

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company or any companies in the Group in connection with the issue or sale of any share or loan capital of any such company.

*interactive investor limited*

2.16 On incorporation, the authorised share capital of interactive was £100.00 divided into 10,000 ordinary shares of £0.01 each, two of which were issued nil paid to the two subscribers, Instant Companies Limited of 1 Mitchell Lane, Bristol, BS1 6BU and Swift Incorporations Limited of the same address. On August 11, 1995, those shares were transferred to Sherry Leigh Coutu and Lawgram Trustee and Nominee Company respectively. Lawgram Trustee and Nominee Company held the transferred share as nominee for Ms. Coutu. In addition, 9,998 ordinary shares of £0.01 were allotted to Ms. Coutu, fully paid up in cash.

2.17 As at February 1, 1997, interactive's authorised share capital was £287,250.00 comprising 18,700,000 ordinary shares of £0.01 each, 250 deferred 'C' shares of £1.00 each and 100,000 10% redeemable preference shares of £1.00 each, of which 14,960,000 ordinary shares, 250 deferred 'C' shares and 100,000 10% redeemable preference shares were in issue. In the three years preceding the date of this document, the following changes have been made to the authorised and issued share capital of interactive:

(a) on May 20, 1997, at an extraordinary general meeting, interactive passed an ordinary resolution to sub-divide 250 authorised and issued deferred 'C' shares of £1.00 each into 25,000 deferred 'C' shares of £0.01 each and a further ordinary resolution to increase its authorised share capital from £287,250.00 to £327,250.00 by the creation of an additional 4,000,000 ordinary shares of £0.01 each;

(b) on June 6, 1997, the following persons were allotted, in aggregate, 51,095 ordinary shares fully paid up in cash at a subscription price of £1.37 in cash per ordinary share:

- |                                     |                             |
|-------------------------------------|-----------------------------|
| (i) S L Bridle                      | 9,124 ordinary shares;      |
| (ii) David Charters                 | 10,949 ordinary shares;     |
| (iii) Peter J Buckley               | 7,299 ordinary shares;      |
| (iv) Gondo Associates Incorporated: | 10,949 ordinary shares; and |
| (v) Michael Downers                 | 12,774 ordinary shares;     |

(c) on June 12, 1997, 729,000 ordinary shares were allotted to Cheetah at a subscription price of £1.37 in cash per ordinary share;

(d) pursuant to a special resolution dated November 23, 1998, interactive:

(i) re-designated 25,000 deferred 'C' shares of £0.01 each as 25,000 deferred shares of £0.01 each;

(ii) re-designated the 100,000 10% redeemable preference shares of £1.00 each as 160,772 ordinary shares of £0.01 each and 9,839,228 deferred shares of £0.01 each; and

(iii) increased its authorised share capital from £327,250.00 to £608,750.00 by the creation of 25,375,000 'A' shares of £0.01 each and 2,775,000 additional ordinary shares of £0.01 each;

(e) on November 24, 1998, the following persons were allotted, in aggregate, 1,796,000 ordinary shares of £0.01 fully paid up at a subscription price of £0.50 per share pursuant to the conversion of loan notes held by them on that date:

(i) F C Holtz and J N Holtz:	325,000 ordinary shares;
(ii) J A Cooper:	175,000 ordinary shares;
(iii) Cheetah:	850,000 ordinary shares;
(iv) Julian David Jaffe:	10,000 ordinary shares;
(v) Marc Gordon:	10,000 ordinary shares;
(vi) Edward Mitchell:	20,000 ordinary shares;
(vii) Gerald Dubowitz:	6,000 ordinary shares;
(viii) Nicholas Withall:	20,000 ordinary shares;
(ix) Jeffrey L Sampler:	20,000 ordinary shares;
(x) Edward Mallinkrodt:	50,000 ordinary shares;
(xi) Belafin Etablissement:	40,000 ordinary shares;
(xii) Jonathan Hodes:	20,000 ordinary shares;
(xiii) Lucy R K O'Riordan:	10,000 ordinary shares;
(xiv) Patricia Shanks:	10,000 ordinary shares;
(xv) Alexander Heath:	30,000 ordinary shares; and
(xvi) Sally Godley-Maynard:	200,000 ordinary shares;

(f) on November 24, 1998, Hollinger Digital, Inc. subscribed for 8,066,723 'A' shares in the capital of interactive at a subscription price of £0.62 in cash per share;

(g) pursuant to an authority conferred by special resolution passed on December 16, 1998, interactive bought back 9,864,228 deferred shares, in aggregate, for cancellation, from Porpoise, JA Cooper and FC Holtz and JN Holtz for an aggregate price of £1.00, cancelled the resulting £98,642.28 of undesignated share capital and reduced its authorised share capital from £608,750.00 to £510,107.72;

(h) on September 14, 1999, the authorised share capital of interactive was increased from £510,107.72 to £514,075.97 by the creation of an additional 396,825 ordinary shares of £0.01 each. In addition, Max Ashton and Peter Hallam were allotted 158,730 ordinary shares and 60,000 ordinary shares respectively fully paid at a subscription price of £0.63 in cash per ordinary share;

(i) by resolutions passed at an extraordinary general meeting on October 25, 1999, interactive resolved to increase its authorised share capital from £514,075.97 to £525,000.00 by the creation of an additional 1,092,403 ordinary shares, granted to the directors an authority to allot up to 5,441,807 'A' shares and all of the authorised but unissued ordinary shares and disappplied shareholder pre-emption rights in relation to the issue of such shares;

(j) on October 28, 1999, Marc Gordon was allotted 15,873 ordinary shares fully paid at a subscription price of £0.63 in cash per ordinary share;

(k) on October 28, 1999, Hollinger Digital, Inc. was allotted 1,613,344 'A' shares of £0.01 each fully paid at a subscription price of £0.63 per share in consideration for advertising and other services supplied by Hollinger Digital, Inc. to the Group;

(l) on October 29, 1999, Hollinger Digital, Inc. was allotted 50,000 'A' shares of £0.01 each fully paid at a subscription price of £0.2665 per share;

(m) on November 11, 1999 Jeff Fisher was allotted 33,334 ordinary shares fully paid in satisfaction of options exercised at a price of £0.50 per share;

(n) on November 16, 1999, pursuant to an authority conferred by special resolution passed on the same day, interactive issued 1,854,780 ordinary shares and 1,517,187 'A' shares at a price of £1.77 per ordinary share and 'A' share, in connection with the Rights Issue;

(o) on November 23, 1999, S J Berwin & Co (Nominees) Limited was allotted 5,555 ordinary shares fully paid at a subscription price of £1.77 per share;

(p) on December 10, 1999, each of J.A. Cooper and FC Holtz and JN Holtz was allotted 259 ordinary shares fully paid for cash at par to rectify a previous allotment error; and

(q) pursuant to resolutions of interactive passed on January 6, 2000, interactive:

(i) increased its share capital from £577,767.47 to £1,486,983.63 by the creation of an additional 56,451,702 ordinary shares of £0.01 each and an additional 34,469,914 'A' shares of £0.01 each;

(ii) granted to the directors authority to allot ordinary shares and 'A' shares up to an aggregate nominal amount of £909,216.16 pursuant to the bonus issue described in paragraph q(iii) below; and

(iii) capitalised £909,216.16 of its share premium account in paying up in full at par 56,451,702 ordinary shares and 34,469,914 'A' shares, which shares were allotted, credited as fully paid, to the shareholders of interactive as at January 13, 2000 at a ratio of two ordinary shares for each ordinary share held at that date, and two 'A' shares for each 'A' share held at that date.

#### *Warrants issued by interactive*

2.18 On October 9, 1998, Cheetah was granted warrants to subscribe 125,000 ordinary shares in the capital of interactive at a price of £0.10 per share on the terms of the warrant instrument described in paragraph 6(u). The warrants were exercised in full on October 28, 1999.

2.19 On November 24, 1998, sixteen former holders of convertible loan notes were granted warrants to subscribe up to, in aggregate, 2,817,900 ordinary shares in the capital of interactive on the terms of the warrant instrument described in sub-paragraph 6(s). As a result of the arrangements entered into on October 1, 1999 whereby Hollinger's entitlement to subscribe for further shares in interactive crystallised (as described in paragraph 2.18 below), the former loan note holders' maximum warrant entitlements were determined at, in aggregate, 659,892 ordinary shares at a subscription price of £0.2132 per share. The warrants were exercised in full between October 27, 1999 and January 27, 2000.

2.20 On October 1, 1999, Hollinger Digital, Inc. was granted warrants to subscribe for 5,441,807 'A' shares in the capital of interactive at a price of £0.266 per share on the terms of a warrant instrument annexed to the Supplementary Agreement described in paragraph 6(p). The warrants were exercised in full on October 28, 1999.

2.21 On July 29, 1999, S J Berwin & Co (Nominees) Limited was granted warrants to subscribe for 55,555 ordinary shares at an exercise price of £0.01 per share in lieu of fees for legal services supplied by S J Berwin & Co to interactive. For the purpose of calculating the number of shares which were the subject of these warrants, an assumed value of £0.63 per share was applied. S J Berwin & Co (Nominees) Limited fully exercised its rights under these warrants on November 23, 1999.

### 3 Subsidiaries

3.1 The business of the Company and its principal activity is to act as the holding company of the companies listed in paragraph 3.2 below.

3.2 The subsidiary undertakings of the Company, which are all wholly-owned, are as follows:

<u>Company and Registered Office</u>	<u>Principal Activity</u>	<u>Issued and fully paid up share capital</u>
interactive investor limited First Floor 2 East Poultry Avenue London EC1A 9PT	Provider of financial services <i>information and related</i> services	60,281,253 ordinary shares of £0.01 each and 51,704,871 'A' shares of £0.01 each
interactive investors information limited First Floor 2 East Poultry Avenue London EC1A 9PT	Non-trading	2 ordinary shares of £1 each
interactive markets limited First Floor 2 East Poultry Avenue London EC1A 9PT	Provider of financial services <i>information and related</i> services	1,000 ordinary shares of £1 each
interactive investor trading limited First Floor 2 East Poultry Avenue London EC1A 9PT	Financial adviser authorised under the Financial Services Act 1986	125,000 ordinary shares of £1 each
interactive investor (overseas) limited First Floor 2 East Poultry Avenue London EC1A 9PT	Provider of financial services <i>information and related</i> services (also registered as a branch of a U.K. company in Australia)	2 ordinary shares of £1 each
interactive investor international (asia) limited 18/F Circle Tower 28 Tang Lung Street Causeway Bay Hong Kong	Provider of financial services <i>information and related</i> services	1,000 shares of HK\$1.00 each
interactive markets (asia) limited 18/F Circle Tower 28 Tang Lung Street Causeway Bay Hong Kong	Provider of financial services <i>information and related</i> services	2 shares of HK\$1.00 each
interactive investor international (SA) (Proprietary) limited 33 Langerman Drive Kensington 2094 South Africa	Provider of financial services <i>information and related</i> services	100 ordinary shares of 1 Rand each

#### 4 Directors' and Other Interests

##### *Directors' Interests*

4.1 The interests, as have been notified to the Company pursuant to Sections 324, 325, 328 and schedule 13 of the Act, of the Directors and of their families (or which are interests of a connected person of a Director and which would, if the connected person were a Director, be required to be notified as aforesaid, and the existence of which is known to or could with reasonable diligence be ascertained by that Director), all of which are beneficial, unless otherwise indicated, in the ordinary share capital of the Company at the date of this document are as follows:

Name	Number of Ordinary Shares	Ordinary Shares to be granted upon exercise of options	Percentage of Ordinary Shares controlled by each Director, including options(3)
Sherry Leigh Coutu .....	28,812,036 <sup>(1)</sup>	0	22.57
Peter Dicks .....	232,623	0	0.18
Daniel Colson .....	90,000 <sup>(2)</sup>	0	0.07
Tomás Carruthers .....	102,000	4,398,000	3.53
Max Ashton .....	476,190	2,352,873	2.22
Julian Jaffe .....	41,337	1,800,000	1.44
Laurie Yoler .....	161,310	0	0.13
Charles Young .....	0	0	0.00

##### Notes:

- (1) Represents an interest in the shares held by Porpoise Investments Limited, a Jersey investment company that is wholly owned by Charwell Trustees Limited in its capacity as trustee of the Porpoise Trust, a discretionary trust in which members of Sherry Coutu's immediate family have an interest.
- (2) Hollinger Digital, Inc. owns 51,704,871 'A' shares. Daniel Colson is a director of both Hollinger Digital, Inc. and an executive employee of other companies in the Hollinger group.
- (3) The figures in this column assume exercise in full of all outstanding options over Shares in the capital of the Company as of the date of this document, the purchase by the Company of 400,000 Ordinary Shares from Mr. Alexander Heath for cancellation having taken place and the cancellation of Mr. Alexander Heath's options over 2,100,000 Ordinary Shares.

4.2 The interests, as have been notified to the Company pursuant to Sections 324, 325, 328 and schedule 13 of the Act, of the Directors and of their families (or which are interests of a connected person of a Director and which would, if the connected person were a Director, be required to be notified as aforesaid, and the existence of which is known to or could with reasonable diligence be ascertained by that Director), all of which are beneficial, unless otherwise indicated, in the ordinary share capital of the Company immediately following Admission will be as follows:

Name	Number of Ordinary Shares(1)	Ordinary Shares to be granted upon exercise of options	Percentage of Ordinary Shares controlled by each Director, including options(1)(4)
Sherry Leigh Coutu .....	23,812,036 <sup>(2)</sup>	0	13.25
Peter Dicks .....	232,623	0	0.13
Daniel Colson .....	90,000 <sup>(3)</sup>	0	0.05
Tomás Carruthers .....	102,000	4,398,000	2.50
Max Ashton .....	476,190	2,352,873	1.57
Julian Jaffe .....	41,337	1,800,000	1.02
Laurie Yoler .....	161,310	0	0.09
Charles Young .....	0	0	0.00

##### Notes:

- (1) The figures in these columns assumes an Offer Price at the mid-point of the Price Range, full exercise of the Over-Allotment Option, the purchase by the Company of 400,000 Ordinary Shares from Mr. Alexander Heath for cancellation and the cancellation of options over 2,100,000 Ordinary Shares held by Mr. Alexander Heath.
- (2) Represents an interest in the shares held by Porpoise Investments Limited, a Jersey investment company that is wholly owned by Charwell Trustees Limited in its capacity as trustee of the Porpoise Trust, a discretionary trust in which members of Sherry Coutu's immediate family have an interest.
- (3) Hollinger Digital, Inc. owns 46,704,871 'A' shares. Daniel Colson is a director of both Hollinger Digital, Inc. and an executive employee of other companies in the Hollinger group.
- (4) The figures in this column assume exercise in full of all outstanding options over Shares in the capital of the Company as at the date of this document.



4.3 Save as disclosed in paragraph 4.2 above, no Director or member of his family will have immediately following Admission any interest, beneficial or non-beneficial, in the share capital of the Company.

4.4 The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group in respect of the 12 months ended on September 30, 1999 was approximately £333,124 inclusive of pension contributions, and in respect of the 12 months ending on September 30, 2000 is estimated, under the arrangements in force at the date of this document and assuming Admission takes place, to be approximately £750,000.

4.5 By virtue of an agreement dated January 29, 2000 between Sherry Coutu and interactive, Ms. Coutu's executive director's service contract with interactive was terminated and interactive agreed to pay her £90,000 compensation in accordance with the terms of her employment agreement.

4.6 Directors' fees payable to Laurie Yoler in the amount of £15,000 and to Peter Dicks in the amount of £30,000 for the twelve month period ending on September 30, 1999 were satisfied by the grant of options to purchase 23,700 and 47,541 Ordinary Shares respectively at an exercise price of £0.01 per share based on an agreed value. In addition, Laurie Yoler, Daniel Colson and Peter Dicks each exercised options over 90,000 Ordinary Shares on February 3, 2000 at a price of £0.21 per share, further details of which are set out in Part 6 below.

4.7 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor have there been any such waivers of emoluments during the 12 months ended September 30, 1999.

4.8 Save as disclosed in the section entitled "Certain Transactions and Relationships" in this Prospectus, no Director has or has had any interest, direct or indirect, in any transactions effected by the Company or any of its subsidiaries either since September 30, 1998 or during an earlier financial year where they remain in any respect outstanding or unperformed and any of which are or were unusual in their nature or conditions or significant in relation to the Company and its subsidiaries.

4.9 There are no outstanding loans or guarantees provided by any member of the Group to or for the benefit of any of the Directors.

#### *Substantial Shareholders*

4.10 In so far as is known to the Company, the following is a list of those persons who, directly or indirectly, are interested in 3% or more of the Company's share capital, together with the amount of each such person's interest, at the date of this Prospectus:

	Number of Ordinary Shares in which interests are held	Percentage of issued ordinary share capital <sup>(2)</sup>
Hollinger .....	51,704,871 <sup>(3)</sup>	46.10
Porpoise .....	28,812,036 <sup>(1)</sup>	25.69
FC Holtz and JN Holtz .....	9,572,718	8.54
J A Cooper .....	6,337,011	5.65
Cheetah .....	6,683,334	5.96

(1) The figure includes 3,312,036 Shares which Porpoise is obligated to transfer to the Company's optionholders in satisfaction of the Company's obligations to such optionholders.

(2) The figures in this column assume that both the purchase by the Company of 400,000 Shares from Mr. Alexander Heath for cancellation and the cancellation of options held by Mr. Alexander Heath over 2,100,000 Shares have taken place.

(3) This figure does not include 90,000 shares held beneficially by Daniel Colson.

4.11 In so far as is known to the Company, the following is a list of those persons who, directly or indirectly, will be interested in 3% or more of the Company's share capital, together with the amount of each such person's interest, immediately following Admission, assuming an Offer Price at the mid-point of the Price Range and full exercise of the Over-allotment Option:

	Number of Ordinary Shares in which interests are held	Percentage of issued ordinary share capital <sup>(2)</sup>
Hollinger .....	46,704,871 <sup>(3)</sup>	28.45
Porpoise .....	23,812,036 <sup>(1)</sup>	14.51
FC Holtz and JN Holtz .....	9,572,718	5.83
J A Cooper .....	6,337,011	3.86
Cheetah .....	6,683,334	4.07

(1) The figure includes 3,312,036 Shares which Porpoise is obligated to transfer to the Company's optionholders in satisfaction of the Company's obligations to such optionholders.

(2) The figures in this column assume that both the purchase by the Company of 400,000 Shares from Mr. Alexander Heath for cancellation and the cancellation of options held by Mr. Alexander Heath over 2,100,000 Shares have taken place.

(3) This figure does not include 90,000 shares held beneficially by Daniel Colson.

4.12 Save as aforesaid, the Directors are not aware of any other interests (within the meaning of Part VI of the Act) which represent 3% or more of the issued share capital of the Company.

4.13 Save as disclosed under the sub-heading "The interests of our major shareholders may not always coincide with ours, which could hamper our development" in the section entitled "Risk Factors" in this Prospectus (which relate specifically to Porpoise's and Hollinger's shareholdings), and under the heading "Relationship Agreements" in the section entitled "Certain Transactions and Relationships" in this Prospectus, the Directors are not aware of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

4.14 Save as set out in the section entitled "Management" under the sub-headings "Employee Share Plans" and "Pre-Scheme Options and Non-Scheme Options", there are no schemes which involve the employees of the Group in the capital of any member of the Group.

4.15 Daniel Colson is a nominated director of Hollinger Digital, Inc. pursuant to the agreement described at paragraph 6.2(f) of this Part 6. Laurie Yoler is the nominated director of Porpoise Investments Limited pursuant to the agreement described at paragraph 6.2(g) of this Part 6.

## 5. Principal Establishments

The head office of the Company is First Floor, 2 East Poultry Avenue, London EC1A 9PT, in which the Company owns a leasehold interest. Details of the principal establishments and properties owned or occupied by the Group are set out below:

Location	Tenure	Expiry of term	Rent	Approximate area
London	Leasehold	December 25, 2008	£186,700 exc. VAT per annum	14,000 square feet
Hong Kong	Leasehold	March 31, 2000	HK\$30,273.60 exc. VAT per month	1,800 square feet
South Africa	Leasehold	August 31, 2001	Yr 1—rent free	150 square metres
			Yr 2—51,400 Rand per month exc. VAT	
			Yr 3—5,711.80 Rand per month exc. VAT	
			Yr 4—6,347.27 Rand per month exc. VAT	

## 6. Material Contracts

6.1 The following contracts, not entered into in the ordinary course of business (and which are available for inspection as specified in paragraph 13), have been entered into by the Company or members of its Group within the two years immediately preceding the date of this document and are, or may be, material:

(a) in connection with the Offer and the application for Admission, the Company, the Directors, Credit Suisse First Boston, Hollinger Digital, Inc., and Porpoise Investments Limited entered into the Sponsor's Agreement on February 1, 2000 pursuant to which, *inter alia*:

(i) the Company appointed Credit Suisse First Boston to act as sponsor for the purpose of the application for Admission;

(ii) each of the Company, Hollinger Digital, Inc., Porpoise Investments Limited and the Directors gave certain representations and warranties to Credit Suisse First Boston typical to a transaction of this nature;

(iii) the Company gave an indemnity to Credit Suisse First Boston in a form typical to a transaction of this nature;

(iv) if at any time prior to Admission the obligations of Credit Suisse First Boston under the Underwriting Agreement cease or if such obligations do not come into being prior to March 31, 2000, the obligations of Credit Suisse First Boston pursuant to the Sponsor's Agreement shall also cease and determine;

(v) the Company agreed to pay all costs arising out of the Offer including all costs and expenses incurred by Credit Suisse First Boston on behalf of the Company in relation to the application for Admission, including listing fees, depositary bank fees and all printing, advertising and distribution expenses, but excluding Credit Suisse First Boston's own costs and out of pocket expenses and the fees and expenses of its legal advisers.

(b) Prior to the announcement of the Offer Price, Hollinger Digital, Inc., Porpoise Investments Limited, Mr. Alexander Heath, the Company, Credit Suisse First Boston and the other Underwriters are expected to enter into the Underwriting Agreement pursuant to which it is expected that *inter alia*:

(i) subject to terms and conditions set out in the Underwriting Agreement, the Company will agree to allot and issue, and the other Underwriters will agree to subscribe or procure subscribers for, new Ordinary Shares at the Offer Price pursuant to the Offer;

(ii) subject to terms and conditions set out in the Underwriting Agreement, the Selling Shareholder will agree to sell, and the Underwriters will agree to purchase or procure purchasers for existing Ordinary Shares at the Offer Price pursuant to the Offer;

(iii) Porpoise Investments Limited, Hollinger Digital, Inc. and Mr. Alexander Heath will agree to grant the Over-Allotment Option to Credit Suisse First Boston to purchase or procure purchasers for a further number of existing Ordinary Shares. Further details of the Over-Allotment Option are set out in the section entitled "Underwriting" in this Prospectus. Porpoise Investments Limited, Hollinger Digital, Inc., and Mr. Alexander Heath will grant to Credit Suisse First Boston a further option to purchase existing Ordinary Shares. The exercise of the further option may be revoked in whole or in part before the end of the relevant option period. Shares purchased pursuant to this further option will be subject to undertakings from Credit Suisse First Boston not to resell such Shares for a period of two years. Credit Suisse First Boston does not intend to disclose, and the Underwriting Agreement contains provisions designed to ensure that disclosure is not made of, the extent of any over allotments made or any stabilising transaction;

(iv) shares will be offered by way of the U.K. Retail Offer to the Company's registered account holders in the United Kingdom, Jersey and the Isle of Man who registered online for the Offer on or before 11.59 pm on February 1, 2000, Eligible Employees, and friends and suppliers of the Company;

(v) the obligations of the Underwriters under the Underwriting Agreement will be subject to certain conditions, including (i) Admission (ii) the representations and warranties on the part of Hollinger, Porpoise, Mr. Alexander Heath and the Company not having been breached and (iii) certain circumstances of *force majeure* not having occurred;

(vi) the Company, Hollinger Digital, Inc., Porpoise Investments Limited, and Mr. Alexander Heath will pay to Credit Suisse First Boston, on behalf of the Underwriters, an underwriting

commission of 7 per cent. of the aggregate Offer Price for Shares and ADSs sold in the Offer. All commissions will be paid together with any value added tax thereon;

(vii) the Company, Porpoise Investments Limited, Hollinger Digital, Inc. and Mr. Alexander Heath will be responsible for any stamp duty or stamp duty reserve tax arising in respect of the sale by them of Shares or stabilisation or stock lending and for the fees and expenses of their legal advisers in connection with the Offer. The Company will be responsible for other costs and expenses of or incidental to the Offer and the application for Admission, including fees of the receiving bank and registrars, accountancy and other professional fees and expenses, printing and advertising charges and certain expenses of Credit Suisse First Boston;

(viii) Hollinger Digital, Inc., Porpoise Investments Limited, Mr. Alexander Heath and the Company will give certain representations, warranties, undertakings and (save for Mr. Alexander Heath) indemnities to the Underwriters;

(ix) the Company will agree with Credit Suisse First Boston, subject to certain exceptions, to restrictions on the issue of any Ordinary Shares until 180 days after Admission;

(x) Hollinger Digital, Inc. will grant an option to Credit Suisse First Boston Equities Limited to enable Credit Suisse First Boston Equities Limited to require Hollinger Digital, Inc. to lend to Credit Suisse First Boston Equities Limited shares the subject of the Option (the "Lending Option"). Credit Suisse First Boston Equities Limited may exercise the Lending Option on one or more occasions. Credit Suisse First Boston Equities Limited is to enter into a separate agreement further details of which are set out in the "Underwriting" section of this Prospectus; and

(xi) if an Underwriter defaults, the purchase commitments of non-defaulting Underwriters may be increased;

(c) the Deposit Agreement as described in the section entitled "American Depositary Receipts" will be entered into prior to the announcement of the Offer Price;

(d) agreements dated February 4, 2000 between the Company and each of Daniel Colson, Peter Dicks and Laurie Yoler pursuant to which each of them subscribed for 90,000 ordinary shares at a price of £0.21 per share pursuant to previously granted options, further details of which are set out in the section entitled "Management" in the Prospectus;

(e) the agreement entered into between the Company and Mr. Alexander Heath dated February 2, 2000 pursuant to which, and conditional, inter alia, upon Admission, the Company agreed to purchase 400,000 Ordinary Shares held by Mr. Heath for an aggregate consideration of £10, and a separate agreement between the same parties dated February 2, 2000 pursuant to which, conditionally upon Admission, Mr. Heath agreed to waive his option over 2,100,000 Ordinary Shares in consideration of £1, and to fulfil other obligations imposed upon him pursuant to the Underwriting Agreement described above relating to the sale by him of, in aggregate, 1,100,000 Ordinary Shares;

(f) the deed of termination dated January 31, 2000 between the parties to the Hollinger Subscription Agreement and the Supplementary Agreement (as described in paragraphs (r) and (p) below) pursuant to which, conditional upon Admission becoming effective by no later than March 31, 2000, the parties agreed to terminate the Hollinger Subscription Agreement and Supplementary Agreement (a further description of this deed of termination is set out in the section entitled "Certain Transactions and Relationships" in this Prospectus);

(g) the agreement dated January 31, 2000 between the Company and Porpoise pursuant to which Porpoise is entitled to appoint a director to the board of the Company provided that it holds at least 5% of the issued share capital of the Company (a further description of this agreement is set out in the section entitled "Certain Transactions and Relationships" in this Prospectus);

(h) the relationship agreement dated January 31, 2000 between the Company and Hollinger pursuant to which Hollinger is entitled to appoint a director to the board of the Company provided that it holds at least 5% of the issued share capital of the Company, or two directors to the board of the Company in the

for as long as it holds at least 20% of the issued share capital (a further description of this agreement is set out in the section entitled "Certain Transactions and Relationships" in this Prospectus);

(i) on January 28, 2000, certain major shareholders, Mr. Alexander Heath the Directors and certain key-employees entered into lock-up agreements or otherwise agreed to restrictions relating to the sale, transfer or disposal of their Shares (these agreements are further described in the section entitled "Shares Eligible for Future Sale" in this Prospectus);

(j) an agreement dated December 17, 1999 between Hollinger Digital, Inc. and interactive whereby Hollinger was granted an option to subscribe for 2% of interactive's fully diluted share capital at a price of £1.77 per share if Admission did not take place prior to April 1, 2000;

(k) the Share Exchange Agreement dated December 13, 1999 between the holders of ordinary shares and 'A' shares in interactive, interactive and the Company, pursuant to which, *inter alia*, holders of shares in interactive exchanged those shares for a like number of shares in the Company (a further description of this agreement is set out in the section entitled "Certain Transactions and Relationships" in this Prospectus);

(l) an agreement dated October 29, 1999 between interactive and Hollinger pursuant to which Hollinger agreed to subscribe for all shares pursuant to the Rights Issue not subscribed by existing holders of ordinary shares in interactive at the rights issue price of £1.77 per share. The agreement provided that Hollinger would subscribe for all such shares not subscribed by other shareholders within three days of the closing of the Rights Issue. Pursuant to this agreement, 545,896 shares were subscribed for by Hollinger;

(m) the loan agreement dated October 1, 1999 between interactive, Credit Suisse First Boston, London branch and Hollinger Digital, Inc. pursuant to which Credit Suisse First Boston, London branch and Hollinger Digital, Inc. made available to interactive secured term loan facilities comprising an aggregate loan facility of £3,500,000 for general working capital and corporate purposes. The facility was fully drawn down on October 1, 1999 and repaid in full in November 1999 using part of the proceeds of the Rights Issue;

(n) the debenture dated October 1, 1999 between interactive, Credit Suisse First Boston and Hollinger Digital, Inc. pursuant to which interactive granted a fixed and floating charge over all its property, undertakings and assets in favour of Credit Suisse First Boston and Hollinger Digital, Inc. which was released upon re-payment of the loan referred to in paragraph (l) above;

(o) a software licence agreement between interactive and Oracle Corporation U.K. Limited dated August 31, 1999 pursuant to which, in consideration of the payment of a licence fee by interactive, Oracle Corporation U.K. Limited granted interactive non-exclusive non-transferable rights to allow its subscribers to access certain software. The agreement is for an initial term of one year from September 28, 1999, and thereafter for a one year rolling period, in each case unless terminated by either party on thirty days written notice or by Oracle Corporation U.K. Limited serving written notice of a breach and failure by interactive to correct such breach within 30 days;

(p) a settlement agreement between interactive and Alexander Heath (its former Chief Executive Officer) dated June 4, 1999 whereby interactive was granted the right to require Mr. Heath to sell to it 1,200,000 Shares held by him at a price of £1 per Share (subject to the prior exercise by Mr. Heath of options over 700,000 Shares).

(q) the supplementary shareholders' agreement dated October 1, 1999 (the "Supplementary Agreement") between interactive, S Coutu and others, Cheetah and Hollinger, pursuant to which Hollinger agreed that, in return for the deletion of certain "ratchet" adjustment provisions from the Hollinger Subscription Agreement, interactive would grant Hollinger warrants to subscribe for 5,441,807 new 'A' shares. The entitlements of warrant holders under the warrant instrument described at paragraph (s) below were also determined at a right to subscribe for, in aggregate, up to 659,892 new ordinary shares (a further description of this agreement is set out in the section entitled "Certain Transactions and Relationships" in this Prospectus);

(r) the lease dated January 20, 1999 and expiring on December 25, 2008 between interactive and the Mayor, Commonalty and citizens of the City of London pursuant to which interactive occupies space

at First Floor, 2 East Poultry Avenue, London EC1A 9PT rent free until June 19, 1999 and, thereafter, pays an annual rent of approximately £186,700 (excluding VAT). The lease contains a break clause entitling interactive to determine the lease on December 25, 2003;

(s) the subscription and shareholders' agreement dated November 24, 1998 (the "Hollinger Subscription Agreement") between interactive, S Coutu and Others, Cheetah and Others and Hollinger, relating to the subscription by Hollinger for 8,066,723 new 'A' shares in interactive for a total price of £5,000,000 (a further description of this agreement is set out in the section entitled "Certain Transactions and Relationships" in this Prospectus);

(t) the warrant instrument dated November 24, 1998, whereby interactive granted sixteen former holders of convertible loan notes warrants to subscribe up to, in aggregate, 2,817,900 ordinary shares in interactive. Under this instrument, warrants could be exercised at any time after the exercise by Hollinger of its further subscription rights under the Hollinger Subscription Agreement. On October 28, 1999, Hollinger exercised its right to subscribe for 5,441,807 'A' shares with the result that the aggregate number of ordinary shares for which former loan note holders' could subscribe was determined as a right to subscribe for, in aggregate, up to 659,892 new ordinary shares;

(u) the linking agreement dated November 24, 1998 between Porpoise and interactive pursuant to which Porpoise agreed to transfer up to 1,700,000 ordinary shares to interactive's optionholders upon interactive giving fourteen days' written notice (a further description of this agreement is set out in the section entitled "Certain Transactions and Relationships" in this Prospectus). To date, Porpoise has transferred 595,988 ordinary shares under the linking agreement. Pursuant to the bonus issue described in paragraph 2.15(q), the balance of 1,104,012 ordinary shares was adjusted to 3,312,036 ordinary shares. Pursuant to the Share Exchange Agreement, the right of interactive to direct Porpoise to transfer 3,312,036 Ordinary Shares to optionholders upon exercise of their options was transferred to the Company; and

(v) the warrant instrument dated October 8, 1998, whereby interactive granted to Cheetah warrants to subscribe for up to 125,000 ordinary shares in interactive at an exercise price of £0.10 per share. The warrants were exercised in full on October 27, 1999.

6.2 There are no contracts entered into by any member of the Group prior to February 4, 1998, being the date two years prior to the date of this Prospectus, which, not having been entered into in the ordinary course of business, contain any obligations or entitlements which are material to the Group as at the date of this Prospectus.

## **7. Taxation**

### *U.K. Taxation*

The following statements are intended only as a general guide to current U.K. tax legislation and to the current practice of the U.K. Inland Revenue ("the Inland Revenue") and may not apply to certain shareholders, such as dealers in securities. They relate to persons who are resident and ordinarily resident in the U.K. for U.K. tax purposes (except where stated otherwise) and who are beneficial owners of Ordinary Shares. Any person who is in any doubt as to his tax position, or who is subject to taxation in any jurisdiction other than the U.K., should consult his professional advisers immediately.

### *Dividends*

Under current U.K. tax legislation the Company is not required to withhold tax at source from dividend payments it makes.

Individual shareholders resident for tax purposes in the U.K. should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the dividend. Such an individual shareholder's liability to U.K. income tax is calculated on the sum of the dividend and the tax credit (the "gross dividend") which, with certain other investment income, will be regarded as the top slice of the individual's income. The tax credit therefore equals 10% of the gross dividend. The tax credit will be available to set against such shareholder's liability (if any) to income tax on the gross dividend.

Individual shareholders liable to tax on income at the starting rate or basic rate will be liable to tax on dividend income received at the rate of 10% of the gross dividend. This means that the tax credit will satisfy the income tax liability of such a shareholder.

The rate of income tax applied to dividend income received by U.K. resident individuals liable to income tax at the higher rate will be 32.5%. After taking into account the 10% tax credit, a higher rate taxpayer will be liable to additional income tax of 22.5% of the gross dividend, equal to 25% of the net dividend.

Individual shareholders who are resident in the U.K. and who are not liable to income tax cannot claim repayment of the tax credit from the Inland Revenue. In relation to shares held in an individual savings account, the tax credit on dividends paid can be reclaimed prior to April 5, 2004.

U.K. resident trustees of discretionary trusts are liable to income tax on U.K. company dividends at 25% of the gross dividend. After taking into account the 10% tax credit, the trustees will be liable to additional income tax of 15% of the gross dividend, equal to 16.67% of the net dividend.

A corporate shareholder resident for tax purposes in the U.K. will not normally be liable to corporation tax on any dividend received but cannot reclaim from the Inland Revenue the tax credits attaching to the dividend received.

Tax exempt pension funds will not normally be liable to corporation tax or income tax on any dividend received but cannot reclaim from the Inland Revenue tax credits attaching to the dividend received.

Individual shareholders who are resident for tax purposes in countries other than the U.K. but who are Commonwealth citizens, nationals of states which are part of the European Economic Area, residents of the Isle of Man or the Channel Islands are entitled to a tax credit as if they were resident for tax purposes in the U.K. which they may set against their total U.K. income tax liability. Such shareholders will generally not be able to claim repayment of the tax credit from the Inland Revenue.

Other shareholders not resident in the U.K. should consult their own advisers concerning their tax to 10% liabilities on dividends received. They should note that following the reduction in the rate of U.K. tax credits to 10% on U.K. company dividends paid on or after April 6, 1999, they will not generally be entitled to claim repayment of any part of their tax credit from the Inland Revenue under any double taxation treaty or otherwise.

#### *Stamp Duty and Stamp Duty Reserve Tax*

The allocation and issue of new Ordinary Shares by the Company will not give rise to a liability to stamp duty or stamp duty reserve tax.

A liability to stamp duty or stamp duty reserve tax will arise in relation to the sale of Ordinary Shares by the Selling Shareholder pursuant to the Offer. The Selling Shareholder will meet any liability to stamp duty or stamp duty reserve tax (at the rate of 0.5% rounded up to the nearest £5) arising in respect of the initial transfer of the Shares sold by it to purchasers under the Offer.

Any subsequent conveyance or transfer on sale of the Ordinary Shares will usually be subject to stamp duty on the instrument of transfer, generally at a rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. A charge to stamp duty reserve tax at the rate of 0.5% will arise in relation to an unconditional agreement to transfer such Ordinary Shares. However, where within 6 years of the date of the agreement, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to stamp duty reserve tax will be cancelled or repaid.

A transfer of Ordinary Shares effected on a paperless basis through CREST (where there is a change in the beneficial ownership of the Shares) will generally be subject to stamp duty reserve tax at the rate of 0.5% of the value of the consideration given. The duty will be payable by the new beneficial owner.

Where Ordinary Shares are transferred to a member of CREST who will hold those Ordinary Shares in uncertificated form (de-materialised) as nominee for the transferor no Stamp Duty or Stamp Duty Reserve Tax will generally be payable.

Where Ordinary Shares which in uncertificated form are re-materialised and then transferred by a member of CREST to the beneficial owner (on whose behalf it has held them as nominee) and no onward sale is contemplated, then no stamp duty or stamp duty reserve tax will generally be payable.

Certain categories of person including certain intermediaries are not liable to Stamp Duty or Stamp Duty Reserve Tax, and others including depositaries and those operating clearance services may be liable at a higher rate or may, although not primarily liable for the duty or tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

Stamp duty exemption has been applied for in relation to the transfer of shares in interactive to the Company pursuant to the Share Exchange Agreement.

#### *Capital gains*

An individual shareholder who is resident or ordinarily resident for tax purposes in the U.K. and who sells or otherwise disposes of his Ordinary Shares may, depending on his personal circumstances, incur a liability to U.K. tax on any capital gain, or deemed capital gain realised. An individual shareholder who is neither resident nor ordinarily resident for tax purposes in the U.K. will not normally be liable for U.K. capital gains tax on gains realised on the disposal of his Ordinary Shares unless at the time of the disposal such shareholder carries on a trade (which for this purpose includes a profession or vocation) in the U.K. through a branch or agency and such Ordinary Shares are or have been used, held or acquired for the purposes of such trade or branch or agency. A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the U.K. for a period of less than 5 years of assessment and who disposes of Ordinary Shares during that period may be liable to U.K. taxation of chargeable gains (subject to any available exemption or relief).

U.K. resident corporate holders of Ordinary Shares will, depending on their individual circumstances be liable to U.K. corporation tax on any disposal or deemed disposal of such Shares, subject to the availability of indexation allowance.

#### *Inheritance tax*

Ordinary Shares are assets situated in the U.K. for the purposes of U.K. inheritance tax. A gift of Ordinary Shares by, or on the death of, an individual holder of such Ordinary Shares may (subject to certain exemptions and reliefs) give rise to a liability to U.K. inheritance tax, even if the holder is neither domiciled in the U.K., nor deemed to be domiciled in the U.K. under special rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and trustees of certain settlements holding Ordinary Shares bringing them within the charge to inheritance tax.

The Directors have been advised that no material liability to inheritance tax is likely to fall on the Company or any subsidiary.

#### *Close Company*

The Directors have been advised that the Company is presently a close company, as defined by Section 414 of the Income and Corporation Taxes Act 1988 but that as a result of the Offer the Company will continue to be a close company.



### *Share capital re-organisation tax clearances*

Clearances pursuant to Section 138 of the Taxation of Chargeable Gains Act 1992 and Section 707 of the Income and Corporation Taxes Act 1988 have been obtained in relation to the transfer of shares in interactive to the Company pursuant to the Share Exchange Agreement.

### *ISAs*

Ordinary Shares issued under the U.K. Retail Offer can be issued directly to an ISA Manager on behalf of an investor. Any person who is in any doubt as to the position should contact his advisor immediately.

## **8. Litigation**

### **Legal Proceedings**

8.1 interactive is currently in dispute with Hemmington Scott, a provider of financial and other information, which licensed this information to McKay Financial Information Limited, which sub-licensed the information to interactive. Hemmington Scott has alleged that interactive has infringed its copyright and database rights because McKay was not permitted under its license with Hemmington Scott to sub-license the information. Hemmington Scott has requested a court injunction, return of infringing material, damages and other remedies and costs. The High Court of Justice of England and Wales has established a timetable for resolving this dispute, which may involve court proceedings later this summer. interactive considers that it has a good defence against this claim and that any damages awarded against it would be immaterial. Accordingly, it believes that this case will not have a material effect on its financial position or its business or results of operations. No amount of damages has been specified by Hemmington Scott in its action, and if it is successful, the High Court of Justice in England and Wales would decide the amount of damages.

8.2 On January 12, 2000, interactive terminated the employment of its then Head of Customer Services. This former employee may be entitled to bring a claim against interactive for compensation. interactive considers that any damages awarded would not have a significant effect on its financial position.

8.3 Save as aforesaid, neither the Company nor any of its subsidiaries is, or has been, engaged in any legal or arbitration proceedings which may have, or has had during the twelve months prior to the date hereof, a significant effect on the financial position of the Company nor are any such proceedings pending or threatened by or against the Company.

## 9. Additional Information on the Board

9.1 The Directors and the directorships held by them at any time during the five years preceding the date of this document are as follows:

Name	Current Executive Directorships	Current Non-Executive Directorships	Past Directorships
Sherry Leigh Coutu	None	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> <li>• Research Machines PLC</li> </ul>	<ul style="list-style-type: none"> <li>• Internet Securities Limited</li> </ul>
Peter Frederick Dicks	<ul style="list-style-type: none"> <li>• D.S.I. Data Systems International Limited</li> <li>• London Trust</li> <li>• Productions Limited</li> <li>• Rodata Limited</li> </ul>	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> <li>• Vencap International PLC</li> <li>• The East German Investment Trust PLC</li> <li>• PNC Tele.Com PLC</li> <li>• Themis FTSE All-Small Index Trust PLC</li> <li>• Themis FTSE Fledgling Index Trust PLC</li> <li>• Action Computer Supplies Holdings PLC</li> <li>• Henderson Technology Trust PLC</li> <li>• Gartmore Fledgling Index Trust plc</li> <li>• Enterprise Capital Trust PLC</li> <li>• Foreign &amp; Colonial Enterprise Trust PLC</li> <li>• Spectrum Venture Management Limited</li> <li>• Second London American Trust Plc</li> <li>• Mercia Fund Management Limited</li> <li>• Vencap International Fund Managers Limited</li> <li>• Champion Communications Services Inc. (US company)</li> <li>• Foresight Technology VCT</li> <li>• Lebanon Holdings (Luxembourg company)</li> <li>• East European Frontiers Fund (Ireland company)</li> <li>• Standard Microsystems Limited</li> <li>• Sportingbet.com plc</li> </ul>	<ul style="list-style-type: none"> <li>• Cairnsford Associates Limited</li> <li>• Standard Platforms Limited</li> <li>• Manakin Holdings Plc</li> <li>• CM Group Holdings Limited</li> <li>• London American Growth Trust Plc</li> <li>• Drayton Consolidated Trust Plc</li> <li>• The Second HGSC Investment Trust Plc</li> <li>• Save and Prosper Linked Investment Trust plc</li> <li>• Manakin Limited</li> <li>• Rivermoor Management Services Limited</li> <li>• Future Technology System Limited</li> <li>• Dellfield Digital Limited</li> <li>• Olympic Natural Gas Company (US company)</li> <li>• Panthermeadow Limited</li> <li>• Second Consolidated Trust Plc</li> </ul>
Daniel William Colson	<ul style="list-style-type: none"> <li>• Hollinger-Telegraph New Media Holdings Limited</li> <li>• Hollinger-Telegraph New Media Limited</li> </ul>	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> <li>• Newsprint Management and Supply Services Limited</li> </ul>	<ul style="list-style-type: none"> <li>• Telegraph Australian Holdings Limited</li> <li>• Argsub Limited</li> <li>• John Fairfax Holdings Limited</li> </ul>

Name	Current Executive Directorships	Current Non-Executive Directorships	Past Directorships
	<ul style="list-style-type: none"> <li>• First DT Holdings Limited</li> <li>• Spectator (1828) Limited</li> <li>• DT Holdings Limited</li> <li>• Telegraph Publishing Limited</li> <li>• Telegraph Group Limited</li> <li>• Southam Inc.</li> <li>• Griffon Graphics Inc.</li> <li>• Groupe Unimedia Inc.</li> <li>• Hollinger Canadian Newspapers G.P. Inc.</li> <li>• Hollinger Inc.</li> <li>• Ravelston Corporation Limited</li> <li>• Hollinger International Inc.</li> <li>• Hollinger International Publishing Inc.</li> <li>• Unimedia Inc.</li> <li>• Hollinger Canadian Publishing Holdings Inc.</li> <li>• Hollinger Digital, Inc.</li> <li>• The Unimedia Company</li> <li>• Les Editions Novalis Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• U.K. MAX Limited</li> <li>• Deedtask Limited</li> <li>• Equalmission Limited</li> <li>• Handbag.com Limited</li> <li>• Hellespont Holdings Ltd</li> <li>• Hellespont Shipping Corporation</li> <li>• Argus Corporation Limited</li> <li>• Molson Inc.</li> </ul>	<ul style="list-style-type: none"> <li>• Hellespont Shipholdings Limited</li> <li>• Carlton Television Holdings Limited</li> <li>• Carlton Television Limited</li> <li>• John Fairfax Group France Pty. Limited</li> </ul>
Tomás Carruthers	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> <li>• interactive investor (overseas) limited</li> <li>• interactive investors information limited</li> <li>• interactive investor trading limited</li> <li>• interactive markets limited</li> <li>• interactive markets (asia) limited</li> <li>• interactive investor international (asia) limited</li> <li>• interactive investor international (SA) (Proprietary) Limited</li> <li>• Sweetwell Limited</li> </ul>	None	<ul style="list-style-type: none"> <li>• Square Mile on Line Limited</li> <li>• Cambridge Law Group Limited</li> <li>• Rafatal Limited</li> </ul>

Name	Current Executive Directorships	Current Non-Executive Directorships	Past Directorships
<b>Max William Simon Ashton</b>	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> <li>• interactive investors information limited</li> <li>• interactive investor trading limited</li> <li>• interactive investor (overseas) limited</li> <li>• interactive markets limited</li> <li>• interactive markets (asia) limited</li> <li>• interactive investor international (asia) limited</li> <li>• interactive investor international (SA) (Proprietary) Limited</li> <li>• Cellica Limited</li> </ul>	None	<ul style="list-style-type: none"> <li>• 41 Compayne Gardens Freehold Company Limited</li> <li>• Global Telematics PLC</li> <li>• Servicexpress Limited</li> <li>• European Telecom Plc</li> <li>• Classic International Corporation Limited</li> <li>• Orchid Telecom Limited</li> <li>• Globetrac Limited</li> <li>• GSM Telecom Limited</li> <li>• GSM Worldphone Limited</li> <li>• Worldfone GSM Limited</li> <li>• Worldfone Limited</li> <li>• Worldfone Telecom Limited</li> <li>• The Contract Hire Company (U.K.) plc</li> <li>• The Accessory Group Limited</li> <li>• Globetrak Limited</li> <li>• International Connect Limited</li> </ul>
<b>Julian David Jaffe</b>	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> <li>• interactive investor (overseas) limited</li> <li>• interactive markets limited</li> <li>• interactive investors information limited</li> <li>• Expert Operations Data Limited</li> </ul>	None	<ul style="list-style-type: none"> <li>• JIS Limited</li> </ul>

Name	Current Executive Directorships	Current Non-Executive Directorships	Past Directorships
Laurie Jean Yoler	None	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> </ul>	None
Charles Bellamy Young	<ul style="list-style-type: none"> <li>• Ascend Capital Management Limited</li> </ul>	<ul style="list-style-type: none"> <li>• the Company</li> <li>• interactive</li> <li>• Middlefield Bancorp (Canada)</li> <li>• Obvious Technology Inc. (USA)</li> </ul>	<ul style="list-style-type: none"> <li>• Canary Wharf Limited</li> <li>• Marillion Limited</li> <li>• Middlefield International Limited</li> </ul>

9.2 No Directors have any unspent convictions or have received any public criticisms by statutory or regulatory authority.

9.3 Save for Charles Young who was an executive director of Canary Wharf Limited, Olympia & York (U.K.) Limited and O&Y Canary Wharf Holdings which were subject to administration orders between 1992 and 1995 (Olympia & York (U.K.) Limited was placed into liquidation on March 28, 1994) where unsecured creditors of the above companies in administration were unpaid as to an aggregate of £76 million, none of the Directors were executive directors of any company at a time of, or within 12 months preceding, any bankruptcy, receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or with any class of its creditors of such company.

9.4 None of the Directors are or have been subject to any bankruptcies or individual voluntary arrangements.

9.5 None of the Directors has:

- (i) at the time of or within 12 months preceeding such event been a partner in any partnership subject to any compulsory liquidations, administrations or voluntary arrangements; or
- (ii) at the time of or within 12 months preceeding such event been a partner in any partnership which has owned any assets subject to any form of receivership; or
- (iii) owned any assets subject to any form of receivership;

either at the time of such liquidation, administration, voluntary arrangement or receivership or in the twelve months preceeding the relevant event.

9.6 None of the Directors have ever 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.

## 10. Working Capital, Proceeds of the Offer, Significant Changes, Current Trading and Prospects

### *Working Capital*

In the opinion of the Company, taking into account the net proceeds of the Offer receivable by the Company, the working capital available to the Company is sufficient for the Group's present requirements, that is for the 12 months commencing on the date of this document.

The Company intends to use the net proceeds from the Offer for general corporate purposes, including approximately £33 million on marketing, brand and content development and approximately £10 million on technology and development, as well as working capital to fund anticipated operating losses. The Company anticipates that the net proceeds from the Offer will be sufficient to meet its requirements over the next 24 months.

#### *Proceeds of the Offer*

If all the Shares being offered are subscribed for at an estimated Offer Price of 135p per Share (the mid-point of the Price Range), the Company will receive net proceeds of approximately £62.2 million from the sale of the Shares offered by this Prospectus. This estimate is after deducting estimated underwriting discounts and commissions and other fees and expenses payable by the Company of £8.0 million.

From time to time, the Company evaluates potential acquisitions of and strategic investments in businesses, technologies, products and services and anticipates continuing to make those evaluations. However, it cannot assure shareholders that it will identify suitable acquisitions and investment candidates or that it will, in fact, complete any acquisition or investment. Until the Company uses the net proceeds for a particular purpose, it will invest them in short-term interest-bearing investment-grade securities.

The Company expects to fund future expenditure through the proceeds of this Offer and additional offerings, debt financings and cash flow from operations.

The Company will not receive any portion of the proceeds from the sale of shares by either the Selling Shareholder, Hollinger Digital, Inc., Porpoise Investments Limited or Mr. Alexander Heath.

#### *Significant changes*

Save as disclosed in this section 10 of this Part 6 and in note 26 to the Accountant's Report on interactive (relating to the borrowing and subsequent repayment of debt from Credit Suisse First Boston, London branch and Hollinger Digital, Inc.,) there has been no significant change in the financial or trading position of the Company and its subsidiaries since September 30, 1999, the end of the last financial period for which audited consolidated financial statements of the Company have been published.

#### *Current Trading and Prospects*

Since October 1, 1999 turnover, cost of sales and operating expenses have been satisfactory. The Directors believe that the Company continues to be well-placed to take advantage of the opportunity afforded by the growth in the use of the Internet for personal financial services.

This document sets out information on the changes currently taking place in the competitive, regulatory and operating environment in which the company operates. See "Risk Factors" section in this Prospectus. In addition, details concerning the Year 2000 problems are set out in the "Management's Discussion and Analysis of Financial Conditions and results of Operations" section under the heading Year 2000 compliance and in the "Risk Factors" section in this Prospectus.

## **11. General**

11.1 The financial information contained in this document does not amount to statutory accounts within the meaning of Section 240 of the Act. Full audited accounts have been delivered to the Registrar of Companies for interactive for each of the three years ended September 30, 1999. The Company was incorporated on August 13, 1999 and therefore has not filed statutory accounts to date.

11.2 The auditors of the Company are KPMG. The auditors of interactive and its subsidiaries for the three financial years ended on September 30, 1999 have been KPMG.

11.3 The auditors of interactive and its subsidiaries made reports under Section 236 of the Act in respect of all periods up to and including September 30, 1999 and such reports were unqualified reports within the meaning of Sections 270 to 275 of the Act.

11.4 The Ordinary Shares in issue at the date of this document are, and those which will be in issue following Admission, will be in registered form. No temporary documents of title will be issued. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Articles of Association will permit the holding of Ordinary Shares under CREST and the Company has applied to CrestCo Limited, the operator of CREST, for the Ordinary Shares to be admitted to CREST. CREST is a voluntary system and holders of Ordinary Shares who wish to receive share certificates will be able to do so even after admission to the CREST system.

11.5 Save for remuneration received in respect of services rendered to the Company, no payment or other benefits have, within the two years immediately preceding the date hereof, been paid or given or are now proposed to be paid or given to any promoter by the Company.

11.6 Other than the transactions described under "Material Contracts" in paragraph 6 above, there has been no acquisition nor other principal investment made by the Company.

11.7 At the date of this document, the Company has no intention of making any new principal investments.

11.8 The estimated net cash proceeds of the Offer accruing to the Company are £62.2 million.

11.9 The Offer is underwritten in full by the Underwriters.

11.10 An Offer Price at the mid-point of the Price Range would represent a premium of 134p per share over the nominal value of £0.01, payable in full on application.

11.11 ABC ELECTRONIC has given and has not withdrawn its written consent to the issue of this document with its name included in it and references thereto in the form and context in which they appear for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

11.12 KPMG has given and has not withdrawn its written consent to the issue of this document with their reports on the Group and their name included in it and the references thereto in the form and context in which they appear for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

11.13 SJ Berwin & Co has given and has not withdrawn its written consent to the issue of this document with its name included in it and references thereto in the form and context in which they appear for the purposes of Section 152 (1)(e) of the Financial Services Act 1986.

11.14 Brobeck, Hale and Dorr has given and has not withdrawn its written consent to the issue of this document with its name included in it and references thereto in the form and context in which they appear for the purposes of Section 152 (1)(e) of the Financial Services Act 1986.

11.15 Shearman & Sterling has given and has not withdrawn its written consent to the issue of this document with its name included in it and references thereto in the form and context in which they appear for the purposes of Section 152 (1)(e) of the Financial Services Act 1986.

11.16 Oracle Corporation UK Limited has given and not withdrawn its written consent to the issue of this document in terms that the contract referred to in paragraph 6(n) will be deemed a material contract which therefore will be a document on display.

11.17 The total costs, charges and expenses in connection with the Offer are estimated to amount to £8,000,000 (exclusive of VAT) and are payable by the Company. Included within this total are fees (based on an Offer Price at the mid-point of the Price Range) of £4,900,000 payable to the Underwriters pursuant to the Underwriting Agreement referred to in the section entitled "Underwriting" in this Prospectus.

11.18 Of the total proceeds of the issue, £10 will be used to purchase 400,000 Shares from Mr. Alexander Heath.

11.19 Save in relation to the contract with Oracle Corporation U.K. Limited referred to in paragraph 6(n) above and the Category D licence issued by the Securities and Futures Authority, the Company is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes, where such factors are of fundamental importance to the Company's business or profitability.

11.20 There have been no interruptions in the Company's business which may have or have had a significant effect on its financial position.

11.21 The founder of the Company is Sherry Leigh Couru.

## **12. Currency and financial statement presentation**

In this document unless otherwise specified or unless the context otherwise requires, all references to "pounds sterling", "£" and "p" are to the lawful currency of the U.K., all references to "Dollars" or "\$" are to the U.S. Dollars, all references to Rand are to the South African Rand, and all references to HK\$ are to Hong Kong Dollars.

## **13. Documents available for inspection**

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) for a period of fourteen days after the date of this document, or for the duration of the Offer, if longer, at the offices of S J Berwin & Co, 222 Grays Inn Road, London WC1X 8HB and at the offices of Shearman & Sterling, 9 Appold Street, London EC2A 2AP:

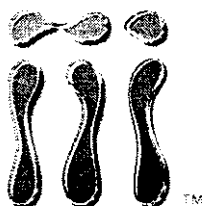
- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited consolidated accounts of the Group for the two financial periods ended September 30, 1998 and 1999;
- (c) the report of KPMG and statement of adjustments made by them in arriving at the figures set out in their report in Part 1 of this document;
- (d) the Executive Directors' service agreements and Non-Executive Directors' Letters of Appointment referred to in the section entitled "Management" in this Prospectus.
- (e) the material contracts referred to in paragraph 6 above;
- (f) the Company's unapproved executive share option scheme;
- (g) the reports by International Data Corporation, Forrester Research, Fletcher Research and the data provided by New Media Age referred to in this Prospectus;
- (h) the consents referred to in paragraphs 11.11-11.15 (inclusive) above; and
- (i) the circular issued by interactive to its shareholders pursuant to the Rights Issue; and
- (j) the report by ABC ELECTRONIC dated February 4, 2000 in respect of the supplemental operating data contained in the Prospectus.

The date of this document is February 4, 2000.



SUBJECT TO COMPLETION, DATED FEBRUARY , 2000

**55,000,000 Shares**



**interactive investor international plc**

**in the form of Ordinary Shares or American Depositary Shares**

The shares are being offered by interactive investor international plc and Porpoise Investments Limited, one of our shareholders, in the form of ordinary shares and American Depositary Shares. The shares, in the form of shares or ADSs, are being offered in public offerings in the United Kingdom and the United States and in private placements to institutional investors in other jurisdictions. Each ADS represents ten shares and will be evidenced by an American Depositary Receipt. We will not receive any of the proceeds from the sale of shares by Porpoise Investments Limited.

Three of our shareholders have granted Credit Suisse First Boston (Europe) Limited an option, exercisable for 30 days from the date of admission of our shares to the Official List of the London Stock Exchange, which we anticipate will occur on February 23, 2000, to purchase up to an additional 8,100,000 shares, in the aggregate, in the form of shares or ADSs to cover any over-allotments.

Prior to this offering, there has been no public market for our shares or ADSs. We expect that the public offering price will be between 120p and 150p per share and between \$19.45 and \$24.32 per ADS. We have applied to list our shares on the Official List of the London Stock Exchange under the symbol "IIN" and to have our ADSs quoted on the Nasdaq Stock Market's National Market under the symbol "IINV".

Investing in our shares involves a high degree of risk. You should see "Risk Factors", starting on page 10, for a discussion of factors you should consider before investing in our shares or ADSs.

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to us</u>	<u>Proceeds to Porpoise</u>
Per share .....	p	p	p	p
Per ADS .....	\$	\$	\$	\$
Total .....	\$	\$	\$	\$

Delivery of the shares and ADSs will be made on or about February 23, 2000.

Neither the United States Securities and Exchange Commission nor any U.S. state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offence.

Global Coordinator and Bookrunner

**Credit Suisse First Boston**

**Donaldson, Lufkin & Jenrette**

**Salomon Smith Barney International**

The date of this prospectus is , 2000.

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**You should rely only on the information contained in this document or to which we have referred you. We have not authorised anyone to provide you with information that is different. This document may be used only where it is legal to sell these securities. The information in this document may be accurate only on the date of this document.**

## PROSPECTUS SUMMARY

*This summary highlights selected information from this Prospectus and may not contain all of the information that is important to you. This Prospectus includes specific terms of the Shares and ADSs being sold in this offering as well as information regarding the Company and detailed financial data. You should read the entire Prospectus carefully, especially the risks described under "Risk Factors".*

### Our Business

We are an Internet personal financial service that provides individuals with the capability to identify, compare and monitor a number of financial products and services. We also design and construct Web sites and online trading systems and were one of the first European companies to design, build and integrate online trading systems. Our current material revenue streams are generated by Web site development, hosting and consulting, advertising and referral fees relating to our processing of requests by our users for financial products and services brochures from the producers of those financial products and services. Web site development, hosting and consulting accounted for approximately 79 per cent. and 54 per cent. of our revenue for the years ended September 30, 1998 and 1999, respectively. Advertising accounted for approximately 19 per cent. and 30 per cent., and commission-shares, referral fees and subscriptions contributed approximately two per cent. and 16 per cent. of our revenue for the years ended September 30, 1998 and 1999, respectively. To date, the part of our commission-shares, referral fees and subscription revenues relating to fees and commission-shares generated from introducing brokers to customers interested in buying and selling securities have been insignificant.

In accordance with our business plan, we are currently focusing on increasing the revenue we generate from sharing commissions with third party financial product and service providers for facilitating online purchases and sales of investments, referral fees and subscription fees, as well as payments from advertisers on and sponsors of our Web site. We expect and intend that our revenue from commission-shares, referral fees and subscriptions, and from advertising and sponsorships, will become a significant revenue stream and continue to increase more rapidly than revenue attributable to the design and construction of Web sites and online trading systems. As of September 30, 1999, we had an accumulated deficit in our profit and loss account of approximately £8,962,000 (\$14,754,000).

Since our launch in October 1995, we have developed our Web site with the intention of enabling investors to access all of the information and resources they need to execute on the Internet financial transactions with third party financial product and service providers. The information available to our users is provided by approximately 25 third party data providers. By offering users greater control of their financial affairs, we generated over 23 million page impressions in December 1999. We had over 389,000 registered accounts at December 31, 1999, the vast majority of which were registered with our U.K. site, compared to over 147,000 registered accounts at January 31, 1999. As a result, we believe we have one of the U.K.'s largest registered account bases in the Internet personal finance market, which is a market dedicated to investors that manage their personal financial assets on the Internet. We also actively target our service to the South African and Hong Kong markets.

We offer our registered account holders a free service that integrates the following components:

- **a set of investment tools**, including the ability to create a personal investment portfolio, that allow investors to access information compiled from approximately 25 data providers in order to research, obtain quotes and compare the performance of financial products, including international equities, mortgages and over 7,000 mutual funds;
- **the ability to place orders with us and execute, via third-party brokers, online transactions** covering U.K. equities and selected mutual funds specific to the U.K., including "investment trusts";

- *community tools* that allow investors to interact with each other, including e-mail, polls and discussion groups;
- *a comprehensive selection of news and information*, including market news provided by leading third-party news organisations, articles written by our in-house staff about investment topics, personal finance guides and a news search engine; and
- *access to investment advice* through over 8,500 independent financial advisers, commissioned weekly articles, fact sheets, a specialised bookshop and a glossary.

For a fee, our registered account holders can subscribe to our *premium services*, including access to real-time price quotes for shares traded on the London Stock Exchange, selected news articles and brokers reports, all provided by third parties.

Currently, only registered account holders resident in the U.K. are permitted to use the online transaction facilities, receive product brochures or receive investment advice relating to particular investments, although we intend to make these services available to registered account holders that are resident in other countries, initially France and Germany, during the course of this year.

This year, we plan to give investors the ability not only to obtain information about, but to purchase and sell online, pensions, additional selected mutual funds specific to the U.K., including "unit trusts", individual savings accounts, equities listed on the New York, Paris, Frankfurt and Hong Kong stock exchanges and Nasdaq National Market and healthcare insurance.

Users can access our service at [www.iii.co.uk](http://www.iii.co.uk), [www.iii-asia.com](http://www.iii-asia.com), [www.iii.co.za](http://www.iii.co.za) and [www.offshore.net](http://www.offshore.net). We are also currently providing elements of our service on the personal finance channels of AOL, Compuserve and Excite in the U.K., iAfrica in South Africa and Hutchcity in Hong Kong.

The substantial growth in the ownership of financial assets and associated trading activities represents a significant opportunity for an Internet personal financial service that combines the coverage of traditional media with the immediacy and interactivity of the Web, as well as with online trading capabilities and a comprehensive online offering of financial instruments.

We believe that the growth of the Internet, together with the increasing trend towards self-directed investing, offers us a unique opportunity in light of the current fragmentation of financial markets, especially in the European Union.

Our objective is to leverage the position we have in the U.K. in order to establish our service as the most compelling means for investors in Europe, Hong Kong and South Africa to investigate, analyse, purchase, sell and monitor investments and other financial products. The five key components of our strategy to achieve this objective are as follows:

- build the iii brand;
- attract and retain users and registered accounts;
- capture value from users;
- provide seamless information and transaction execution; and
- provide international coverage.

In implementing our strategy, we believe that we benefit from the following competitive strengths:

**Attractive user profile.** We believe that the demographic profile of our user base, which reflects a high level of education and income, also is one of the most attractive in the U.K. to providers of financial products and luxury goods. This is based on a survey conducted by Fletcher Research in November 1999.

**Leading brand.** Our large registered account base and strong brand enhance our ability to enter into arrangements with portals, e-commerce companies, online advertisers and content providers. Based on CPM, or cost per thousand, base rate card data published by New Media Age for the month of December 1999, in its article entitled "Traffic Update of Top Sites", we had the third highest advertising rate of the 105 Web sites listed.

**Regulated financial intermediary.** The United Kingdom Securities and Futures Authority granted Category D authorisation to one of our subsidiaries, interactive investor trading limited, on October 6, 1999. This authorisation permits us to request that it be extended so that we can offer throughout the European Economic Area those financial services that we are authorised to provide in the U.K. This extended authorisation became effective under the Investment Services Directive on December 21, 1999, and allows us to act as a financial intermediary throughout the European Economic Area, subject to complying with local conduct of business rules in each member state in which we provide services.

**Strong management team.** Our management team has achieved a track record of successful growth in our business and number of registered accounts since the launch of operations in 1995.

**International presence and coverage.** With early stage services in Hong Kong and South Africa already in operation and plans to commence similar services in France and Germany during 2000, we are committed to international expansion. We believe this international presence will give us the opportunity to broaden our audience, diversify our revenue and establish iii as a strong brand in those countries.

We are a public limited company incorporated in England and Wales. Our registered office is located at First Floor, 2 East Poultry Avenue, London, EC1A 9PT, England, our telephone number is (44)(20) 7618-1110, and our registered number is 3824695.

"iii" is one of the trade marks for which we have a trade mark application pending in the European Union. This prospectus also includes product names and other trade names and trademarks, with respect to which applications are pending, as well as those of other companies.

The contents of our Web site referred to in this Prospectus are not part of this Prospectus.

In this Prospectus, any reference to "we" or "us" means interactive investor international plc and its subsidiaries as a combined business, except where we make clear that the term means interactive investor international plc or a particular subsidiary only, and except that references to "our shares" or to matters of corporate governance shall refer to the shares and corporate governance of interactive investor international plc. In addition, except where we make clear a contrary intention, this Prospectus assumes that the share capital reorganisation of interactive investor international plc described in this Prospectus has been completed in all respects, with the effect that interactive investor international plc has in issue a single class of ordinary shares of 1p par value per share. See "Corporate History and Developments". This Prospectus also assumes that the purchase by interactive investor international plc of 400,000 shares from Mr. Alexander Heath for cancellation has taken place.

**You should rely only on the information contained in this document or to which we have referred you. We have not authorised anyone to provide you with information that is different. This document may be used only where it is legal to sell these securities. The information in this document may be accurate on the date of this document only.**

## THE OFFERING

The information presented in this Prospectus assumes that the Underwriters' Over-allotment Option is not exercised.

The offering .....	55,000,000 shares, in the form of ordinary shares or ADSs of which 52,000,000 shares are offered by us and 3,000,000 shares are offered by Porpoise Investments Limited, as a selling shareholder.
Over-allotment option .....	Hollinger Digital, Inc., Porpoise Investments Limited and one of our former officers have granted an option to Credit Suisse First Boston (Europe) Limited to purchase up to 8,100,000 additional shares, in the aggregate, in the form of ordinary shares or ADSs to cover over-allotments, if any.
Total shares to be outstanding after this offering ..	164,149,425 shares, not including an aggregate of 15,508,215 shares issuable by us under our share option plans.
ADSs per ordinary share .....	Each ADS represents ten ordinary shares.
Use of proceeds .....	General corporate purposes, including marketing, brand and content development, technology and development, working capital, acquisitions.
Offering Structure .....	This offering comprises public offerings in the United Kingdom and the United States and private placements to institutional investors in other jurisdictions. The public offering in the United Kingdom will comprise an institutional offering and a retail offering. The retail offering will be open only to our registered account holders who are residents of the United Kingdom, Jersey and the Isle of Man and to our U.K. employees on our payroll as at January 28, 2000 and our friends and suppliers.
Listing and trading .....	<p>We have applied to have the shares listed on the Official List of the London Stock Exchange under the symbol "IIN". In addition, we have applied to have the ADSs quoted on the Nasdaq National Market under the symbol "IINV".</p> <p>Admission to the Official List of the London Stock Exchange is expected to take place, and unconditional dealings in the shares are expected to commence, on February 23, 2000. All dealings in the shares and ADSs prior to the commencement of unconditional dealings in the shares will be on a "when issued basis". Dealings on a "when issued basis" are expected to commence on February 16, 2000.</p>

Voting rights .....

Holders of shares are entitled to attend and vote at shareholders' meetings. Holders of ADRs will be entitled to instruct the depositary to vote the shares represented by an ADS on the basis of ten votes for each ADS evidenced by an ADR.

## SUMMARY FINANCIAL AND OTHER DATA

*The following summary financial information is extracted from the financial information set out in Part I of this document and has been prepared in accordance with U.K. GAAP. Because this is only a summary, prospective investors should read the whole document and not just rely on the key or summarised information.*

Our year end was changed from August 31 to September 30 during the period ended September 30, 1997.

	Audited Years ended September 30,		
	1997	1998	1999
	(in thousands, except per share)		
	£	£	£
<b>Statement of Operations Data:</b>			
Net revenue .....	657	1,430	2,578
Cost of revenue .....	(470)	(938)	(1,846)
Gross profit .....	187	492	732
Operating expenses .....	(957)	(2,372)	(7,086)
Net interest receivable/(payable) .....	12	(7)	73
Net loss .....	(758)	(1,887)	(6,281)
Basic net loss per share .....	(5.0)p	(12.0)p	(26.1)p
Basic loss per share after share reorganisation (1) .....	(1.70)p	(4.00)p	(8.70)p
Weighted average number of Shares outstanding after share reorganisation (in 000s) (2): .....	45,563	47,220	72,306
<b>Balance Sheet Data:</b>			
Cash and cash equivalents .....	341	—	108
Working capital (defined as debtors less creditors) .....	(65)	(662)	(1,548)
Total assets .....	569	911	1,922
Total shareholders' equity/ (deficit) .....	338	(1,549)	(1,408)

(1) Loss per share after share reorganisation reflects the January 2000 2-for-1 bonus issue.

(2) Weighted average number of shares reflects the January 2000 share reorganisation.

### Supplemental Operating Data

The table of supplemental operating data below summarises selected information about our users and registered account holders from January 1, 1999 through December 31, 1999. ABC ELECTRONIC, an independent firm that performs audits of Internet data and user information, certified our Internet data as to faithful extraction for the period from January 1 through September 30, 1999 inclusive. From October 1, 1999 ABC ELECTRONIC have audited our Internet data using a census audit method. Our supplemental operating data is based on information relating to all of our Web sites and references to "our sites" include the following sites: [www.iii.co.uk](http://www.iii.co.uk), [www.offshore.net](http://www.offshore.net), [www.iii.co.za](http://www.iii.co.za), [www.iii-asia.com](http://www.iii-asia.com), [www.hutchcity.iii-asia.com](http://www.hutchcity.iii-asia.com), [www.iafrica.iii.co.za](http://www.iafrica.iii.co.za), [www.ifa.co.uk](http://www.ifa.co.uk), [www.btclick.excite.iii.co.uk](http://www.btclick.excite.iii.co.uk) and [www.excite.iii.co.uk](http://www.excite.iii.co.uk).

For the purposes of our supplemental operating data, the number of "users", as defined by the Internet industry, represents the number of browser configurations in use at each unique Internet connection, known as an Internet Protocol, or IP, address. "Users" may represent a single individual, such as an individual at home, or a number of individuals, such as a group of individuals at a specific organisation. The number of "users"



excludes users from within our offices. It also excludes connections originating from an Internet industry-agreed list of browser configurations commonly used for automated processing and compilation of lists of results in response to a search.

The term "visits", as defined by the Internet industry, represents a series of page impressions to a user ending when there is a gap of at least 30 minutes between two page impressions to that user.

Management monitors and measures the following categories of supplemental operating data:

- "Registered Accounts" (1) represents the cumulative number of accounts registered with our sites since inception. A particular individual may have one or more registered accounts. A registered account may be used by more than one individual. Therefore, the term "Registered accounts" does not represent the number of users of our sites;
- "First Visits" (2) represents the number of first visits to our sites during the period by all users. If a user visits the site more than once during the period, only the first visit by that user is counted. This provides our management with an approximation of the number of individuals using our sites;
- "Total Visits" (3) represents all visits to our sites during the period by all users;
- "Page Impressions" (4), as defined by the Internet industry, is a unique request for information from a site by a user as noted above, a visit typically involves a number of page impressions;
- "Average Page Impressions per Visit" (5) is the number obtained by dividing "Page Impressions" (4) during the period by the number of "Total Visits" (3) during the period.

	Month ended					
	Jan 31, 1999	Feb 28, 1999	Mar 31, 1999	Apr 30, 1999	May 31, 1999	June 30, 1999
<b>Supplemental Operating Data:</b>						
Registered accounts (1) .....	147,728	169,123	190,948	215,604	232,854	248,581
First Visits (2) .....	206,754	225,931	280,128	309,896	273,211	313,086
Total Visits (3) .....	526,392	593,273	755,357	808,996	716,329	845,688
Page impressions (000s) (4) .....	3,077	3,701	4,830	5,128	4,451	5,503
Average page impressions per visit (5) .....	5.85	6.24	6.39	6.34	6.21	6.51

	Month ended					
	July 31, 1999	Aug 31, 1999	Sept 30, 1999	Oct 31, 1999	Nov 30, 1999	Dec 31, 1999
<b>Supplemental Operating Data:</b>						
Registered accounts (1) .....	268,710	286,565	302,357	322,291	348,726	389,211
First Visits (2) .....	375,170	371,835	412,834	443,497	644,125	738,358
Total Visits (3) .....	1,009,726	988,016	1,089,984	1,166,707	1,709,681	1,938,822
Page impressions (000s) (4) .....	7,527	8,046	9,039	9,543	17,930	23,329
Average page impressions per visit (5) .....	7.45	8.14	8.29	8.18	10.49	12.03

## RISK FACTORS

*You should carefully consider the risks described below before making a decision to invest in the Company. If any of the adverse events described below actually occurs, our business, financial condition or results of future operations could be materially adversely affected. In that case, the trading price of our shares and ADSs could decline and you could lose all or part of your investment. This Prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statement as a result of the risks described below and elsewhere in this Prospectus.*

**We have incurred net losses since inception and expect future losses due to increasing personnel, technology and marketing costs.**

We launched our Internet site on October 31, 1995. We incurred net losses of £758,000 (\$1,248,000) for the financial year ended September 30, 1997, £1,887,000 (\$3,106,000) for the financial year ended September 30, 1998, and £6,281,000 (\$10,341,000) for the financial year ended September 30, 1999. As of September 30, 1999, we had an accumulated deficit in our profit and loss account of approximately £8,962,000 (\$14,754,000). We expect to continue to incur net losses for at least the next two years as we expend substantial resources on marketing, administration and development of our services. We cannot assure you that we will achieve or sustain profitability.

**Fluctuations in our quarterly financial results make financial forecasting difficult and may impact our share price negatively.**

Our quarterly operating results have fluctuated significantly in the past, and may fluctuate significantly in the future, as a result of a variety of factors, many of which are outside our control. We therefore believe that quarter-to-quarter comparisons of our operating results may not be a reliable indicator of our future performance, nor would our operating results for any particular quarter be indicative of future operating results.

Our operating results are subject to factors that include changes in trading volume in securities markets, changes in pricing policies by us or our competitors and the introduction of or enhancements to online investing services by us or our competitors. Our operating results are also subject to seasonal and cyclical factors. We believe that sales of advertising for financial services generally are strongest in the first and third calendar quarters of each year and lowest in the fourth quarter, resulting in fluctuations in our advertising revenue. In addition, commission-shares, referral fees and subscriptions revenue is strongest during the first calendar quarter of the year, which is the last quarter of the U.K. tax year, and weakest during the holiday months of August and December.

In some future quarters our operating results may be below the expectations of public market analysts and investors. In that event, the price of our shares may fall.

**The rate of growth in our registered accounts may increase more than usual as a result of the U.K. retail offering.**

The public offering in the United Kingdom will comprise an institutional offering and a retail offering. The retail offering will be open only to our registered account holders who are residents of the United Kingdom, Jersey and the Isle of Man, to U.K. employees on our payroll as of January 28, 2000, and friends and suppliers. Accordingly, members of the public in the United Kingdom, Jersey and the Isle of Man that are not currently registered account holders will need to become registered account holders in order to buy our shares in this offering. We believe that the growth in our registered accounts since the announcement of our intention to float may have increased more than usual as a result of this and that this growth rate may not be sustained. Moreover, a significant portion of users that registered accounts since this announcement may not continue to use their registered accounts following the closing of this offering.

**If we lose our authorisation by the Securities and Futures Authority, we would no longer be able to arrange purchases and sales of securities. While to date these revenues have been insignificant, we could lose our ability to generate revenues from that activity in the future.**

To date our revenues from facilitation of investment transactions have been insignificant. However, our business plan depends on us generating a material and increasing percentage of our revenue from facilitating investment transactions, including the purchase and sale of marketable securities. When offering online transactions capabilities for a specific financial product, we do not act as the counterparty to the transaction. Instead, we act as a financial intermediary. See "Business—The iii Experience—Financial Centres". Our ability to act as an intermediary and generate the portion of our anticipated future transaction-related revenue generated by arranging purchases and sales of marketable securities will depend upon one of our subsidiaries, Interactive Investor Trading Limited, retaining its Category D authorisation by the Securities and Futures Authority in the U.K. We intend this source of revenue to become our principal revenue in the future. The loss of Category D authorisation presents a material risk because, if we lost our regulatory status, we would no longer be able to arrange purchases and sales of securities as contemplated in our business plan.

**We may need additional capital in the future, which may require us to raise additional financing or reduce the scope of our operations.**

Our capital requirements depend on numerous factors, including the rate of market acceptance of our services, our ability to maintain and expand our user base and potential acquisitions. We cannot accurately predict the timing and amount of our capital requirements due to the above factors, and to the possibility that new unexpected opportunities may arise for us at any time in the future. If our capital requirements vary materially from our plans, we may require financing in addition to amounts raised in this offering sooner than anticipated. We currently have no debt financing facility in place. Debt financing, if available, may involve restrictions on our financing and operating activities and additional equity financing may be dilutive to our shareholders. If we are unable to obtain additional financing as needed, we may be required to reduce the scope of our operations or anticipated expansion.

**Our business model calls for our commission-shares, referral fees and subscriptions and advertising revenue to increase significantly. If we fail to increase those revenues as planned, our business model may not become profitable.**

In the year ended September 30, 1999, approximately half of our revenue was attributable to our Web site development, hosting and consulting business and approximately 16 per cent. of our revenue resulted from transaction-related activities. We are now emphasising commission-shares, referral fees and subscriptions and advertising revenue and our business model calls for these revenue categories to constitute an increasing proportion of our total revenue in the future. We have limited experience in generating revenue by arranging purchases and sales of marketable securities and our ability to increase this revenue significantly is unproven. In addition, growth of our advertising revenue depends on our ability to command high advertising rates. We believe that we charge advertising rates that are among the highest in the U.K. relating to advertising on the Internet, but there can be no assurance that we will be able to sustain these rates in the future. We cannot assure you that we will be able to increase commission-shares, referral fees and subscriptions revenue and advertising revenue sufficiently to achieve our business model.

**We are vulnerable to disasters and system failures, both internally and at third-party providers, which may disrupt our service, damage our reputation, result in us losing users or require us to make compensation payments.**

Our ability to provide timely information and continuous news updates and other services depends on the efficient and uninterrupted operation of our computer and communications hardware and software systems and our network. In addition, we receive and process orders for purchases and sales of financial products and services through the Internet. These systems and operations are heavily dependent on the integrity of the electronic systems supporting them.

Substantially all of our hardware and the servers that connect our services to the Internet are located at a principal facility in the U.K. maintained by Internet Network Services. All of our computer hardware relating to the development of our services and our Web sites, and all of the employees involved in Web site development, are located at our main premises in the U.K. We do not have co-location or duplication of either our main connection or development sites. Until we put co-location and duplication facilities in place, which we expect to do later this year, our systems and operations are vulnerable to damage, malfunction or interruption from human error, natural disasters, power loss, computer viruses, intentional acts of vandalism and similar events. Any damage, malfunctions or interruptions to our systems may disrupt our services or render them unavailable to our users. If our connection to the Internet is not available, we cannot provide users with our services and if our development facilities are unavailable we cannot update the majority of the information we provide. Any loss of our Internet connection or any inability to update our site may harm our reputation with our users and reduce our revenue and profits.

In addition, although our internal systems have excess capacity and we have a number of security measures in place, our systems are vulnerable to failures. We have experienced some system failures, although none has lasted longer than four hours and, to date, none of these failures has materially affected our business. Those failures were due primarily to capacity constraints at our Internet service provider. Later this year we expect to add a back-up Internet service provider and to co-locate our internal systems to avoid future failures. However, there can be no assurance that we can successfully integrate an additional Internet service provider on a timely basis without experiencing failures. See "Business Network and Technology". Outages caused in the past by a failure of our Internet service provider have resulted in our users being unable to access some of our core services for the duration of the outage. We also have experienced occasional interruptions caused by internal system failures or problems with datafeeds or trading software that have rendered some of our services unavailable to users during working hours. On a number of occasions we have compensated third-party providers of products and services when outages occurred during trading hours. This compensation has been in the form of free banner advertisements. While the cost of these compensation payments has not been material in the past, we cannot assure you that we will not experience future outages that require us to make significant compensation payments. In addition to placing increased burdens on our engineering staff, these outages give rise to a number of user questions and complaints to which our customer support personnel must respond. While third-party services are provided under service level agreements that we monitor, the systems of these third-party providers are not under our direct control. If we experience frequent or persistent system failures, our reputation and brand and, consequently, our operations and revenues, could be harmed permanently.

**We depend on third parties to provide us with news and information content for our Web site, database software and telecommunications capability in order to deliver our services. If third parties fail to perform or terminate agreements with us, we may lose users or be unable to provide our service through no fault of our own.**

Our business depends, in part, on the capacity and reliability of our network infrastructure, components of which are provided by a number of suppliers, most notably, our telecommunications capability, and the reliability of, and our continuing relationship with, news and information suppliers and the provider of our database software. See "Business—Network and Technology". If any of these suppliers were unable to fulfil the terms of their contracts for any reason or if they terminated their contracts with us and we could not replace them with alternative suppliers in a timely fashion and on favourable commercial terms, it would be difficult or impossible for us to deliver our service for a period of time. For example, when our sub-licence agreement with McKay Financial Information Limited was terminated, we were able to continue to provide our premium service to our registered account holders, but were unable to update this data between May and September 1999. It took us five months to source this data elsewhere because we spent approximately two months attempting to resolve our dispute about the validity of the sub-licence with Hemmington Scott, the original licensor of this data, before locating and negotiating two replacement data providers. We were, therefore, unable to market our service actively, which may have resulted in us losing users, although we do not believe that this materially affected our business. The loss of significant third-party suppliers of data and services may also result in us losing users. In addition, we depend on telecommunications operators, such as British Telecommunications plc, Cable & Wireless Communications plc and Hutchison Telecommunications to

transmit our traffic over local and long distance networks and the Internet. From time to time in the past, the networks of public telecommunications operators have experienced capacity constraints, in particular at interconnect points, due in part to the surge of Internet traffic. When these capacity constraints have occurred, our users have experienced difficulty accessing our service. We believe that some of our registered account holders cease to use our service when they experience difficulty accessing it, though it is difficult to quantify to what extent.

**Growth of our user base and operations has been rapid and may strain our managerial, operational, financial and information systems resources. The quality of our services could be affected and we may lose users and revenues as a result.**

Our user base has grown rapidly. Continued growth may cause a significant strain on our managerial, operational, financial and information systems resources because we will need to:

- hire, train and manage additional employees;
- improve our information systems, including our transaction processing systems, network infrastructure and other aspects of our technology; and
- spend significant amounts of money to accommodate our growth.

Although we are taking steps to manage our growth effectively, we may not be able to project accurately the rate or timing of growth in our business, or the cost of expanding and upgrading our systems and infrastructure to accommodate any growth in a timely manner. In addition, our management may not be able to effectively supervise our operations due to unexpected demands imposed on them. If we fail to manage our growth successfully, our ability to maintain the quality of our services could be negatively affected. This may affect our ability to generate revenues and to attract and retain users.

**If third parties circumvent our security measures and use our confidential information wrongfully, our users could lose confidence in our ability to keep information confidential and stop using our service.**

The secure transmission of confidential information, such as a registered account holder's credit card information, address, telephone number, occupation or salary or the securities held in a user's portfolio over public networks is a critical element of our operations. We have not in the past experienced any known significant network security problems. However, our networks may be vulnerable to unauthorised access and other security problems. Persons that circumvent security measures could use our confidential information or our customers' confidential information wrongfully. Consequently, our users could lose confidence in our ability to keep information confidential and stop using our services as a result. We may be required to expend significant additional resources to protect against the threat of security breaches or to alleviate problems caused by any breaches.

**Competition could reduce our market share and harm our financial performance.**

The market for Internet personal finance services is new, rapidly evolving and competitive. We may not be able to successfully compete for advertisers, users and staff in this market. As a result, we may lose market share and revenue and our margins may decrease. We face direct competition from a number of financial services firms, as well as indirect competition from numerous discount brokerage firms, many of which provide online services. For instance, some of these companies currently offer free real-time quotes and commission-free online brokerage services. We believe that the general financial success of companies within the online securities industry will continue to attract new competitors to the industry, such as banks, software development companies, insurance companies, providers of online financial information and others. These companies actively compete for consumers' and advertisers' attention and spending. They also actively compete to attract the most qualified personnel. We expect this competition to continue to increase. As a result, we believe that we must establish, maintain and enhance the *iii* brand. In order to attract and retain users and to promote and maintain our brand or future brands, we may need substantially to increase our marketing and development expenditures. Our business could be adversely affected if our efforts are unproductive or if we cannot increase our brand awareness. See "Business—Competition".

**Our strategy of international expansion may fail. As a result, we may lose our investments in international markets.**

Although our strategy calls for the expansion of our services to international markets, we may not be successful in these markets. Due to our limited experience providing Internet services outside the U.K., we may not be able to grow our business successfully given less developed technological infrastructures and different regulatory requirements abroad. In addition, less developed automation exchanges, depositories and clearing systems in other countries may prevent us from developing online purchase and sale activities. Furthermore, managing foreign operations from the U.K. and recruiting qualified local personnel, along with local competition, lack of or reduced protection for intellectual property rights and potentially adverse international tax consequences may present difficulties. Consequently, the managerial and financial resources we devote to our international expansion may be lost if our international services fail to attract users and generate revenue. We commenced operations in Hong Kong in the first quarter of calendar year 1998 and South Africa in the third quarter of calendar year 1998 and expect to begin to operate elsewhere in Europe within the next year. The Hong Kong and South Africa offices have incurred losses to date and their viability has yet to be proven.

**Because we conduct transactions on the Internet, the continued growth of Internet usage and the viability of the Internet as a commercial marketplace is important to the growth of our business.**

Because we intend to derive a significant proportion of our revenue from online transactions, we would be at risk if the Internet did not prove to be a viable commercial marketplace. The potential problems which may slow the development of the Internet as a marketplace include the following:

- lack of acceptable security technologies;
- concerns over privacy;
- congestion of traffic;
- inconsistent quality of service;
- lack of availability of cost-effective, high-speed service;
- potentially inadequate development of the necessary infrastructure;
- excessive governmental regulation; and
- uncertainty regarding intellectual property ownership.

If these potential problems hamper Internet growth, our commission-shares, referral fees and subscriptions revenue could decline. This loss of revenue would materially adversely affect our business and financial performance.

**The market for Internet advertising is uncertain and our advertising revenue may decrease.**

We believe that the number of Internet companies relying on Web-based advertising revenue will increase greatly in the future. Accordingly, it is likely that we will face increased pricing pressures on our advertising rates which could in turn materially adversely affect our business, results of operations and financial condition. In addition to other Internet companies, we compete for advertisers and advertising revenue with traditional forms of media, such as newspapers, magazines, radio and television. If advertisers perceive the Internet or our Web site to be a limited or an ineffective advertising medium, they may be reluctant to devote a portion of their advertising budget to Internet advertising or to advertising on our Web site.

The demand and market acceptance for Internet advertising is uncertain. There are currently few standards for the measurement of the effectiveness of Internet advertising, and the industry may need to develop standard measurements to support and promote Internet advertising as a significant advertising medium. If those

standards do not develop, existing advertisers may not continue their levels of Internet advertising. Furthermore, advertisers that have traditionally relied upon other advertising media may be reluctant to advertise on the Internet. Our business would be adversely affected if the market for Internet advertising develops more slowly than expected.

**The widespread adoption of software that blocks online advertising may reduce our advertising revenue.**

Software programmes that limit or prevent advertising from being delivered to an Internet user's computer are available. Widespread adoption of this software would adversely affect the commercial viability of Internet advertising and reduce our advertising revenue.

**Failure to retain and integrate our advertising sales force could result in lower advertising revenue.**

We depend on our internal advertising sales department to maintain and increase our advertising sales. As of January 17, 2000, our advertising sales department consisted of 16 employees. The success of our advertising sales department is subject to a number of risks, including the competition we face from other companies in hiring and retaining sales personnel and the length of time it takes new sales personnel to become productive. Our business, results of operations and financial condition could be materially adversely affected if we do not maintain and adequately compensate an effective advertising sales department.

**Because our advertising revenues are highly dependent on our ability to generate specified levels of page impressions, these revenues would be adversely affected if we failed to maintain the required number of page impressions.**

A key element of our strategy is to generate advertising revenue through sponsorships and banner advertisements, which in the financial year ended September 30, 1999, accounted for 30 per cent. of our revenues. The rates we charge for advertising are among the highest in the U.K. relating to advertising on the Internet and are highly dependent on our contractual obligation in many of our contracts to provide a fixed number of page impressions of between approximately 100,000 and 200,000 per month. We are able to provide a high number of page impressions due to our large registered account holder base. The fees we receive, and therefore our advertising revenues, would decline if we failed to maintain our advertising rates at the current level.

**Failure to establish and maintain strategic relationships with other Web sites may adversely affect our ability to develop our brand reputation.**

We depend on establishing and maintaining strategic co-marketing relationships with high-traffic Internet sites, including Internet service providers, portals and special interest sites, in order to enhance our reputation and the profile of our brand. These relationships and others we may enter into in the future are and will be important to our business and growth prospects, as they provide us with additional outlets for disseminating our service and additional visibility of our brand. The loss of, or failure to, establish these relationships would adversely affect the reach and profile of our brand and, consequently, could impair our ability to attract users.

There is intense competition for relationships with these Internet sites. Although we have not had to do so to date, we may have to pay significant fees to establish relationships or maintain existing relationships in the future. We may be unable to enter into relationships with these sites on commercially reasonable terms or at all.

Many companies that we may approach for a strategic relationship or that already have strategic relationships with us also provide financial news and information to other sources. As a result, these companies may be reluctant to enter into or maintain strategic relationships with us in the future.

**Our business could be harmed by securities market fluctuations and other securities industry risks, which may reduce our planned growth in revenues generated by us acting as a financial intermediary.**

To date, our revenues from acting as a financial intermediary have been insignificant. However, we plan to increase revenue from these services in the future, and such growth could be impeded by disruptions in securities markets. We expect that, if these revenues became significant for us, reduced trading volumes and prices would adversely affect revenue. In addition, if these revenues are adversely affected, our profitability would also be adversely affected because our overhead costs are substantially fixed.

**The interests of our major shareholders may not always coincide with yours, which could hamper our development.**

Our major shareholders, Porpoise Investments Limited and Hollinger Digital, Inc., will own approximately 15.7 per cent. and 31.5 per cent., respectively, of our ordinary share capital after this offering. Porpoise Investments Limited and Hollinger Digital, Inc. will own approximately 14.5 per cent. and 28.5 per cent. of our ordinary share capital, respectively, if the Underwriters' over-allotment option is exercised in full. Currently, each of Porpoise and Hollinger, for so long as it continues to hold five per cent. or more of our shares, is entitled to designate one non-executive director on our board. In addition, Hollinger is entitled to appoint a second non-executive director for so long as it holds 20 per cent. or more of our shares (generally, please see the section entitled "Certain Transactions and Relationships"). As a result, these shareholders will have the power to influence our operations, business strategy and the outcome of matters submitted for the vote of shareholders, including the election of members of the board of directors, the approval of significant change-in-control transactions and the disapplication of pre-emptive rights. The business goals of Porpoise and Hollinger and those of our other shareholders may not always remain aligned.

**We depend on our key executives and personnel. Loss of their services would impair our growth and operations.**

We greatly depend on the continued services of our key executive personnel:

- Tomás Carruthers, our Chief Executive Officer;
- Max Ashton, our Chief Financial Officer; and
- Julian Jaffe, our Chief Operations Officer.

Although we maintain "key person" life insurance on these key executives, these policies may not be sufficient to compensate us for the loss of their services.

In addition we must hire and train additional personnel to accommodate anticipated growth. Competition for those employees is intense. We may not be able to retain existing employees or identify or hire new employees because of that competition. If we fail to attract, hire, retain or properly train the necessary personnel, or if we lose the services of any of our key executives, the growth and performance of our business could suffer.

**Our acquisitions and strategic relationships involve risks that may harm our performance or increase our liabilities.**

We intend to pursue strategic acquisitions of businesses and technologies. Acquisitions may entail numerous risks, including:

- difficulties in assessing values for acquired businesses and technologies;
- difficulties in the assimilation of acquired operations and products;
- diversion of management's attention from other business concerns;



- assumption of unknown material liabilities of acquired companies;
- amortisation of acquired intangible assets, which could reduce future reported earnings; and
- potential loss of customers or key employees of acquired companies.

We may not be able to identify or complete acquisitions, and may not be able to integrate successfully the operations, personnel, services or products that we may acquire in the future, which would impair our operations.

**We rely on our relationships with market makers to facilitate real-time, instantaneous securities trades and the loss of these relationships would materially affect us.**

We are able to offer our registered account holders the ability to effect a purchase or sale of U.K. equities online through our relationship with a number of market makers. Our service automatically provides a firm quote from the market maker to our registered account holders at the same time that the registered account holder's online broker is confirming its ability to complete a trade. If we were to lose our relationship with any of these market makers, our ability to facilitate share trades would be impaired and, consequently, we would lose a significant portion of our commission-shares, referral fees and subscriptions revenue. This would materially adversely affect our business and financial performance.

**Changing government regulation and legal uncertainties could add additional unexpected legal and regulatory compliance costs to doing business on the Internet.**

The application of existing laws to the Internet and Internet-related operations is being clarified and refined globally and a number of new legislative and regulatory proposals relating to the Internet are under consideration, including in the areas of content liability, e-commerce, encryption and electronic signatures, data protection and privacy. Depending on the scope and timing of these developments, it is possible that they could have a material impact on our commission-shares, referral fees and subscriptions revenues and on our business. Due to the global nature of the Internet, it is possible that, although the servers and infrastructure used to provide our services are based in the U.K. and transmission by us and our users of content over the Internet originates primarily from the U.K., the governments of other countries may attempt to regulate the content contained on, or transmitted using, our services and may attempt to prosecute us for violation of their laws. This could have a materially adverse affect on our business, results of operations and financial condition.

In addition, the financial services regulatory regime in the U.K., Hong Kong and other jurisdictions is currently being reviewed and new legislation is expected to be adopted. It is possible that some or all of the activities currently regulated and undertaken by us may become subject to increased regulation or that those activities not currently regulated may become so. This may in turn adversely impact our ability to offer all or some of our products and to generate revenues. See "Regulatory Considerations Concerning Our Business".

**We may have to defend against litigation or other actions arising from the misuse of our service, which could adversely affect our reputation and operations through no fault of our own.**

Our service could be misused by persons seeking to manipulate the securities markets, make false or misleading statements about the market or the price or value of investments, disclose inside information, effect insider dealing or encourage others to do so or assist in the laundering of the proceeds of crime in breach of securities and criminal laws in those jurisdictions where the service is accessible. Any misuse of our service could subject us to litigation and materially adversely impact our reputation, our operation and our financial condition.

Users may access content on our Web sites, download this content and transmit it to others over the Internet. They may also upload content onto our Web site in e-mail groups or bulletin boards. Any of these actions by users could potentially result in claims against us as service providers in the areas of infringement of

intellectual property rights of third parties, including copyright and trade mark infringement, as well as defamation and publication or transmission of obscene material. This may adversely affect our ability to offer and derive revenues from all or some of the products and services currently offered on our Web site.

**Our ability to collect personal data on our registered account holders may be restricted by applicable legislation and may hinder our ability to generate commission-shares, referral fees and subscriptions revenue or advertising revenue.**

We use information we collect from our registered account holders to target our audience better. This in turn makes us more attractive to advertisers and companies interested in selling financial products on our sites. The inability to collect this information in the future may reduce our commission-shares, referral fees and subscriptions revenue and advertising revenue. We must comply with applicable data protection legislation, including the U.K. Data Protection Act 1984 and U.K. Data Protection Act 1998. At present we comply with these regulations in all respects, which limits our ability to collect and use personal information relating to our registered account holders. In particular, we comply with the requirement that we cannot transfer a registered account holder's personal information to third parties without the consent of that registered account holder. Increased awareness on the part of the public of privacy issues and changes to legislation with which we may have to comply could impact our ability to collect and use this personal information for the benefit of our business, which could affect our business and financial results. See "Regulatory Considerations Concerning Our Business — Regulation of the Internet — Data Protection".

We are also subject to EU directives regarding data protection that could restrict us from collecting and sharing information which could impair our ability to generate commission-share, referral fees and subscriptions revenue or advertising revenue.

The EU has adopted the "directive on the protection of individuals with regard to the processing of personal data and the free movement of 95/46/EC such data". The directive imposes restrictions on the collection, use and processing of personal data. In particular, companies with facilities located in EU member countries, or using equipment in an EU member country for the purpose of processing data, will not be allowed to send personal information to countries that are not EU members and do not maintain adequate standards of privacy. The directive does not specify the standards of privacy that will be considered adequate. There can be no assurance that this directive will not adversely affect our business, as we collect data from users in EU member countries and the directive will be enacted in all fifteen EU member countries. Our obligations could vary from country to country and compliance with these obligations may prevent or restrict us from collecting and sharing our registered account holder information.

**Possible infringement of our intellectual property rights could cause us to lose revenue and could damage our trade marks.**

We cannot be certain that the steps we have taken to protect our intellectual property rights, including our trade marks and our domain names, will be adequate or that third parties will not infringe or misappropriate our proprietary rights. For instance, given the global reach of the Internet, our trade marks and other forms of intellectual property could be displayed in countries that offer less, and possibly inadequate, intellectual property protection than the U.K. Any infringement or misappropriation of our intellectual property rights could materially adversely affect our future revenues and our ability to operate our business.

**We may have to defend against intellectual property infringement and other claims relating to information appearing on our Web site, which may cause us to incur substantial costs and may divert management attention.**

Although we believe that our proprietary rights do not infringe on the intellectual property rights of others, other parties may assert claims that we have violated a patent or infringed a copyright, trademark or other proprietary right or confidential information belonging to them. Any infringement claims, even if without merit, could result in the expenditure of significant financial and managerial resources on our part.

We incorporate licensed third-party technology and information in some of our services. In these license agreements, the licensors have generally agreed to defend, indemnify and hold us harmless with respect to any claims by a third party that the licensed software infringes patent or other proprietary rights. We cannot assure you that these provisions will be adequate to protect us from infringement claims.

In addition, we may be vulnerable to other claims of defamation, negligence, personal injury or other legal theories relating to the information we publish on our Web site, including content licensed from third parties. Our insurance, which covers commercial general liability, may not adequately protect us against these types of claims. Further, if those claims are successful, we may be required to alter our site content, including the elimination of services or channels, pay financial damages or obtain licences from others. See "Regulatory Considerations Concerning Our Business".

**One of our subsidiaries currently is involved in intellectual property infringement litigation with Hemmington Scott, which could negatively affect our business.**

One of our subsidiaries, interactive, is currently involved in litigation with Hemmington Scott, a provider of financial and other information that interactive sub-licensed from McKay Financial Information Limited. This litigation arose from allegations by Hemmington Scott that interactive infringed copyright and database rights owned by Hemmington Scott because the terms of McKay's licence from Hemmington Scott did not permit it to sublicense this information to interactive. Although we believe that we have a good defence to Hemmington Scott's alleged infringement claim, and believe that the amount of damages, if awarded, would not have a material impact on our business, there can be no assurance that these proceedings will be resolved in our favour or that the claim would not adversely affect our reputation and reduce our revenues. No amount of damages has been specified by Hemmington Scott in its action and, if Hemmington Scott is successful, the High Court of Justice in England and Wales would decide the amount of damages. See "Business—Legal Proceedings" and paragraph 8.1 in Part 6.

**We may be sued and have to enter into costly litigation if third parties misappropriate or enter into unauthorised activities using our registered account holders' personal information.**

If third parties were able to penetrate our network security or otherwise misappropriate our registered account holders' personal information or credit card information, we could be subject to liability, including claims for unauthorised purchases with credit card information, impersonation or other similar fraud claims and claims for violation of data protection rights. These claims could result in costly and time-consuming litigation.

**Our non-financial operating data rely on developing industry standard terms and measures and may not accurately quantify the number of individuals using our sites.**

Although we are able to establish the number of accounts that have been registered on a cumulative basis with our sites, the number of accounts does not represent the number of individual users who have registered accounts with our sites. We cannot be certain whether a registered account is used by more than one person, nor whether a person has more than one registered account. In fact, when our site was first launched, because our system did not permit a registered account holder to track more than one portfolio of investments, users were forced to register multiple accounts in order to track multiple investment portfolios. In addition, because our current online customer service system does not yet provide optimal assistance to account holders that forget their password, we believe that account holders that forget their password may simply register an additional account. For these reasons, we believe that the percentage of our registered account holders with multiple registered accounts is higher than many of our competitors. Furthermore, because we do not know how many accounts one user has registered with our sites, it has not been historically possible to accurately track the activity levels of individual users.

In order to provide management with some indication of the activity levels of, and the number of connections to, our sites, we consider standard industry data relating to the number of users that access our site. The term "user" is defined by the Internet industry as the number of browser configurations in use at each unique Internet connection, known as an Internet protocol, or IP, address. Users may represent a single individual, such as an individual at home, or a number of individuals, such as a group of individuals at a specific organisation. The number of "users" excludes users within our offices. It also excludes connections originating from an Internet industry-agreed list of browser configurations commonly used for automatic processing and compilation of lists of results in response to a search.

While we adjust our non-financial operating data to eliminate activity on our Web sites which we believe distorts our true operating data, for example identifiable duplicate registrations, there can be no assurance that we successfully eliminate all activity which could distort our operating data.

**Failure of computer systems and software products to be Year 2000 compliant could impact our business negatively.**

Many computer systems and software products installed before 2000 only accept two digits to identify the year in any date. Thus, the Year 2000 could appear as "00", which the system might consider to be the Year 1900 rather than the Year 2000. This could result in system failures, delays or miscalculations causing disruptions to our operations. Although we have not experienced any Year 2000 issues to date, not all Year 2000 problems may have become evident on January 1, 2000. In addition, our operations rely heavily on the integrity of computer systems of third parties, such as broker-dealers, clearinghouses, stock exchanges and online and Internet service providers. We cannot confirm that all the third parties on whom we rely were not or will not be affected by Year 2000 problems. A systems failure affecting any of these parties due to Year 2000 issues would interfere with the trading process and, as a result, could materially adversely affect our business, financial condition and results of operations. A significant Year 2000-related disruption affecting any of these third parties could also cause our users to consider seeking alternate providers or cause an unmanageable burden on our technical support. It is also likely that some users' PC equipment may not be Year 2000 compliant. As a result, some users may not be able to access our service during the beginning of 2000, resulting in a decrease in the number of users and in our revenue generally.

Our failure to correct a material Year 2000 problem could result in an interruption in, or a failure of, some of our normal business activities or operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Year 2000 Compliance".

**We have not identified specific uses of all of the proceeds of this offering and may not apply the proceeds effectively.**

We intend to use the net proceeds for general corporate purposes, including marketing, brand and content development, technology and development, working capital, capital expenditures and repayment of outstanding debt. However our management will have significant flexibility in applying the net proceeds of this offering. We may, when the opportunity arises, use a portion of the net proceeds to acquire or invest in businesses, products and technologies. Our management's failure to apply these funds effectively could cause our business to suffer.

**There has been no prior public market for our shares and an active trading market for our shares may not develop.**

Prior to this offering, there has been no public market for our shares. Although we have applied to have the shares admitted to the Official List of the London Stock Exchange and the ADSs quoted on Nasdaq and we expect that these applications will be approved, we can give no assurance that an active trading market for our shares and ADSs will develop or, if developed, be sustained following the closing of this offering. If an active trading market is not developed or maintained, the liquidity and trading price of the shares and ADSs could be

adversely affected. The offer price, which may bear no relationship to the price at which the shares and ADSs will trade upon completion of this offering, was determined by negotiations between us and the representative of the underwriters, based upon factors that may not be indicative of future market performance. See "Underwriting".

**New investors will incur immediate and substantial dilution.**

Shares and ADSs purchased in this offering will incur immediate and substantial dilution in net tangible book value.

**We currently do not plan to pay cash dividends on our shares.**

We have never declared or paid any cash dividends on our shares and do not anticipate paying cash dividends in the foreseeable future.

**Our share price is expected to be highly volatile.**

The price of shares and ADSs sold in an initial public offering is frequently subject to significant volatility for a period of time following the initial public offering. In addition, the stock market has from time to time experienced significant price and volume fluctuations, which have particularly affected the market prices of the shares of Internet-sector companies and which may be unrelated to the operating performance of these companies. Furthermore, our operating results and prospects from time to time may be below the expectations of public market analysts and investors. That event could result in a material decline in the price of our shares and ADSs. Further, if Credit Suisse First Boston waives the restrictions set out in the lock-up agreements described in the section entitled "Shares Eligible for Future Sale" in this Prospectus, further shares will be available on the market and this may depress our share price.

**Our share price may be negatively affected by potential acquisitions and investments.**

As part of our business strategy, we may make acquisitions and equity investments, particularly in competitors or providers of technology for our site. We may pay for part of these acquisitions and investments with our shares. These acquisitions and investments, if they occur, may have a dilutive effect for existing shareholders and, whether they are paid for in cash or shares, may affect our share price negatively.

**Many of your rights as shareholders will be governed by English law and differ from the rights of shareholders under U.S. law.**

interactive investor international plc is a public limited company incorporated under the laws of England and Wales. The rights of holders of our shares and, therefore, many of the rights of ADS holders, are governed by English law and by our Memorandum and Articles of Association. These rights differ from the rights of shareholders in typical U.S. corporations. In particular, English law significantly limits the circumstances under which shareholders of English companies may bring derivative actions. Under English law generally, only we can be the proper plaintiff in proceedings in respect of wrongful acts committed against us.

**We are a public limited company governed by English law, which may hinder proceedings against us under U.S. securities laws.**

Since we are a public limited company incorporated under the laws of England and Wales and governed by English law, it may be difficult for you to win a claim against us under, or to enforce liabilities predicated upon, U.S. securities laws since the rights of our shareholders are governed by English law. See "Description of Share Capital" and "Description of the American Depositary Receipts".

**Shares and ADSs eligible for public sale after this offering could adversely affect our share price.**

Sales of a substantial number of shares in the public market following this offering, or the perception that sales could occur, could adversely affect the market price for our shares and ADSs. After this offering, 50.5 per cent. of our shares will be outstanding. The shares and ADSs sold in this offering will be freely tradeable in the U.S. and the U.K. However, interactive investor international plc will sign a lock-up agreement with the Underwriters agreeing, subject to limited exceptions, not to offer, sell, pledge or otherwise dispose of, directly or indirectly, any shares or any securities convertible into or exercisable or exchangeable for shares, for a period of 180 days after the date of Admission without the consent of Credit Suisse First Boston. See "Underwriting".

In addition, Hollinger Digital, Inc., Porpoise Investments Limited, FC Holtz and JN Holtz, Cheetah International Investments Limited, John Cooper, Mr. Alexander Heath and our directors and key employees have signed lock-up agreements with us and Credit Suisse First Boston (Europe) Limited for periods of between three and 12 months. All other of our employees have agreed with us and Credit Suisse First Boston (Europe) Limited to restrictions on sales of their shares and to comply with our share dealing rules. See "Shares Eligible for Future Sale".

Our shares will be subject to further trading restrictions in the U.S. Shares held by our "affiliates", as defined in Rule 144 under the U.S. Securities Act of 1933, will be "restricted securities" and will become eligible for public sale in the U.S. only if registered or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act. See "Shares Eligible for Future Sale".

## CORPORATE HISTORY AND DEVELOPMENTS

interactive investor limited, or interactive, is our group's main operating company and a private limited company. In order to offer shares to the public, and admit shares to the Official List of the London Stock Exchange, an English company is required to be a public limited company. For a company to convert into a public limited company, the U.K. Companies Act 1985 requires that its net assets must exceed the aggregate of its called up share capital and undistributable reserves. As interactive did not satisfy this condition, we decided to reorganise our group and add a new holding company, interactive investor international plc. The process for this reorganisation is described below.

interactive investor international plc was incorporated on August 13, 1999 with the name Creditstand Limited. It changed its name to iii limited on September 28, 1999 and re-registered as a public limited company with the name iii plc on January 27, 2000. On February 1, 2000 it changed its name to interactive investor international plc. On the same day, interactive investor international limited changed its name to interactive investor limited.

interactive investor international plc became the holding company of our Group on January 14, 2000 pursuant to a share exchange agreement between interactive investor international plc, interactive and the interactive shareholders under which the interactive shareholders exchanged their shares in interactive for an identical number of shares in interactive investor international plc. The effect of the share exchange, which was completed on January 14, 2000, was to ensure that interactive investor international plc acquired the entire issued share capital of interactive and that the shareholders, and respective shareholdings, in interactive investor international plc mirrored those in interactive. All shares in interactive held by any interactive shareholder that did not enter into the share exchange agreement were compulsorily acquired by interactive investor international plc under the provisions of interactive's articles of association.

interactive investor international plc's major shareholders are Hollinger Digital Inc, which, prior to this offering, held approximately 46 per cent. of our shares, and Porpoise Investments Limited, which, prior to this offering, held approximately 26 per cent. See "Principal and Selling Shareholders" for details of all of interactive investor international plc's principal shareholders.

### **No other material changes**

Neither we nor our subsidiaries have entered into any bankruptcy or receivership arrangements or similar proceedings. In addition, neither we nor interactive have acquired or disposed of any material amount of assets otherwise than in the ordinary course of business, nor have we made any material changes to the mode of conducting our business except as disclosed in this prospectus.

## **PRESENTATION OF FINANCIAL INFORMATION**

We publish our financial statements in pounds sterling. In this Prospectus, references to "pounds sterling", "£", "p" or "pence" are to the currency of the United Kingdom, and references to "U.S. dollars", "\$" or "¢" are to the currency of the United States. Where this Prospectus contains translations of pound sterling amounts into U.S. dollar amounts, solely for your convenience, unless otherwise indicated, the translations have been made at £1.00 = \$1.6463, which was the noon buying rate in The City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on September 30, 1999. See "Exchange Rate Information" for historical information regarding the Noon Buying Rate. You should not construe these translations as representations that the pound sterling amounts actually represent the U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated or at any other rates.

All references in this prospectus to "U.S." are to the United States and all references to "U.K." are to the United Kingdom. Various amounts and percentages set out in this Prospectus have been rounded and accordingly may not total.

## **USE OF PROCEEDS**

We estimate that interactive investor international plc will receive net proceeds of approximately £62.2 million, or approximately \$100.8 million based on the Noon Buying Rate on January 28, 2000, from the sale of the shares and ADSs offered by this Prospectus, assuming an initial public offering price equal to the mid-point of the estimated offering price range. This estimate is after deducting estimated underwriting discounts and commissions and other fees and expenses payable by us of £8.0 million, or \$13 million based on the Noon Buying Rate on January 28, 2000.

We intend to use the net proceeds from this offering for general corporate purposes, including approximately £33 million (\$53 million) on marketing, brand and content development and approximately £10 million (\$16 million) on technology and development, as well as working capital to fund anticipated operating losses over the next 24 months. From time to time we evaluate potential acquisitions of and strategic investments in businesses, technologies, products and services and anticipate continuing to make those evaluations. However, we cannot assure you that we will identify suitable acquisition and investment candidates or that we will, in fact, complete any acquisition or investment. Until we use the net proceeds for a particular purpose, we will invest them in short-term interest-bearing investment-grade securities.

We expect to fund future expenditure through the proceeds of this offering and additional offerings, debt financings and cash flow from operations.

We will not receive any portion of the proceeds from the sale of Shares by the Selling Shareholder, Mr Alexander Heath or Hollinger Digital, Inc.

## **DIVIDEND POLICY**

We have never paid or declared any cash dividends. We currently expect to retain future earnings, if any, to finance the growth and development of our business. Therefore, we do not anticipate paying cash dividends in the foreseeable future.



### EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, information concerning the Noon Buying Rates for pounds sterling expressed in U.S. dollars per pound. Fluctuations in the exchange rate between the pound sterling and the U.S. dollar will affect, among other things, the U.S. dollar equivalent of the pound price of the shares on the London Stock Exchange, which is likely to affect the market price of the ADSs.

<u>Calendar Year</u>	<u>High</u>	<u>Low</u>	<u>Period Average(1)</u>	<u>Period End</u>
1994 .....	1.64	1.46	1.54	1.57
1995 .....	1.64	1.53	1.58	1.55
1996 .....	1.71	1.51	1.62	1.71
1997 .....	1.71	1.58	1.64	1.64
1998 .....	1.72	1.61	1.66	1.66
1999 .....	1.62	1.60	1.62	1.62
2000 (through January 28) .....	1.65	1.62	1.64	1.62

(1) The average of the Noon Buying Rates on the last business day of each full month during the period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The financial information discussed in this section is extracted from the Accountants' Report as set out in Part 1 of this Prospectus. The following discussion of our financial condition and results of operations should be read in conjunction with the Accountants' Report set out in Part 1 of this Prospectus and other financial information included elsewhere in this Prospectus. You should read the following discussion in conjunction with the whole of this Prospectus. Our consolidated financial statements and our quarterly financial results included in this discussion have been prepared in accordance with U.K. GAAP.*

### Overview

We are an Internet personal financial service that provides individuals the capability to identify, compare and monitor a number of financial products and services. We also design and construct Web sites and online trading systems, which has historically accounted for a majority of our revenue. In the financial years ended September 30, 1998 and 1999, Web site development, hosting and consulting accounted for approximately 79 per cent. and 54 per cent., respectively, of our revenue. Our other principal revenue stream was generated from advertisers on and sponsors of our Web site and represented approximately 19 per cent. and 30 per cent., respectively, of our total revenue during our 1998 and 1999 financial years. Revenue from commission-shares, referral fees and subscriptions, represented two per cent. and 16 per cent., respectively, of our total revenue during our 1999 financial year. Of this amount, the portion of our revenues attributable to introducing brokers to customers interested in buying and selling securities has been insignificant to date. We commenced offering personal financial products and services over the Internet in the U.K. in October 1995. Currently we offer financial products and services to customers in the U.K. and, to a lesser extent, in Hong Kong and South Africa.

We prepare our accounts in accordance with U.K. GAAP, which differs in significant respects from U.S. GAAP. At September 30, 1999, and for the year then ended, there were no material differences between U.K. GAAP and U.S. GAAP as relates to our accounts, with the exception of recognition of share-based compensation provided to directors and employees and compensation expense for stock purchase options. In the future, we expect differences between U.K. GAAP and U.S. GAAP, in particular with respect to share-based compensation, as discussed below, may have a material impact on the presentation of our results of operations. See Note 26 of Notes to the Financial Statements.

We changed our year end from August 31 to September 30 during the period ended September 30, 1997, in order to report our results on a basis consistent with other companies in our industry. As a result, we prepared financial statements for the thirteen months ended September 30, 1997. For the purposes of this registration statement, the audited results for this period have been split into a one month period ended September 30, 1996, and a twelve month period ended September 30, 1997.

We have reorganised our share capital and established a new group holding company in connection with the offering. All of the transactions associated with this reorganisation described below occurred following the end of our financial year ending September 30, 1999. Our financial statements for this year are not adjusted for these transactions, but make reference to them as subsequent events. See Note 28 of Notes to the Financial Statements.

On December 13, 1999, iii limited entered into a share exchange agreement with interactive investor international limited and all of its shareholders. Pursuant to the share exchange agreement, the shareholders unconditionally agreed to exchange their shares in interactive investor international limited for the same number of shares in iii limited. The share exchange agreement was declared unconditional and was completed on January 14, 2000. Prior to completion of the share exchange, interactive investor international limited implemented a 2-for-1 bonus issue of new shares in order to increase its issued share capital. Simultaneously with the completion of the share exchange, all the holders of outstanding unexercised options and warrants to subscribe for shares of interactive investor international limited exchanged their subscription rights for new

rights to subscribe for shares in iii limited. Also, prior to completion of the share exchange, interactive investor international limited amended the terms of its articles of association to provide that any shares in interactive investor international limited held, or subsequently acquired, after the completion of the share exchange by any person other than us would be compulsorily exchanged for the same number of our shares. Our share capital structure immediately following the share exchange was identical in all respects to the structure existing in interactive investor international limited immediately prior to the share exchange. On January 27, 2000, we were re-registered under the Companies Act 1985 as a public company with the name iii plc. On February 1, 2000, we changed our name to interactive investor international plc. On the same day, interactive investor international limited changed its name to interactive investor limited.

In order to ensure that our share capital is suitable for listing, and to create a single class of issued ordinary shares in connection with the offering, subject to and conditional upon the effective admission of our shares to trading on the London Stock Exchange, on January 27, 2000, our shareholders resolved to:

- redesignate all the issued shares in our capital as a single class of ordinary shares;
- adopt new articles of association;
- increase its authorised share capital;
- authorise its directors to allot and issue shares;
- disapply statutory pre-emption rights; and
- create a share premium account reserve of £1,730.36 to be used by us to pay up in full, at par, shares issued under options having exercise prices of less than the par value of 1p per share.

#### *Our Revenue*

We currently derive our revenue from three principal areas: Web site development, hosting and consulting, selling of advertising and commission-shares, referral fees and subscriptions.

*Revenue from Web site development, hosting and consulting.* We design and construct Web sites and online trading systems for financial institutions, including banks, asset management companies, brokers and insurance companies, especially those that have products or services that would be attractive to our users. We provide:

- specification of Web site software applications and system infrastructure;
- development and installation of Web sites;
- Web site hosting, maintenance and security; and
- support, including technical, resource and customer service.

Our customers for these services can be subdivided into three main groups: asset management companies, brokers and insurance companies. See "Business — Web Site Development, Hosting and Consulting."

*Advertising revenue.* Our revenue from advertising by third parties is driven by the size, quality and self-selecting characteristics of our audience. We believe that our large, focused and relatively homogeneous base of registered account holders provides to advertisers highly targeted advertising opportunities and allows us to sell advertising at some of the highest rates in the U.K. relating to advertising on the Internet. This is based on CPM, or cost per thousand, base rate card data published in New Media Age, a periodical covering Internet media, entitled, "Traffic Update of Top Sites", which listed 105 Web sites and their advertising rates for the month of December 1999. Based on this data, we had the third highest advertising rate of the 105 Web sites listed. We believe that advertising will continue to be an important source of our revenue in the future.

Advertising revenue is earned in the form of payments, which we earn in exchange for delivering a fixed number of page impressions. Upfront or periodic payments are recognised rateably over the contract period or the period to which the payment relates. All other payment streams are recognised as earned.

We also generate advertising revenue from the sponsorship of our financial centres. Our financial centres contain a range of information and services about selected financial instruments ranging from mortgages to insurance products. Information and services available on our financial centres may include tutorials, performance comparisons and price quotes. See "Business — The iii Experience — Financial centres". By sponsoring a specific financial centre, sponsors are more likely to reach an audience interested in the product that they offer. Sponsorship agreements generally require sponsors to pay a flat fee to sponsor the centre, the amount of which depends on the term of the sponsorship. Sponsorships generally have terms of between three and six months.

*Commission-shares, referral fees and subscriptions revenue.* We recognise that the purchase of a product or service on our site involves a number of decisions by our registered account holders. An investor interested in purchasing a mutual fund, for example, might first request a brochure describing the fund from the fund manager. He or she also may need to apply to establish a brokerage account in order to execute the purchase. Finally, he or she will purchase the fund that meets his or her needs. We seek to generate commission-shares, referral fees and subscriptions revenue from each of these decisions, which generally relate to subscriptions to information services, introductions or referrals of our registered account holders to third party providers, requests for product brochures and purchases of financial products, by bringing together the investor and the third party providing the information on the product that he or she needs. A purchase of information may or may not lead to a purchase of a financial product.

Currently, only registered account holders resident in the U.K. are permitted to use the online transaction facilities, receive product brochures or receive investment advice relating to particular investments, although we intend to make these services available to registered account holders that are resident in other countries, initially France and Germany, in the future.

Although we offer the majority of the information on our site at no charge, some of our registered account holders have demonstrated a willingness to pay for value-added services, such as more in-depth or timely information. We offer three subscription options to these services. Our pay-per-view subscription is geared toward the registered account holder that wishes to access our various specialised news services on an intermittent basis only and does not feel that his or her needs justify a monthly or annual subscription. News articles or broker reports, for example, are sold for a fee of between £1 and £5 each. Our U.K. equities Snap Service, priced at £5 per month, provides the subscriber with on-demand real-time prices in order to monitor his or her portfolio generally, as well as real-time prices when evaluating a particular share. Finally, our U.K. equities Real Time Service, priced at £15 per month, allows the registered account holder to analyse multiple share prices on a real-time basis.

We earn an introduction fee for introducing our registered account holders to brokers. A registered account holder that wishes to purchase and sell securities on our site must establish an account relationship with one of the brokers that executes trades for our registered account holders. For each registered account holder that sets up a brokerage account by applying on our site and subsequently purchases or sells a security, we receive a flat fee from the broker. We began to earn these introduction fees during the 2000 financial year, but, to date, these revenues have been insignificant.

Similarly, we earn a flat fee each time that one of our registered account holders orders a brochure from an asset manager offering its products on our Web site.

Finally, we earn fees or commission-shares from financial intermediaries and other financial product or service providers each time that one of our registered account holders requests information or buys a financial

product from one of these providers through our site. These transactions can only be executed on our U.K. site for U.K. financial products. Products from which we earn these fees and commission-shares currently include U.K. equities, traded endowment policies, insurance products and investment trusts. Because we were prohibited from acting as a financial intermediary for most financial products featured on our U.K. site until we obtained our Category D authorisation by the Securities and Futures Authority on October 6, 1999, we earned no revenue from arranging purchases of financial products on our Web site for the financial year ended September 30, 1999. We did, however, receive fees for providing software and technological support for the trading systems of third-party brokers, which we had built. Because the fee earned by us in relation to this activity was based on the number of transactions executed by these third-party brokers on their Web sites, we included these fees in commission-shares, referral fees and subscriptions revenue rather than Web site development, hosting and consulting revenue. The fee earned in relation to this activity depends on the volume of transactions and the terms of each third-party broker contract. Currently, the lowest fee earned is £2.50 per transaction. Our objective is to expand the number of financial products for which we offer online trading capability and to increase the proportion of our revenue derived from related fees and commissions. Specifically, during 2000, we plan to give registered account holders the ability not only to obtain information about, but to purchase and sell online, pensions, unit trusts, individual savings accounts, equities listed on the New York, Nasdaq, Paris, Frankfurt and Hong Kong stock exchanges and healthcare insurance.

#### *Trends in our revenue*

We expect our commission-shares, referral fees and subscriptions, together with advertising revenue, to represent the majority of our revenue as we begin to operate under our new Category D authorisation. This authorisation was granted on October 6, 1999, at the beginning of financial year 2000, and allows us to offer our registered account holders services that we could not offer in prior financial years, such as the opportunity to purchase and sell more financial products online through third-party brokers. Until now, our commission-shares, referral fees and subscriptions revenue, which forms a small portion of our total revenues, has consisted almost exclusively of subscriptions, brochure request fees and, beginning in financial year 2000, introduction fees for introducing potential clients to financial services companies. We expect our commission-shares, referral fees and subscriptions revenue will increase significantly in the future as we facilitate the purchase and sale of securities. We expect revenue from Web site development, hosting and consulting to increase, but at a lower rate than our other revenue streams.

#### *Our Expenses*

Our expenses comprise our cost of revenue and our operating expenses. Cost of revenue consists primarily of royalty expenses and the cost of technical personnel, outsourced labour and of obtaining share price quotes and third-party content.

Our operating expenses comprise:

- *Sales and marketing*, which consist primarily of marketing expenses relating to online and offline advertising and promotional materials, salaries and other related costs for sales and marketing personnel;
- *Technology and development*, which consist primarily of our Web site content and design, software development and maintenance, server leases and salary, benefits and staff costs for product technology and development employees; and
- *General and administrative*, which consist primarily of personnel costs relating to the financial, accounting, human resources and administration functions and associated overhead costs.

We incur compensation expense in connection with our share-based compensation plans. The amortisation of compensation expense is recorded as an operating expense. The treatment of these expenses differs under U.S. and U.K. GAAP.

### *Impact of Seasonality*

We experience seasonal and, to a lesser extent, cyclical variations in our revenue. Commission-shares, referral fees and subscriptions revenue is strongest during the first calendar quarter of the year, which is the last quarter of the U.K. tax year, and weakest during the holiday months of August and December. Advertising revenue is strongest during the months of January through March and September through November. Web site development, hosting and consulting revenue is fairly stable during the year, except during the holiday months of August and December. As we broaden our portfolio of products and services, we expect the seasonality of our revenue to diminish.

### *Impact of Currency Fluctuations*

Although we generate revenue and incur expenses in Hong Kong dollars and South African rand, the substantial majority of our revenue and expenses are denominated in pounds sterling. Furthermore, the expenses incurred to generate foreign currency revenue are incurred in the same currency. Therefore, our financial results are not exposed to significant exchange rate fluctuations. Equity investments made in foreign currencies are subject to periodic translations. These translations have not significantly impacted our earnings and net assets to date but may do so in the future if our overseas operations grow. We have not incurred any material expense in connection with the adoption of the Euro in the EU. Similarly, we have not experienced and do not expect to experience increased competitive pressures or material issues with third parties as the result of the adoption of the Euro in the EU. Although we may incur expenses in the event the United Kingdom decides to adopt the Euro at a later time, we do not believe those expenses would be material.

## Results of Operations

The following table presents selected financial data from inception:

	Audited		
	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£	£ (in thousands)	£
<b>Net revenue:</b>			
Commission-shares, referral fees and subscriptions . . . . .	3	31	426
Advertising . . . . .	111	276	766
Web site development, hosting and consulting . . . . .	543	1,123	1,386
Total net revenue . . . . .	657	1,430	2,578
Cost of revenue . . . . .	(470)	(938)	(1,846)
Gross profit . . . . .	187	492	732
<b>Operating expenses:</b>			
Sales and marketing . . . . .	(56)	(471)	(2,124)
Technology and development . . . . .	(284)	(436)	(1,759)
General and administration . . . . .	(617)	(1,465)	(3,203)
Total operating expenses . . . . .	(957)	(2,372)	(7,086)
Operating loss . . . . .	(770)	(1,880)	(6,354)
Net interest receivable (payable) . . . . .	12	(7)	73
Net loss . . . . .	(758)	(1,887)	(6,281)

The following table presents selected financial data, reflected as a percentage of net revenue:

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	per cent.	per cent.	per cent.
<b>Net revenue:</b>			
Commission-shares, referral fees and subscriptions . . . . .	0.5	2.2	16.5
Advertising . . . . .	16.9	19.3	29.7
Web site development, hosting and consulting . . . . .	82.6	78.5	53.8
Total net revenue . . . . .	100.0	100.0	100.0
Cost of revenue . . . . .	(71.5)	(65.6)	(71.6)
Gross profit . . . . .	28.5	34.4	28.4
<b>Operating expenses:</b>			
Sales and marketing . . . . .	(8.6)	(33.0)	(82.4)
Technology and development . . . . .	(43.2)	(30.5)	(68.2)
General and administration . . . . .	(93.9)	(102.4)	(124.2)
Total operating expenses . . . . .	(145.7)	(165.9)	(274.8)
Operating loss . . . . .	(117.2)	(131.5)	(246.5)
Net interest receivable/(payable) . . . . .	1.8	(0.5)	2.8
Net loss . . . . .	(115.4)	(132.0)	(243.6)

*Financial Years ended September 30, 1998 and 1999*

**Net Revenue.** Net revenue increased 80 per cent. to £2,578,000 for the year ended September 30, 1999, compared with £1,430,000 for the year ended September 30, 1998. The increase in net revenue was primarily due to significant growth in advertising revenue, up 177 per cent. from £276,000 for the year ended September 30, 1998 to £766,000 for the corresponding period in 1999, and the commencement of commission-shares, referral fees and subscriptions revenue which increased to £426,000 for the year ended September 30, 1999, compared with £31,000 for the year ended September 30, 1998. Web site development, hosting and consulting revenue also increased from £1,123,000 for the year ended September 30, 1998 to £1,386,000 for the corresponding period in 1999 but decreased from 79 per cent. to 54 per cent. as a percentage of our total net revenue. These results are in line with our objective of increasing the relative share of our total revenue represented by commission-shares, referral fees and subscriptions revenue and advertising revenue. Underlying these increases in all our revenue categories was the significant growth in the number of our registered accounts, which increased from 147,728 at January 31, 1999 to 302,596 at September 30, 1999. Approximately 96 per cent. of our total net revenue was generated by our U.K. service for the year ended September 30, 1999 compared to almost 100 per cent. for the year ended September 30, 1998. In 1998, two customers, M&G Limited and Standard Life Assurance Company, accounted for 12 per cent. of our total revenues each. In each instance these revenues related to our development and construction of Web sites. These projects were substantially completed in 1998 and neither customer accounted for significant revenues in 1999. No customer accounted for 10 per cent. or more of our total revenues in 1999.

**Cost of Revenue.** Cost of revenue increased 97 per cent. to £1,846,000 for the year ended September 30, 1999, from £938,000 for the corresponding period in 1998. The primary factors behind this increase were an increase in the costs of technical personnel of £293,000, an increase in outsourced labour costs of £253,000 and an increase in the cost of obtaining share price quotes and third-party content of £209,000, as the content of our Web site was enriched to provide a higher level of service to our users.

**Operating Expenses.** Total operating expenses increased to £7,086,000 for the year ended September 30, 1999, from £2,372,000 for the year ended September 30, 1998. This reflects the costs associated with developing our brand, increasing the number of registered accounts, developing our operating infrastructure and technology and investing in our human resources.

Sales and marketing expenses increased to £2,124,000 for the year ended September 30, 1999, from £471,000 for the year ended September 30, 1998. During the year ended September 30, 1999, we started a high profile advertising and media relations campaign in the U.K. involving leading newspapers, such as the Financial Times, and extensive use of outdoor media. This campaign was designed to increase awareness of our brand, as well as the number of our registered accounts, and was a factor that contributed to the increase in our sales and marketing expenses. As a result, our advertising, promotional and public relations expenses increased by £1,219,000 from the previous year. We also experienced an increase in personnel costs of £415,000 resulting principally from our recruiting of an additional nine employees in order to bolster our sales and marketing team.

Technology and development expenses increased to £1,759,000 for the year ended September 30, 1999, from £436,000 for the year ended September 30, 1998, due principally to an increase in personnel costs of £466,000 and an increase in the costs of consultants of £463,000. During the year ended September 30, 1999, we recruited an additional 23 employees for our technology and development department. We use consultants primarily for expertise in relation to discrete technical issues and do not expect our consultant costs to increase in absolute terms in the future. We believe that continued investment in technology is critical to achieving our strategic objectives.

General and administrative expenses increased to £3,203,000 for the year ended September 30, 1999, from £1,465,000 for the corresponding period in 1998. This increase was primarily the result of an increase in personnel costs, costs of £440,000, an increase in accommodation costs and travel expenses of £424,000, and



an increase in professional fees of £130,000. During the year ended September 30, 1999, we recruited an additional 8 employees for our general and administrative department. We expect these expenses to increase further as a result of the additional reporting and corporate communication requirements of public companies.

Net interest receivable in the year ended September 30, 1999, was £73,000, compared with net interest payable of £7,000 for the corresponding period in 1998. Interest receivable was earned on the proceeds of an equity funding that took place on November 24, 1998.

*Provision for Income Tax.* We have incurred a net loss since our inception and we expect to incur losses for the foreseeable future. To date, we have not paid any income taxes due to our accumulated net deficit of £8,962,000 as of September 30, 1999. As of September 30, 1999, we had approximately £8,200,000 of U.K. net operating loss carryforwards for tax reporting purposes available to offset future taxable trading income. Due to uncertainty surrounding the realisation of the benefits of our net operating loss carryforwards in future tax returns, we have placed a full valuation allowance against our otherwise recognisable deferred tax assets. Our U.K. net operating loss carryforwards do not expire provided the trade continues and subject to restriction in the event that a major change in the nature of the trade and a change in ownership occurs.

#### *Financial Years ended September 30, 1997 and 1998*

*Net Revenue.* Net revenue increased 118 per cent. to £1,430,000 for the year ended September 30, 1998, compared with £657,000 for the corresponding period in 1997. The increase in net revenue was primarily due to significant growth in Web site development, hosting and consulting revenue, up 107 per cent. from £543,000 for the year ended September 30, 1997 to £1,123,000 for the corresponding period in 1998 and in advertising revenue, up 149 per cent. from £111,000 for the year ended September 30, 1997 to £276,000 for the corresponding period in 1998. Our total net revenue was entirely generated by our U.K. service for the year ended September 30, 1997.

*Cost of Revenue.* Cost of revenue increased 100 per cent. to £938,000 for the year ended September 30, 1998, from £470,000 for the corresponding period in 1997. As in 1999, this increase reflected an increase in the cost of technical personnel of £268,000, an increase in outsourced labour of £82,000 and an increase in obtaining share price quotes and third-party content of £35,000, as the content of the Web site was enriched to provide a higher level of service to our users.

*Operating Expenses.* Total operating expenses increased to £2,372,000 for the year ended September 30, 1998, from £957,000 for the corresponding period in 1997. As in 1999, this increase reflected the costs associated with developing our brand, increasing the number of registered accounts, developing our operating infrastructure and technology and investing in our human resources.

Sales and marketing expenses increased to £471,000 for the year ended September 30, 1998, from £56,000 for the corresponding period in 1997. The increase was due principally to a significant increase in personnel costs of £271,000 and, to a lesser extent, to an increase in advertising, promotional and public relations expenses of £86,000 as we sought to increase our profile and the number of our registered accounts. In the year ended September 30, 1998, we recruited an additional three employees in order to bolster our sales and marketing team.

Technology and development expenses increased to £436,000 for the year ended September 30, 1998, from £284,000 for the corresponding period in 1997. As in 1999, this increase was due to an increase in personnel costs of £214,000. During the year ended September 30, 1998, we recruited an additional 16 employees for our technology and development department.

General and administrative expenses increased to £1,465,000 for the year ended September 30, 1998, from £617,000 for the corresponding period in 1997. As in 1999, this increase was the result of an increase in personnel costs, costs of £419,000, an increase in accommodation costs and travel expenses of £99,000, and an

increase in professional fees of £92,000. During the year ended September 30, 1998, we recruited an additional two employees for our general and administrative department.

Net interest payable in the year ended September 30, 1998, was £7,000 compared to net interest receivable of £12,000 for the corresponding period of 1997.

#### *Reconciliation of U.S. and U.K. GAAP*

The principal difference between U.K. and U.S. GAAP applicable to our financial statements relates to compensation expense associated with stock options and stock purchase warrants. We recorded compensation expense of £139,000 under U.K. GAAP in the year ended September 30, 1999, in respect of our share-based compensation plans, while under U.S. GAAP we currently estimate the total charge for stock related charges to be between £13,000,000 and £26,000,000. Under U.K. GAAP, share-based compensation represents the difference between the exercise price of share options granted and the fair market price of the underlying shares at the date of grant. The difference is amortised over the vesting period of the applicable options. No compensation expense has been recognised in previous years because the options either were issued at fair market value at the date of grant or were issued by Porpoise Investment Limited and do not affect us under U.K. GAAP. No compensation expense has been recorded under either U.K. GAAP or U.S. GAAP in respect of options that are exercisable on our initial public offering because the probability test that these options will vest is not considered to be met until the IPO or another triggering event is completed. If we complete our IPO in the year ended September 30, 2000, we will record compensation expense in that year and in the two following fiscal years, based upon the IPO price. Based on the mid-point of the range for the IPO price provided on the cover page of this Prospectus under U.S. GAAP we expect to record a compensation expense of £5,700,000 in 2000, £2,200,000 in 2001, £1,000,000 in 2002, £600,000 in 2003 and £200,000 in 2004.

In addition on February 4, 2000 we issued to three non-executive directors, Daniel Colson, Peter Dicks and Laurie Yoler, 270,000 ordinary shares in total at a price of £0.21 per share. Further details of these share rises, and the reasons for it, are set out on page 71. Under U.K. and U.S. GAAP, we will recognise a charge in the year ending September 30, 2000 equal to the difference between the IPO price and the price per share, multiplied by the number of shares. Based on the mid point of its range for the IPO price provided on the cover page of this prospectus, the total charge would be £307,800.

#### **Liquidity and Capital Resources**

Since inception, we have financed our operations primarily through the private placement of equity securities and borrowings from related parties. As of September 30, 1999, we had approximately £108,000 of cash and cash equivalents. We also had £900,000 in borrowings under a short-term facility provided by our principal shareholder, Hollinger Digital, Inc. See "Certain Transactions and Relationships".

	Year ended September 30, 1997	Year ended September 30, 1998	Year ended September 30, 1999
	£'000	£'000	£'000
Net cash outflow from operating activities . . . . .	723	1496	4261
Capital expenditure and financial investment . . . . .	73	301	892
Financing			
— Issue of ordinary share capital . . . . .	1021	—	5751
— Issue/redemption of debt . . . . .	—	1188	(288)

Net cash outflow used in operating activities resulted from net operating losses and increases in accounts receivable, which were partially offset by increases in accrued expenses and accounts payable.

The significant movements in working capital (defined as debtors less creditors) relate to the following:

- an increase in accounts receivable of £395,000 from September 30, 1997 to September 30, 1998 due to the higher levels of billing at the year end;

- an increase in prepayments of £120,000 from September 30, 1998 to September 30, 1999 due mainly to rent deposits for new premises;
- an increase in other receivables of £225,000 from September 30, 1998 to September 30, 1999 due mainly to higher levels of Value added tax, which is similar to U.S. sales tax, recoverable at the year end; and
- an increase in the level of amounts invoiced for which revenues have not yet been recognised of £274,000 from September 30, 1998 to September 30, 1999 due to the higher levels of sponsorship and systems development work spanning the September 1999 year end.

Capital expenditure and financial investment relates to purchases of computer hardware and software as well as office equipment.

Financing consisted of proceeds from the issuance of ordinary shares, Class A ordinary shares and convertible loan notes. In this regard, please see the consolidated cash flow statements on page vi of the accountant's report in Part 1 of this Prospectus.

Our principal commitments consist of obligations under property leases. Although we do not have any material commitments for capital expenditure, we anticipate that we will experience a substantial increase in our capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel. We also anticipate that we will continue to experience significant growth in our operating expenses for the foreseeable future and that our operating expenses will be a material use of our cash resources.

We believe that the net proceeds from this offering will be sufficient to meet our anticipated cash needs for working capital and technology and development for at least 24 months from the date of this document. We do not anticipate that our geographic expansion will require significant capital expenditures in the next 12 months. Within the next 12 months we expect to spend up to £15 million on marketing, brand and content development and £4 million on technology and development. Our capital requirements will depend on a number of factors, including the amount of resources we devote to aggressive brand promotion and more rapid expansion, to respond to competitive pressures, or to acquire complementary businesses, technologies or services. Consistent with our growth, we have experienced a substantial increase in our operating expenses since inception and we anticipate that these increases will continue for the foreseeable future. As a result, we may choose to raise additional capital, either by issuing additional equity or borrowing funds or both.

### **Recent Developments**

On November 16, 1999, our subsidiary, interactive investor limited, raised approximately £6 million of equity finance by way of a one-for-ten rights issue of 3,371,967 new ordinary shares at a price of £1.77 per share.

On October 1, 1999, our subsidiary, interactive investor limited, entered into a loan agreement relating to a secured loan facility of £3.5 million with Credit Suisse First Boston, London branch, and Hollinger Digital, Inc. This facility was drawn down in full on October 1, 1999 and repaid in full in November, 1999, with the proceeds of the rights issue referred to above. Interest was payable under this facility at the rate of 8.25 per cent. per annum.

### **Year 2000 Compliance**

The "Year 2000 issue" refers generally to the problems that some software may have in determining the correct century for the year. For example, software with date-sensitive functions that is not Year 2000 compliant may not be able to distinguish whether "00" means 1900 or 2000, which may result in computer failures or errors. We utilise software, computer technology and other services internally developed and provided by third-party vendors, in particular telecommunication and information providers, that may be affected by the Year 2000 problem. While we have not experienced any Year 2000 issues to date, not all

Year 2000 problems became evident on January 1, 2000. In addition, although we have taken a number of steps to ensure that the third parties on which we rely were not or will not be affected by Year 2000 problems, we cannot be certain that they are or will be Year 2000 compliant.

*Potential impact of the problem on our company*

Based on our assessment we believe that the reasonably likely worst case scenario with respect to Year 2000 issues could be:

- portions of our Web sites may be inoperative while programmers repair our systems or the systems of Internet service providers or other third parties;
- temporary data loss could occur while back-up copies of data are retrieved from tape;
- lengthy outages could occur while programmers work to repair or restore corrupted or missing database files; and
- our internal corporate, billing and accounting system may be inoperative while programmers repair our system.

Although these events could adversely affect our business in the short term, we do not believe that Year 2000 issues will materially and adversely affect our business, results of operations or financial condition over the long term. While we experienced no problems according to system engineers on site during the Year 2000 date change, we may still encounter some of the problems described above later in the year.

The third parties on which we rely, including information and service providers, may not be Year 2000 compliant. Year 2000 problems affecting the ability of these third parties to fulfil our requirements could prevent us from offering some or all of our services.

A significant disruption in the ability of users to access the Internet reliably or to use electronic payment methods would have an adverse effect on demand for our services and would materially and adversely affect our financial results and operations.

*Proprietary and internal systems*

*IT systems.* We evaluated our internal information systems for Year 2000 problems and currently are not aware of any material operational issues or additional costs associated with rendering these systems Year 2000 compliant. All of our internal products, hardware, operating systems and database software were checked as far as possible for compliance and were made compliant. While we have not experienced any Year 2000 problems to date, we still may experience material unanticipated costs due to undetected errors or defects in the technology used in these systems.

*Non-IT systems.* The suppliers of our non-IT systems, including phones, alarm and swipe card mechanisms have indicated to us in writing that they are Year 2000 compliant. Though we have not experienced any problems with our non-IT systems, we cannot confirm that Year 2000 problems will not arise after January 1, 2000.

*Third-Party Systems*

We have taken steps to evaluate the extent of Year 2000 preparedness of our key suppliers and contractors. We contacted these suppliers and contractors by telephone and mail. The majority of those who replied indicated that they would be compliant by the Year 2000, and although their assessment cannot be verified, we did not experience any interruption in the services provided by them in the first weeks of the Year 2000.

The infrastructure necessary to support our operations consists of a network of computers and telecommunications systems located throughout the world and operated by numerous unrelated entities and individuals, none of which has the ability to control or manage the potential Year 2000 issues that may impact the entire infrastructure as a whole. Our ability to assess the reliability of this infrastructure is limited and relies

solely on generally available news reports, surveys and comparable industry data. Based on these sources, it is clear that many entities and individuals that rely significantly on the Internet carefully reviewed and attempted to remedy issues relating to Year 2000 compliance. It is difficult to predict whether these efforts have been successful. A significant disruption in the ability of our registered account holders and other users to reliably access the Internet or to use electronic payment methods would have an adverse effect on demand for our services and would harm our financial results and operations.

#### *Year 2000 Costs*

During the year ended September 30, 1999, we allocated approximately £50,000 for the evaluation, testing and remediation of our internal systems in order to ensure that they are Year 2000 compliant. In the year ended September 30, 2000, we intend to allocate the same level of resources in order to complete any additional testing and remediation that may be required. These costs comprise principally the cost of external consultants and are expensed as incurred.

#### *Year 2000 Risks and Uncertainties*

An entity's efforts to solve Year 2000 problems will have been successful if the number and seriousness of any technical failures is minimised and if they are quickly identified and repaired if they do occur.

There can be no assurance that governmental bodies, utility companies, Internet access companies and others outside our control are Year 2000 compliant despite the lack of problems in the Year 2000 date change. Problems may occur after January 1, 2000. The failure by those entities to be Year 2000 compliant could result in a systemic failure beyond our control, such as prolonged Internet, telecommunications or electrical failure. This could prevent us from delivering our services to our customers and decrease the use of the Internet or prevent users from accessing Web sites. This could materially and adversely affect our business, financial condition and results of operations.

It is also likely that the PC equipment of some of our users may not be Year 2000 compliant. As a result, some users may not be able to access our service for some time during the beginning of 2000, which may result in a decrease in the number of our registered account holders and in our revenue generally.

#### **Effect of new U.K. accounting standards**

##### *Newly adopted U.K. accounting standards*

FRS 10, entitled "Goodwill and intangible assets", is mandatory for accounting periods ending on or after December 23, 1998. This standard requires goodwill and intangible assets to be capitalised on the balance sheet and amortised over their useful economic life. In the periods to September 30, 1999, we had no goodwill or intangible assets.

FRS 11, entitled "Impairment of fixed assets and goodwill", is mandatory for accounting periods ending on or after December 23, 1998. The standard sets forth the factors that should be considered in determining whether an asset is impaired, the frequency with which this assessment should be made and the related disclosures. The financial results for the accounting period ended September 30, 1999, reflect the requirements of this standard. The adoption of this standard did not have a material impact on our consolidated financial statements.

FRS 12, entitled "Provisions, contingent liabilities and contingent assets", is mandatory for accounting periods ending on or after March 23, 1999. It addresses the circumstances in which provisions, contingent liabilities and contingent assets may be recognised. This standard was adopted in our consolidated financial statements for the year ended September 30, 1999, but did not have a material impact.

FRS 13, entitled "Derivatives and other financial instruments disclosures", is mandatory for accounting periods ending on or after March 23, 1999. We do not have any hedging or other financial instruments that require disclosure under FRS 13.

FRS 14, entitled, "Earnings per share", is mandatory for accounting periods ending on or after December 23, 1998. This standard provides detailed guidance on the calculation of earnings per share. The loss per share calculation for each of the reported periods reflects the requirement of this standard.

*New U.K. accounting standards not yet adopted*

FRS 15, entitled "Tangible fixed assets", is mandatory for accounting periods ending on or after March 23, 2000. This standard provides detailed guidance on initial measurement, revaluation and depreciation of tangible fixed assets. We will adopt the standard in the financial statements for the year ending September 30, 2000.

FRS 16, entitled "Current tax", is mandatory for accounting periods ending on or after March 23, 2000. This standard specifies how current tax, in particular withholding tax and tax credits, should be reflected in financial statements. We will adopt the standard in the financial statements for the year ending September 30, 2000.

## BUSINESS

### Overview

We are an Internet personal financial service that provides individuals with the capability to identify, compare and monitor a number of financial products and services. We also design and construct Web sites and online trading systems and were one of the first European companies to design, build and integrate online trading systems. Our current, material revenue streams are generated by Web site development, hosting and consulting, advertising and referral fees relating to our processing of requests by our users for financial products and services brochures from the providers of those financial products and services. Web site development, hosting and consulting accounted for approximately 79 per cent. and 54 per cent. of our revenue for the years ended September 30, 1998 and 1999, respectively. Advertising accounted for approximately 19 per cent. and 30 per cent., and commission-shares, referral fees and subscriptions contributed approximately two per cent. and 16 per cent. of our revenue for the years ended September 30, 1998 and 1999, respectively. To date, the part of our commission-shares, referral fees and subscriptions revenue relating to fees and commission-shares generated from introducing brokers to customers interested in buying and selling securities have been insignificant.

Since our launch in October 1995, we have developed our Web site with the intention of enabling investors to access, currently from approximately 25 third-party data providers, all of the information and resources they need to execute on the Internet financial transactions with third-party financial product and service providers. In accordance with our business plan, we are currently focusing on increasing the revenue we generate from sharing commissions with third-party financial product and service providers for facilitating online purchases and sales of investments, referral fees and subscription fees, as well as payments from advertisers on and sponsors of our Web site. We expect and intend that our revenue from commission-shares, referral fees and subscriptions, and from advertising and sponsorships, will become a significant revenue stream and continue to increase more rapidly than revenue attributable to the design and construction of Web sites and online trading systems.

With a staff of more than 100, together with approximately 25 third-party data providers, we strive to provide investors with timely, comprehensive and reliable financial information, including current terms of a range of financial products. Over 90 per cent. of the financial information included on our Web site is provided by third parties. We supplement this information with tools, such as discussion groups, bulletin boards and polls, that investors can use to interact with one another and share their investment knowledge and experiences. By offering users greater control of their financial affairs, we generated over 23 million page impressions in December 1999. We had over 389,000 registered accounts at December 31, 1999, the vast majority of which were registered with our U.K. site, compared to over 147,000 registered accounts at January 31, 1999. As a result, we believe we have one of the U.K.'s largest registered account bases in the Internet personal finance market, which is a market dedicated to investors that manage their personal financial assets on the Internet. We also actively target our service to the South African and Hong Kong markets.

We offer our registered account holders a free service that integrates the following components:

- *a set of investment tools, including the ability to create a personal investment portfolio, that allow investors to access information compiled from third-party data providers in order to research, obtain delayed quotes and compare the performance of financial products, including international equities, mortgages and over 7,000 mutual funds;*
- *the ability to place orders with us and execute, via third-party brokers, online transactions covering U.K. equities and selected mutual funds specific to the U.K., including "investment trusts";*
- *community tools that allow investors to interact with each other, including e-mail, polls and discussion groups;*

- *comprehensive selection of news and information*, including market news provided by leading third-party news organisations, articles written by our in-house staff about investment topics, personal finance guides and a news search engine; and
- *access to investment advice* through over 8,500 independent financial advisers, commissioned weekly articles, fact sheets, a specialised bookshop and a glossary.

For a fee, our registered account holders can subscribe to our *premium services*, including access to real-time price quotes for shares traded on the London Stock Exchange, selected news articles and brokers reports, all provided by third parties.

Users can access our service at [www.iii.co.uk](http://www.iii.co.uk), [www.iii-asia.com](http://www.iii-asia.com), [www.iii.co.za](http://www.iii.co.za) and [www.offshore.net](http://www.offshore.net). We are also currently providing elements of our service on the personal finance channels of AOL, Compuserve and Excite in the U.K., iAfrica in South Africa and Hutchcity in Hong Kong.

### **The Internet Personal Financial Service Opportunity**

The Internet is a significant and rapidly growing global interactive medium, enabling millions of people all over the world to share information, communicate, be entertained and conduct business. International Data Corporation, or IDC, a market research firm, estimates in its report entitled, "Internet Usage and Commerce in Western Europe 1997 -2002", dated December 1998 and its forecast entitled, "The Global Market Forecast for Internet Usage and Commerce: Based on *Internet Commerce Market Model*<sup>TM</sup>, Version 5", dated June 1998, that Web users worldwide will grow from approximately 142.2 million at the end of 1998 to approximately 398.6 million by the end of 2002, representing an increase from 11 per cent. to 35 per cent. of users as a share of the entire population. IDC estimates that Web users in Western Europe will grow from approximately 41 million in 1998 to approximately 136 million by the end of 2002. Web users in Asia/Pacific are expected to grow from approximately 10.3 million by the end of 1998 to approximately 34.2 million by the end of 2002. During the same period, IDC forecasts that U.K. Web users will grow from nine million at the end of 1998 to 23 million by 2002 representing an increase from 15 per cent. to 38 per cent. of users as a share of the entire population. This growth is being driven by a number of factors, including:

- a growing base of PCs in the home and workplace;
- improvements in network infrastructure;
- faster, less expensive and more convenient Internet access;
- advances in PCs and modems; and
- increases in the quantity and quality of content available on the Web and overall increased public awareness of the Web.

The Web has rapidly established itself as an effective means for investors to manage their portfolios, research investments and trade securities by providing investors with online trading capabilities and easy access to information that was once generally available only to investment professionals, such as timely market news, intra-day and historical quotes, charts, filings and analysts' earnings estimates. This trend is evidenced by a number of behavioural shifts among private investors: as private individuals invest an increasing percentage of their household wealth in securities, the emergence of online trading of financial instruments in the U.S. has led many investors to rely less on traditional brokers. With the evolution of the European online brokerage industry it can also be expected that a growing number of private investors will proactively manage their investments. Forrester Research, in a report dated November 1998, projects that the number of Europeans using online financial services will increase from approximately 0.8 million at the end of 1998 to approximately 9.9 million at the end of 2002 with the number of online users in the U.K. expected to increase from approximately 0.1 million at the end of 1998 to approximately 1.2 million at the end of 2002.



The substantial growth in the ownership of financial assets and associated trading activities represents a significant opportunity for an Internet personal financial service that combines the coverage of traditional media with the immediacy and interactivity of the Web, as well as with online trading capabilities and a comprehensive online offering of financial instruments. See "Cautionary Note Regarding Forward-Looking Statements; Market Data". There can be no assurance that any of these estimated amounts will be reached.

### *The European Single Market*

The formation of the European Economic Area on January 1, 1994, abolished customs duties and quantitative restrictions on imports and exports of goods and services within the EU, Norway, Iceland and Liechtenstein. This deregulation dismantled a large range of technical and other barriers to trade and resulted in the free movement of merchandise and services within these countries. Although the EU is a single European marketplace, many businesses within the EU have been unable to capitalise on the single market opportunity. Financial institutions within the EU often are unable to distribute financial services efficiently from country to country because of the fragmented, regional nature of the EU. At the same time, impediments, such as language barriers and currency issues, have prevented financial institutions from taking advantage of cross-border opportunities within the EU single market.

We believe that the growth of the Internet, together with the increasing trend towards self-directed investing, offers us a unique opportunity in light of the current fragmentation of financial markets, especially in the European Union.

### *The iii Solution*

The Company was created with the objective of becoming the preferred interface between the complex financial markets and individuals seeking clear and comprehensive financial information and the ability to act on it. We design and construct Web sites and online trading systems for financial institutions, including banks, insurance companies and broker-dealers. We also provide individuals with the capability to research, compare, and monitor a number of financial investments at different stages of their financial development and, in the case of U.K. equities and investment trusts, to buy and sell them online. Web site development, hosting and consulting is provided by us, while investment services are provided almost entirely through relationships with third-party providers of information and with online brokers that execute purchases and sales of securities and financial products by our registered account holders. We used our understanding of the practical problems associated with investing and our skills in designing, building and integrating Web sites and online transaction processing systems to construct a Web site comprised of financial centres that consolidate in one area all of the information and tools that an investor needs to make an investment. As a result, we have created what we believe is a compelling offering:

- *comprehensiveness:* we give investors the ability to access information compiled from approximately 25 data providers in order to research, compare and monitor international equities, U.K. investment trusts, U.K. unit trusts, registered U.K. offshore funds, thousands of mutual funds, U.K. pension funds and U.K. insurance funds. Our Hong Kong and South African sites offer similar services for investment products specific to these markets. Our U.K. site also accepts orders from registered account holders and transmits them to broker-dealers that can execute online transactions involving U.K. equities, insurance products and investment trusts through third-party broker-dealers.
- *international coverage:* we designed our service to help investors based in the U.K., South Africa and Hong Kong invest outside of their home markets. We believe many investors in these markets are interested in investing abroad. The news and information we compile covers a large range of financial products worldwide. We also permit users to access quotes for equities traded on the London, New York, Paris, Frankfurt, Hong Kong and Johannesburg stock exchanges and on the Nasdaq National Market. We cover the offshore investment market with our offshore investment service, offshore.net;

- *empowering investor communities:* in our services in the U.K., South Africa and Hong Kong and in our offshore.net service, we give investors tools to interact with one another and share their investment knowledge and experiences. We believe that creating a strong sense of community among our investors has been instrumental in our success;
- *ease of use:* we designed a service that we believe is fast, intuitive and easy to navigate; and
- *independent financial information and advice:* we provide access to independent, timely and comprehensive financial news, information and advice that can help investors make informed investment decisions. News and information is provided by our in-house editors and third-party news organisations. Additional advice originates from independent financial advisers and freelance journalists.

From February through December 1999, our registered account base grew more than 160 per cent. to approximately 389,000, the vast majority of which were registered with our U.K. site, compared to over 147,000 at January 31, 1999.

### **Business Development and Prospects**

Our objective is to leverage the position we have in the U.K. in order to establish our service as the most compelling means for investors in Europe, Hong Kong and South Africa to investigate, analyse, purchase, sell and monitor investments and other financial products. Our business plan and growth assumptions are based upon and reflect the independent forecasts of growth in the use of personal online financial services outlined on page 40, and on our strategy to develop our offering to online investors. The five key components of our strategy to achieve this objective are as follows:

#### *Build the iii brand*

We believe that aggressive brand building is essential to attract, retain and derive revenue from our user base. Through various media campaigns, we intend to establish our brand quickly as being synonymous with investing on the Internet. We are currently engaged in a comprehensive marketing and media-relations campaign to raise our visibility and cultivate our brand identity. We intend to continue the active promotion of our service's content and free membership by advertising in print and outdoor media and on the Internet.

#### *Attract and retain users and registered accounts*

Having a large number of users and registered accounts enhances our ability to enter into arrangements with portals, advertisers and information and financial products providers. To attract and retain users and registered accounts we will:

*Leverage and develop strategic relationships.* We consider it a priority that whenever people are online, they can find our services easily. We have developed strategic relationships with a diverse set of companies, including high traffic Internet sites, such as Internet service providers, portals and special interest sites. We intend to develop additional strategic relationships in the future. These relationships allow third parties to supply their users with valuable tools and services, while enhancing our brand recognition and drawing people to use our service. Some of these relationships also provide us with an opportunity to receive monthly payments and share in ongoing revenue streams from sales of products and services by these companies.

*Create a financial community.* We believe that creating a sense of community on our service is important in making us the preferred Internet personal finance service. We will continue to promote the active participation of investors by deploying community features throughout our service.

*Offer access on new platforms.* We believe Internet access will become widely available on platforms other than personal computers, such as personal organisers, mobile telephones, digital interactive television and other digital interactive platforms. During 2000, we intend to offer a digital interactive television service and a stock price alert service for our users with suitable mobile telephones. We are also developing a service for wireless devices to provide stock quotes and market information in Hong Kong. We intend to roll out a similar service in the U.K. as soon as the necessary technology becomes widely available. Where possible, we intend to configure our service for new platforms as they gain wider acceptance in order to attract additional registered account holders and promote their loyalty.

*Capture value from users*

We intend to generate increased transaction, advertising and subscription revenue from our users. We have designed our service to be able to capture revenue at all stages of the investment process, from information gathering to transaction execution. We intend to broaden the scope of our service to address the needs of investors at various stages of their financial lives, from young adulthood into retirement. We are also in the process of building additional strategic relationships in order to expand the range of the financial products that investors can buy and sell online. We believe this will increase investors' loyalty, make our site more attractive to advertisers and increase opportunities for us to generate transaction and subscription revenue.

*Provide seamless information and transaction execution*

We intend to combine focused quality information with superior transaction capabilities at all levels of our service. We also intend to expand our service so that investors can execute transactions with third parties without leaving our service. We believe that empowering investors means not only giving them the ability to investigate, analyse and monitor a range of products, but also the ability to purchase these products online at their convenience. We intend to build a network of data providers and broker-dealers of the highest calibre and to expand that network to include providers of an increasing number of financial products.

*Provide international coverage*

With early stage services in Hong Kong and South Africa already in operation and plans to commence similar services in France and Germany during 2000, we are committed to international expansion. We believe this international presence will give us the opportunity to broaden our audience, diversify our revenue and establish iii as a strong brand in those countries. We also seek to help users invest outside their home markets by providing on our sites news and information compiled from a variety of third parties that covers a range of financial products worldwide.

## Competitive Strengths

We believe that we benefit from the following competitive strengths:

*Attractive user profile.* We believe that the demographic profile of our user base, which reflects a high level of education and income, also is one of the most attractive in the U.K. to providers of financial products and luxury goods. This is based on a survey conducted by Fletcher Research in November 1999.

*Leading brand.* Our large registered account base and strong brand enhance our ability to enter into arrangements with portals, e-commerce companies, online advertisers and content providers. Based on CRM, or cost per thousand, base rate card data published by New Media Age for the month of December 1999, in its article entitled "Traffic Update of Top Sites", we had the third highest advertising rate of the 105 web sites listed.

*Regulated financial intermediary.* The U.K. Securities and Futures Authority granted Category D authorisation to interactive investor trading limited on October 6, 1999. This authorisation permits us to request that it be extended so that we can offer throughout the European Economic Area those financial services that we are authorised to provide in the U.K. This extended authorisation became effective under the Investment Services Directive on December 21, 1999, and allows us to act as a financial intermediary throughout the European Economic Area, subject to complying with local conduct of business rules in each member state in which we provide services. Consequently, we are able to generate revenue from arranging purchases and sales of marketable securities. Our competitors that are not similarly licensed may not engage in these activities.

*Strong management team.* We have established a strong management team with extensive complementary experience in finance, technology and marketing, which has overseen our rapid growth to date. Our management team has achieved a track record of successful growth in our business and number of registered accounts since the launch of operations in 1995.

*International presence and coverage.* With early stage services in Hong Kong and South Africa already in operation and plans to commence similar services in France and Germany during 2000, we are committed to international expansion. We intend to fund this international expansion with the proceeds received from this offering. When opening services outside the U.K., we plan to open offices on site with a sales force and support staff, while keeping the technical and managerial functions in the U.K. We believe this international presence will give us the opportunity to broaden our audience, diversify our revenue and establish iii as a strong brand in those countries. We also seek to help users invest outside their home markets by compiling on our sites third-party news and information covering a range of financial products worldwide. We cover the offshore investment market with our offshore investment service, offshore.net. We also permit our users to access quotes for thousands of mutual funds worldwide and for equities traded on several international stock exchanges. During 2000, we intend to offer investors the ability to trade online through third-party broker dealers equities listed on the New York, Paris, Frankfurt and Hong Kong stock exchanges and Nasdaq Stock Market's National Market. Because of our international presence and coverage, we believe that we are in a strong position to take advantage of many cross-border investment opportunities, including the liberalisation of the European Union financial market.

## Web Site Development, Hosting and Consulting

We design and construct Web sites and online trading systems for financial institutions, including banks, asset management companies, insurance companies and broker-dealers. To date, these activities have accounted for a majority of our revenues. Our services in this area include:

- specification of Web site software applications and systems infrastructure;
- development and installation of Web sites;
- Web site hosting, maintenance and security; and

- support, including technical, resource and customer service.

Our customers for these services can be subdivided into three main groups:

- *Asset Management Companies.* We design, construct, host and maintain English language Web sites for some substantial financial institutions across Europe involved in managing investment portfolios and mutual funds. These financial institutions hire us to consolidate a variety of news, information and share price quotes relevant to them and the portfolios they manage, because it is more convenient and cost-effective for them than compiling this information and hosting their Web sites on their own. Asset management company clients include M&G and Gartmore.
- *Brokers.* We design, construct, host and maintain Web sites for brokers in Europe that wish to offer their customers the ability to purchase and sell online. This enables them to compete against larger companies and to continue to serve customers who demand to interact with them over the Internet. Because we have existing relationships with market makers and back-office systems providers, we are able to install online trading capability for new brokers quickly and cost effectively. For brokers with a limited need for online trading capability, we offer a bureau service, which is an online trading system shared by a number of brokers.
- *Insurance Companies.* We design, construct, host and maintain English language Web sites for substantial insurance companies in Europe that do not have the appropriate internal resources, or choose not, to build their Web sites themselves.

Most of these Web site consulting and development projects are one-time projects. For example, during 1998 we completed projects for M&G Limited and Standard Life Assurance Company, each of which contributed significantly to our title revenue in that year only.

Due to our focus on achieving our objectives with respect to our own Web sites, we expect the percentage of our revenues attributable to design and construction of Websites and online trading systems to decline significantly over time.

#### **Advertising and Sponsorship Sales**

We derive a significant percentage of our revenue from selling advertising and sponsorships to financial advertisers and organisations targeting our users' attractive demographic profile. We believe the demand for advertising from financial services companies, is now increasing. Currently, advertisers and advertising agencies enter into short-term agreements, for one to two months on average, pursuant to which they receive a guaranteed minimum number of impressions for a fixed fee. Advertising on our site currently consists primarily of banner advertisements that are prominently displayed at the top of pages on a rotating basis throughout our site. From each banner advertisement, viewers can hyperlink directly to the advertiser's own Web site, thus providing the advertiser an opportunity to directly interact with an interested customer. We currently charge an average of £45 per thousand impressions, for banner advertisements. Discounts from standard advertising rates may be provided for higher volume, longer-term advertising contracts.

We also offer special sponsorship and promotional advertising programmes, such as contests and sampling that build brand awareness, generate brochure requests and drive traffic to an advertiser's site. For instance, we have secured the sponsorships of Fidelity on the ISA centre, Egg on the credit card centre, first-e on the savings centre and Virgin Direct on the mortgage centre. Our brochure request service, which is organised by financial centres, is intended to generate transactions for participating financial services companies with our users. We receive a fee from the participating financial services company for each brochure ordered by one of our users. For the financial year ended September 30, 1999, these fees comprised the vast majority of our commission-share, referral fees and subscriptions revenue. We believe links to these services add to our service by allowing investors to act directly on the information we provide.

We have built a direct sales organisation of six professionals as of December 31, 1999, which is dedicated to maintaining close relationships with top advertisers and leading Internet advertising agencies. We also have arrangements with a number of third-party advertising agencies pursuant to short-term agreements that in general may be terminated by either party, without notice or penalty. Our sales organisation consults regularly

with advertisers and agencies on design and placement of their Web-based advertising, provides customers with advertising measurement analysis and focuses on providing a high level of customer service and satisfaction. We intend to increase advertising revenue by:

- expanding our user base;
- rolling out new financial centres;
- maintaining the advertising rates we charge advertisers by continuing to improve our ability to target advertisements to demographically distinct groups;
- increasing page impressions;
- increasing the average size and length of our advertising contracts;
- increasing the number of our direct sales representatives; and
- continuing to invest in improving ad serving and ad targeting technology.

### **The iii Experience**

We seek to provide investors and potential investors with an intuitive interface that reflects the way they make decisions in day-to-day life. Our service is designed to enable investors to satisfy a broad range of financial and investment needs regardless of their location. Investors may access our service via the Internet and, during the first part of 2000, we intend to offer a digital interactive television service and a stock price alert service for our users with suitable mobile telephones. We are also developing a service for wireless devices to provide stock quotes and market information in Hong Kong. We intend to roll out a similar service in the U.K. as soon as the necessary technology becomes widely available. We give investors the ability to gather information, analyse and monitor their investments and interact with one another all in one place. We also give investors the ability to execute online transactions in a number of financial products listed below through third-party broker-dealers. However, not all services are available in all jurisdictions in which we operate. Availability depends on local laws and regulations, among other factors. Currently, only registered account holders resident in the U.K. are permitted to use the online transaction facilities, receive product brochures or receive investment advice relating to particular investments, although we intend to make these services available to registered account holders that are resident in other countries, initially France and Germany, during the course of this year. See "Regulatory Considerations Concerning our Business". This format also enables advertisers and retailers to reach target consumers more effectively. Our service currently offers the following:

*Financial centres.* Our financial centres are areas of our sites that allow investors to gather information, compare and, in some cases, purchase and sell a number of financial products and services. We have constructed a financial centre to cover each of the different financial products or services available on our site. These financial centres are described below. Our financial centres are designed to simplify the investment decision and transaction process for users by compiling in one area all of the information and tools that an investor needs to make an investment. Through relationships with third parties, we currently offer investors the ability to execute online transactions in U.K. equities, insurance products and investment trusts. In addition, through sponsorship opportunities, these centres provide an attractive forum for companies that seek to target investors interested in the particular financial products featured in one of our financial centres.

As a Category D firm, our subsidiary, interactive investor trading limited, is authorised to receive and transmit on behalf of investors orders for specified U.K. financial instruments. interactive investor trading limited is also authorised, as a Category D firm, to give investment advice, but is not authorised to hold client money or client assets. *interactive investor trading limited is permitted to establish branches in, and to provide services to residents of, other member states of the EEA, subject to complying with local conduct of business rules in each member state in which it provides services.*

When offering online transaction capabilities for a specific financial product, we do not act as the counterparty to the transaction. Instead, we act as an intermediary. For example, the following describes the steps of facilitating purchases and sales of U.K. equities through our site.

- A registered account holder signs on to our site and clicks to our U.K. equities financial centre, where he or she requests a firm stock quote.
- If the registered account holder decides to purchase or sell shares based on that stock quote, he or she clicks on the name of a broker-dealer contained on a list, which generally will be a broker-dealer with which the registered account holder has an existing relationship. A trade order form will appear on the screen with details of the registered account holder's account with the details of the broker already completed. The registered account holder completes the trade order form with the details of the desired purchase or sale and submits the order to us. If the registered account holder does not have a relationship with any of the listed brokers, he or she can complete an online application form to open an account with the selected broker. The broker will not be able to trade immediately with the registered account holder due to the broker having to process information received from the applicant.
- We accept the order from the registered account holder and transmit it electronically to the broker chosen by the registered account holder. Because we act solely as a financial intermediary, in the case of all transactions, our registered account holders must establish a direct relationship, such as opening an account or applying for credit, with a third party provider. After the broker receives the trade order form from us, it confirms that the registered account holder has sufficient funds or securities, as the case may be, in its account to consummate the desired transaction. At the same time, a third-party market maker confirms the actual price at which it will execute the trade.
- Assuming that the registered account holder's brokerage account is in order, the broker sends us a summary of the terms of the trade, which we forward to the registered account holder. The registered account holder reviews and confirms the information. Clicking on the confirmation button authorises the broker to execute the trade.
- In some cases, we confirm the execution of the transaction online once we have received confirmation from the third party that fulfilled the transaction. In other cases, the registered account holder receives online confirmation directly from the third party.

The following table sets forth the financial centres currently available and the information and services they offer to U.K. investors, in each case, in partnership with numerous third-party providers:

<i>U.K. equities</i>	Allows private investors to execute online transactions, obtain delayed quotes of individual or multiple London Stock Exchange, or LSE, stocks, view historical information, retrieve news updates for stocks from financial news wires and review daily analysis. Subscribers to the premium service may obtain real-time quotes and news updates for stocks from the LSE Regulatory News Service.
<i>Pensions</i>	Allows investors to compare pension plans by presenting to investors a descriptive case study analysing a pension plan, soliciting answers to pension-related polls, listing top performing pensions by category and top performing sectors, making available a "Knowledge Bank" containing related articles and a "stakeholder" notebook with updated information on recent issues and offering a fund search engine and valuation charts. This service is targeted at people who want to learn about retirement planning and want to plan for their retirement.
<i>Individual Savings Accounts, or ISAs</i>	Allows investors to conduct their own research by accessing information about ISAs in the centre's "Knowledge Bank", request literature through the centre's brochure request service, access chronologically posted news items relating to ISAs and chart their own ISA's performance. ISAs are a U.K. investment product that an individual uses to invest, up to a maximum annual amount, in stocks, insurance policies and cash under an exemption

from U.K. capital gains tax ranging from 10 per cent. for stocks to 100 per cent. for cash. This product is targeted at people seeking to save funds in a tax efficient manner and is similar to Individual Retirement Accounts, or IRAs, in the U.S.

*Mortgages*

Provides property purchasers with a "Mortgage Best Buys" chart listing favourable mortgage offers, a mortgage repayment calculator to calculate repayment figures on various mortgages, access to a "Knowledge Bank", answers to frequently asked questions on purchasing property and news items. This service can aid the first time homebuyer as well as seasoned investors in real estate who are searching for favourable mortgages for their investments. Individuals can also get online quotes from third-party mortgage providers.

*Investment trusts*

Provides a "Knowledge Bank" of principally U.K. investment trusts, a "Trust Leader Board" listing top-performing trusts by category, a "Trust Watch" news item list, feature articles, and the ability to search by trust name or by performance.

*TEPs, or Traded Endowment Policies*

Offers investors descriptions of TEPs, a list of offered amounts for a number of endowments, a "Knowledge Bank", polls on TEP-related topics, search engines for TEP quotes multiple market makers and various news items. Investors then can sell TEPs through our service to these market makers.

*New issues*

Allows investors to review a new issues market analysis, read about forthcoming issues and recent issues, access information from a company database and read articles from the "Knowledge Bank". Investors may apply to subscribe for new issues online. To date two financial institutions authorised by the U.K. Securities and Future Authority to conduct investment business have offered two investment opportunities through our site to U.K. residents in U.K. shares not listed on a public exchange. Our customers apply directly for these opportunities by using an application supplied on our Web site and returning it in accordance with the terms of the offer.

*Savings*

Provides charts reflecting top current rates and historical bank rates and news headlines relating to savings issues. This service is attractive to investors interested in low-risk, liquid savings.

*Insurance*

Provides investors with background information and enables them to purchase motor, travel, contents and building insurance online. Investors can use this service to plan and co-ordinate the insurance coverage they require.

*Tax*

Provides investors with information enabling them to complete their U.K. tax returns. This service also provides recent news articles and updates and changes to tax legislation.

*Credit Card*

Provides comparative information about the terms of various credit card offerings, a "Knowledge Bank" listing recent articles and information on benefits or loyalty bonuses offered by various credit card providers.



#### *Online Banking*

Provides information about and demonstrations of online banking services. Posts news and surveys commissioned by us that describe various offerings and services.

*Community.* The "insider" service allows investors to connect and communicate with each other, via e-mail, bulletin board and instant messaging. We seek to establish a trusted environment within our community by encouraging individuals to submit their views to discussion groups of other investors with respect to an equity, unit trust, investment trust, mortgage, savings vehicle or other product. The most active discussions are highlighted on our home page and our users can rate each other's postings. Our editors may also add to these discussions by conducting polls and researching topics of interest to the community and posting information or articles on our site. These community building tools often generate significant activity and contribute to the creation of a collegial atmosphere on our service.

*Portfolio facility.* We are dedicated to ensuring that investors have access to a timely, comprehensive and reliable valuation tool for their investments. Our proprietary portfolio software is easy to use and allows investors, regardless of the size of their portfolio, to monitor their portfolio by adding or deleting any of the investment products quoted on our service. Our portfolio facility currently does not allow investors to purchase and sell financial products. We are in the process of integrating our portfolio service with the financial centres in order to allow investors to purchase and sell online through third parties some of the investment products in their portfolio.

*News and information.* We provide investors with the value-added tools they need to research, investigate and analyse financial information and products. These tools include a search facility through multiple news sources as well as quotes and historical performance data covering numerous investment products. Our news and information service, which compiles information from multiple third-party sources, includes the following:

#### *Quotes*

Our quotes service provides delayed quotes for a number of investment products, some of which may be added to a portfolio and tracked. The investment products currently covered by this service are:

- equities traded on seven worldwide stock exchanges;
- U.K. investment trusts;
- U.K. unit trusts;
- registered U.K. offshore funds;
- thousands of mutual funds;
- U.K. pension funds; and
- U.K. insurance funds.

#### *Performance*

Our performance service provides historical performance data on a range of investments, from pensions and unit trusts to investment trusts and offshore funds;

#### *News*

In addition to articles written by our editors and freelance journalists, we provide news, articles and features from financial news wires as well as a comprehensive range of company news reports; and

#### *Search*

We maintain an extensive index of news items that are updated automatically on a real-time basis. Our search technology allows investors to search news areas of our sites by keyword, phrase, concept or name.

*Advice.* We consider that providing investors with access to advice is critical to our continued success. We believe that investors are more likely to buy financial products online if they have access to practical, independent and reliable advice. We currently provide investors with the following:

- access to more than 8,500 regulated independent financial advisers, whose business it is to help investors find their way through the mass of confusing products on offer. Our "FIND AN ADVISER" service connects our customers to a network of advisers and our "ASK AN ADVISER" service gives them access to a selection of independent financial advisers who specialise in the particular area in which they need advice;
- weekly news articles written or commissioned by our editors offering information on a broad range of topics including pensions, investing, mortgages and insurance;
- a specialised bookshop, co-branded with Global-investor.com, providing access to and the ability to buy more than 1,200 titles of finance and investing books; and
- links to a glossary and to regulatory bodies that provide information for consumers.

*Premium services.* Our premium subscription services include a choice of information and access to real-time price quotes and real-time news from third-party providers. In addition, investors can access company fundamental data and broker consensus data as well as participate in stock-focused discussion groups with their fellow investors. Our three subscription products reflect the differing needs of the private investor for real-time prices. The U.K. equities Snap Service, priced at £5 per month, is a cost-effective option, with real-time prices available when monitoring a particular equity. The U.K. equities Real Time Service, priced at £15 per month, is ideal for the investor who wishes to monitor multiple stock prices in real-time; typically these would be investors who buy and sell stocks within a short time period, or so-called "day traders". Our Pay Per View service serves investors who purchase investment research on an occasional basis.

*Support.* We devote significant resources to providing personalised and timely support to our users. Our sites include online guides relevant to each service we offer. We also provide support via email by answering most enquiries from our users within 24 hours. Finally, we offer telephone and e-mail assistance seven days per week.

### **Content Development**

The majority of our Web sites are designed in-house. We also produce original content in the form of news articles published by our editors on the home page of our site and in the advice section. A significant amount of the content on our service is posted by our registered account holders in e-mail and bulletin board discussion groups. More than 90 per cent. of the content on our service is provided by third parties under various commercial agreements. The terms of these agreements differ, but they generally provide for us to pay either an annual fee or a fee based on the page impressions served. These arrangements typically have a one year rolling term.

### **Key Third-party Data and Service Providers**

Over 90 per cent. of the information and products and services offered to our users are provided by third-party data providers, brokers and insurance companies. In our principal arrangements with product and service providers, we receive an initial fee for featuring the provider within a financial centre on our Web site, as well as a commission on any resulting online sale. These arrangements typically have terms of at least one year.

Some of our key relationships include:

- for traded endowment policies: Policy Plus, 1st Policy and Policy Portfolio;

- for mortgages: John Charcol; and
- for equities: Dresdner Kleinwort Benson and Stocktrade, a division of Brewin Dolphin Securities Limited.

## **Marketing and Brand Awareness**

We believe that aggressive brand building is essential to attract, retain and derive revenue from our user base. Brand building is also essential to attract advertisers. We are currently engaged in a comprehensive marketing and media-relations campaign to raise our visibility and cultivate our brand identity. Our various media campaigns are intended to establish our brand quickly as synonymous with investing. We actively promote our service's content and free membership by advertising in print and outdoor media and on the Internet. In addition to traditional advertising, our marketing programme also includes:

*Banner advertisements* We organise our own online campaigns and use unsold advertising space to advertise our service. The objective of these campaigns is to convert users into registered account holders and entice them to use our premium services or execute transactions.

*Strategic relationships* We consider it a priority that whenever people are online, they can easily find our services. We have developed strategic relationships with a diverse set of companies, including high traffic Internet sites, such as Internet service providers, portals and special interest sites. We believe that this form of marketing provides low-cost user acquisition and also establishes barriers to market entry by potential competitors. We are currently providing elements of our service on the personal finance channels of AOL, CompuServe and Excite in the U.K., iAfrica in South Africa and Hutchcity in Hong Kong. In addition to enhancing our brand recognition and drawing people to use our service, we view these relationships as a key marketing tool to increase our users' loyalty.

*Direct marketing* We currently distribute to our registered account holders by e-mail a welcome letter as well as weekly and monthly newsletters. These generally illustrate ongoing issues in the market and highlight any new features or enhancements to our service. We believe these are effective measures to retain users.

*Newsletters* We distribute by e-mail a monthly client and agency newsletter. This letter is automatically sent to our key financial services clients and media and advertising agencies. It includes commentary on industry trends, describes our innovations and assists in positioning us as a leading investment service.

## **Network and Technology**

Consistent with delivering fast and reliable services to investors, we use leading technology and service providers. We outsource both our communication infrastructure and the physical hosting of our sites, including our Web, database and application servers. Substantially all of our hardware and the servers that connect our services to the Internet are located at a principal facility in the U.K. maintained by Internet Network Services. All of our computer hardware relating to the development of our services and our Web sites, and all of the employees involved in Web site development, are located at our main premises in the U.K. We do not have co-location or duplication of either our main connection or development sites. Until we put co-location and duplication of facilities in place, which we expect to do later this year, our systems and operations are vulnerable to damage, malfunction or interruption from human error, natural disasters, power loss, computer viruses, intentional acts of vandalism and similar events. Any damage, malfunctions or interruptions to our systems at either location may disrupt our services or render them unavailable to our users. If our connection to the Internet is not available, we cannot provide users with our services and if our development facilities are unavailable we cannot update the majority of the information we provide.

Internet Network Services, or INS, is the Internet service that provides our communication infrastructure. The capacity of our network connection is 20 megabits per second. Our communication infrastructure plan includes a recent contract with a back-up Internet service provider in order to allow our service to continue uninterrupted if one of our communications networks fails.

The majority of our network servers run on Sun Microsystems hardware and are hosted at facilities maintained by Internet Network Services. These facilities provide physically and electronically secure environments. We are putting in place multiple site hosting as part of our policy to provide a reliable service. We are also introducing multiple network and disk connections. We plan that in the future, if a server fails, another server will automatically assume the load of the failed server.

We employ over 20 people dedicated to the development and maintenance of our services. Our software is developed in such a way that it can be modified readily to re-use information for different Web pages and provide services for digital television and wireless applications. Our core database is provided by Oracle Corporation U.K. Limited. Our trading and transaction systems use a number of third-party licensed trading and transaction products. All our applications are tested by our development team and at our site hosting facilities before they are made available online. The Web site and all associated data and databases are fully backed up on electronic tape on a nightly basis and stored securely. The predominant cause of outages we have experienced historically were capacity constraints at our Internet service provider. We also have experienced occasional interruptions caused by internal system failures or problems with datafeeds on trading software. During 1999 we improved our network configuration and added additional Internet connectivity. In 2000 we are attempting to continue to improve our network configuration by adding duplicate connectivity from a second Internet service provider and using a second co-location facility. We intend these services to be available during the second quarter of calendar year 2000.

### **Competition**

The market for Internet personal financial services is new, rapidly evolving and competitive. We expect the competitive nature of this market to continue in the future. We face direct competition from a number of financial services firms, as well as indirect competition from numerous discount brokerage firms, many of which provide online services. We believe that the general financial success of companies within the online securities industry will continue to attract new competitors to the industry, such as banks, software development companies, insurance companies, providers of online financial information and others.

In addition, an increasing number of financial news and information sources and online brokerage services compete for consumers' and advertisers' attention and spending. We expect this competition to continue to increase. We compete for advertisers, users, staff and information providers with many types of companies, including:

- online services or Web sites focused on business, finance and investing, such as Motley Fool, Money-extra, U.K.-iNvest, TheStreet.co.uk., CNNfn.com and ftyourmoney.com;
- publishers and distributors of traditional media, including print, radio and television, such as The Economist, The Financial Times and The Wall Street Journal;
- providers of terminal-based financial news and data, such as Bloomberg Business News and Reuters News Service;
- Web "portal" companies, such as Yahoo!; and
- online brokerage firms, many of which provide financial and investment news and information, such as Charles Schwab and E\*TRADE.

Our ability to compete depends on many factors, including the timeliness, comprehensiveness and trustworthiness of our content and that of our competitors, the ease of use of services developed either by us or our competitors and the functionality and cost of our services.

Many of our existing competitors have significantly greater financial, technical and marketing resources than we do. In addition, a number of new and potential entrants in the Internet segment of the financial services industry have long operating histories and very broad name recognition in the financial services business. These competitors may engage in more extensive research and development, undertake more far-reaching marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to existing and potential employees, outside contributors, companies with which we have strategic relationships and advertisers. Our competitors may develop content that is equal or superior to ours or that achieves greater market acceptance than ours or provides a more comprehensive portfolio of services than we do. It is also possible that new competitors may emerge and rapidly acquire significant market share. Increased competition could result in price reductions, reduced margins or loss of market share, any of which could materially adversely affect our business, results of operations and financial condition. See "Risk Factors - Competition could reduce our market share and harm our financial performance".

### **Proprietary Rights, Domain Name and Trademark rights**

We rely on a combination of copyright, trademark, domain names and confidentiality laws and contractual restrictions to establish and protect our technology and proprietary rights and information. We are a party to a number of software licenses with third parties that allow us to use their software in providing and maintaining our services. We intend to maintain or negotiate renewals of existing software licences and authorisations and procure other licenses, as appropriate, in the future. If we cannot renew or obtain other licenses, it could materially adversely affect our business and financial condition.

We require employees and consultants and, when possible, suppliers and distributors, to sign confidentiality agreements. However, we cannot assure you that these steps will be sufficient to prevent misappropriation of our technology and proprietary rights and information or that our competitors will not independently develop technologies that are substantially equivalent or superior to ours.

Domain names are an Internet user's addresses. The current system for registering, allocating and managing domain names has been the subject of litigation, including trademark litigation, and of proposed regulatory reform. Among others, we have registered the following domain names:

iii.co.uk;  
iii-asia.com;  
iii.co.za; and  
offshore.net.

We cannot assure you that our domain names will not lose their value or that we will not have to obtain entirely new domain names in addition to or in lieu of our current domain names if reform efforts result in a restructuring in the current system. Our ability to register additional domain names may also be limited by requirements of local or national domain name registrars or administrators, including the requirement to have a local subsidiary or to be a resident of the country for which an application for a domain name is made. In addition to this uncertainty, we are aware that we do not have any rights to the domain names "iii.com", "iii.net", "ii.de" and "iii.fr", all of which are registered by and in the name of third parties not connected with our business.

We have applied to register iii as a Community Trademark in the E.U. However, notwithstanding this step, we cannot assure you that this application will be successful. Similarly, we cannot assure you that constraints will not affect our use of the name iii or other of our brands by reason of third-party trademark rights or that we can prevent others from using similar names as domain names, brand names or otherwise in competition with us.

### **Privacy Policy**

We recognise the importance of maintaining confidentiality of registered account information and have established a privacy policy to help us to do so. Our current privacy policy is communicated to users during the registration process. When a user registers an account with us, we request that the user tell us his or her

name, country of residence, e-mail address and a private password. We also gather additional information as registered account holders utilise our services, including gender, street address, income bracket and profession. We do not sell to any third party any registered account holder's personal identifying information, such as his or her name or address, unless the registered account holders have consented. We share aggregated anonymous registered account holders demographic information with third-parties, such as our registered account holders' post codes, genders and ages. In some situations, we allow a third-party partner access to database information, for instance, if it is necessary to comply with a registered account holders request for the delivery of a brochure. In these instances, the partner has agreed to be bound by our current policy. We may also offer registered account holder products and services if the registered account holder has given its consent for us to do so during the registration process. We may compile information provided by registered account holders and information built from registered account holders' behaviour to target advertising, content and e-mail. For example, in the future we may, on behalf of an advertiser, send e-mail offers to all registered account holders from a particular region or target advertisements to all registered account holders who frequent a specific area of the site. We are registered under the Data Protection Acts 1984 and 1998 and actively monitor our collection and use of personal data to ensure compliance with the data protection legislation in force and to be implemented in the U.K.

### **Employees**

As of January 17, 2000, we employed 101 full-time employees of whom 15 were in management positions. As we continue to grow and introduce more products and features to improve our service, we expect to hire more personnel. None of our current employees is represented by a labour union or is the subject of a collective bargaining agreement. We believe that our relations with our employees are good.

### **Properties**

We are headquartered in The City of London. The lease for these premises covers approximately 14,000 square feet of office space and expires in 2008. We also lease 150 square metres of office space in South Africa and 1,800 square feet in Hong Kong under leases expiring in 2001 and 2000, respectively.

### **Legal Proceedings**

Our subsidiary, interactive investor limited, is currently in dispute with Hemmington Scott, a provider of financial and other information, which licensed this information to McKay Financial Information Limited, which sub-licensed the information to interactive investor limited. Hemmington Scott has alleged that we have infringed its copyright and database rights because McKay was not permitted under its license with Hemmington Scott to sub-license the information. Hemmington Scott has requested a court injunction, return of infringing material, damages and other remedies and costs. The High Court of Justice of England and Wales has established a timetable for resolving this dispute, which may involve court proceedings later this summer. We consider that we have a good defence against this claim and that any damages awarded against us would be immaterial. Accordingly, we believe that this case will not have a material effect on our financial position or our business or results of operations. No amount of damages has been specified by Hemmington Scott in its action and, if Hemmington Scott is successful, the High Court of Justice in England and Wales would decide the amount of its damages. See paragraph 8.1 of Part 6 of this Prospectus.

On January 12, 2000 interactive investor limited terminated the employment of its then Head of Customer Services. This former employee may be entitled to bring a claim against interactive for compensation. Interactive considers that any damages awarded would not have a significant effect on its financial position. See paragraph 8.2 of Part 6 of this Prospectus.

## REGULATORY CONSIDERATIONS CONCERNING OUR BUSINESS

### Regulation of the Internet

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

#### *Data Protection*

The EU has adopted the "directive 95/46/EC on the protection of individuals with regard to the processing of personal data and the free movement of such data" (the "Directive"). The Directive imposes restrictions on the collection, use and processing of personal data. Under the Directive, EU citizens are guaranteed rights, including the right of access to their personal data, the right to be provided with information including the identity of a person carrying out any personal data and the purpose of that activity the right to have inaccurate data rectified, the right to recourse in the event of unlawful processing and the right to withhold permission for the processing of their data for direct marketing. The Directive could, among other things, affect companies like us that collect information over the Internet from individuals in EU member countries. In particular, companies with facilities located in EU member countries, or using equipment in an EU member country for the purpose of processing data, will not be allowed to send personal information to countries which are not EU members and which do not maintain adequate levels of protection. The Directive does not, however, define precisely what are adequate levels of protection. There are a number of exceptions to this prohibition, including where the data subject has given unambiguous consent to such transfer or, in some cases, where the transfer is necessary for the performance of the contract. However, there can be no assurance that the Directive will not adversely affect the activities of entities that engage in data collection from users in EU member countries.

The Directive was required to be implemented into national laws by the fifteen EU member countries by October 24, 1998, although in many member countries, including the U.K., the laws implementing the Directive are not yet in force. The provisions of the Directive will be implemented in U.K. law through the Data Protection Act 1998 which is currently due to come into force in March 2000. Even though the purpose of the Directive is to harmonise the various national laws on data protection in the EU, the requirements with respect to the collection and processing of data, the rights of users and the obligations imposed on persons collecting data vary to a substantial extent from country to country and may continue to do so in the future once the Directive has been implemented by the EU member countries. We may, therefore, be obliged to comply with different legislative requirements which could have an impact on our ability to collect data and share that data with third parties, such as advertisers. Further, we could be exposed to regulatory and judicial proceedings relating to privacy issues in any EU member country where users reside or where we process, or are deemed to process, personal data. Under the requirements of the national laws of many EU countries and the principles of the Directive, we will have to take steps to advise registered account holders when personal data is, or may be, collected and to ensure that it has complied with the necessary requirement to allow it to process the data, and to allow these registered account holders the option to object to that data being processed for the purpose of direct marketing. These requirements could adversely affect our activities and deter individuals from using our Web sites and from providing data that is of commercial value to us and our advertisers.

On December 21, 1998, the EU approved an "action plan to promote safer use of the Internet by combating illegal and harmful content on global networks" (the "Action Plan"). The Action Plan will serve, among other things, as the basis of legislative efforts on issues relating to the protection of minors, rating and filtering systems and content. Any legislation which may be adopted by EU member countries pursuant to the Action Plan could impose additional obligations on us and impact our activities.

It is also possible that cookies, defined as information keyed to a specific server, file pathway or directory location that is stored on a user's hard drive, possibly without the user's knowledge, which are used to track demographic information and to target advertising, may become subject to increased levels of legislation limiting or prohibiting their use. Germany has specific legislation which prevents providers of Internet access from using cookies without the prior approval of users. Under the Directive, cookies are likely to be considered as a means of processing data and may be regulated by the principles of the Directive if data qualifying as personal data is collected. In addition, a number of Internet commentators, advocates and governmental bodies in several countries have urged the passage of laws limiting or abolishing the use of cookies. Limitations on, or the elimination of, our use of cookies, or obligations to allow users with registered accounts to object to the use of cookies, could limit the effectiveness of the advertisements that are delivered on our Web sites.

The EU has also adopted directive 97/66/EC, "the directive concerning the processing of personal data and protection of privacy in the telecommunications sector" (the "Telecommunications Sector Directive"). The Telecommunications Sector Directive covers the processing of personal data in connection with publicly available telecommunications services and public networks and in particular regulates the automated storage and processing of data relating to subscribers and users of telecommunications systems. This directive includes provisions relating to the use of traffic and billing data and the use of personal data for direct marketing. The EU member states were, subject to exceptions, required to implement the Telecommunications Sector Directive by October 26, 1998. However, many of the member states, including the U.K., have not done so. The Telecommunications Sector Directive has been partially implemented in the U.K. through the Telecommunications (Data Protection and Privacy) (Direct Marketing) Regulations 1998 and will be further implemented through the Telecommunications (Data Protection and Privacy) (Direct Marketing) Regulations 1999 which are due to come into force on March 1, 2000.

U.K. data protection legislation requires persons who process personal data to be registered with the office of Data Protection Registrar and that registration needs to set out details as to the nature and scope of the processing to be undertaken. We are currently registered under data protection legislation in the U.K. and are currently amending the details of our registration. We are also actively monitoring our collection and use of personal data to ensure compliance with the data protection legislation in force our registration under the legislation and the registration to be implemented as well as to ensure that we can, subject to the provisions of this legislation continue to use and disclose users' personal data in a way which is beneficial to our business and advertisers.

#### **Database Protection**

EU regulations and the regulation of many countries inside and outside the EU, including the U.K., afford broad protection to owners of databases of information, such as share prices and sports scores, which may affect our ability to provide database-related services.

#### *Content Liability of Service Providers*

Users may access content on our Web sites, download this content and transmit it to others over the Internet. They may also upload content onto our Web site, whether onto their individual Web pages hosted by us, in chat rooms or bulletin boards. In addition, they may use the e-mail accounts provided by us to send and receive content by e-mail. Any of these actions by users could potentially result in claims against us as service providers in the areas of infringement of intellectual property rights of third parties, including copyright and trademark infringement, as well as defamation and publication or transmission of obscene material. Successful actions for defamation have been brought against providers of Internet access in the past in the U.K., the U.S. and other jurisdictions. It is also possible that if any information, including information deemed to constitute professional advice, such as legal, medical, financial or investment advice, accessible on our Web site contains errors or false or misleading information, or is negligent, third parties could take action against us for losses incurred in reliance on that information.



Our Web site contains a significant number of links to other Web sites. As a result, we may be subject to claims alleging that by directly or indirectly providing links to other Web sites, we are liable for intellectual property right infringement or the wrongful actions of third parties through their Web sites. While we attempt to reduce our exposure to potential liability through, among other things, registration and Web site disclaimers, the enforceability and effectiveness of these measures is uncertain.

Our general liability insurance may not cover all potential claims to which we are exposed and may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could materially adversely affect our business, results of operations and financial condition. Even to the extent that these claims do not result in liability, we could incur significant costs in investigating and defending against the claims. Potential liability for information disseminated through our Web sites could lead us to implement measures to reduce our exposure to liability, which may require the expenditure of substantial resources and limit the attractiveness of our service to users.

#### *Content Regulation*

There is no specific regulation of Internet content in the U.K. or the EU. However, the provision of content on the Internet may fall within generally applicable legislation in these and other jurisdictions. For example, general advertising laws and regulations in the U.K. and other jurisdictions apply to advertising on the Internet in the same way as advertising by way of other media. Financial services content is subject in the U.K. to the Financial Services Act 1986 and other relevant financial services and investment laws and regulations. See “— Financial Services Regulation”. Laws relating to obscene publications and defamation may result in limitations on the type of content, including advertisements, available on our service or increased liability to us for information carried on our service. See “— Content Liability of Service Providers”.

#### *Domain Names and Trade Mark Rights*

A domain name is a Web site's Internet address. We have registered the domain name “iii.co.uk” and all other domain names currently in use in our business. The current system for registering, allocating and managing domain names has given rise to litigation, including trade mark litigation, since domain names can be allocated to any person who requests that allocation, whether or not a third party owns the rights to a trade mark incorporated in that domain name. There can be no assurance that our domain names will not lose their value; that, where a new suffix is introduced, a third-party will not be granted the rights to the iii domain name within that suffix; or that we will not have to obtain entirely new domain names in addition to or in lieu of its current domain names; if the current system is modified.

In addition to this uncertainty, we are aware that we do not have any rights to the domain names “iii.com”, “iii.net”, “iii.de” and “iii.fr”, all of which are registered by and in the name of third parties not connected with our business.

We have applied to register the iii logo and the slogan “financial power is changing hands” as Community Trade Marks, as defined in the European Union Council Regulation (No. 40/94/EEC). However, notwithstanding these steps, there can be no assurance that these applications will be successful. Similarly there can be no assurance that constraints will not operate so as to affect our use of the name iii or other of our brands, by reason of third-party trade mark or common law rights. Conversely, we may not be able to prevent others using those or similar names as domain names, brand names or otherwise in competition with us if those third parties have prior rights. Our ability to register additional domain names may also be limited by requirements of local or national domain name registrars or administrators, including the requirement to have a local subsidiary or be a resident of the country for which a domain name is applied.

#### *Jurisdictional Exposure*

Due to the global nature of the Internet, it is possible that, although the servers and infrastructure used to provide our services are based in England and transmission by us and our users of content over the Internet

originates primarily in England, the governments of other countries might attempt to regulate the content contained on or transmitted using our services or prosecute us for violations of their laws. As our content is available over the Internet all around the world, these jurisdictions may claim that we are required to qualify to do business in each country or that we are required to notify governmental authorities of our activities, including those activities relating to the collection and processing of user data, or relating to the provision of financial services information, for example. Any legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could have a materially adversely affect on our business, results of operations and financial condition.

#### *Electronic Commerce and Electronic Signatures*

We offer, through our Web site, access to various e-commerce initiatives of third parties and we intend to offer e-commerce opportunities on our own behalf to users in the future. On November 18, 1998, the European Commission published a proposed directive on legal aspects of electronic commerce in the internal market called the electronic commerce directive. This proposed directive aims to ensure the free movement of electronically provided services, including electronic commerce, within the member states of the EU. The electronic commerce directive has not yet been adopted but is proposed to be adopted in June 2000, following which EU member states will have one year to implement it. Significant provisions of the draft electronic commerce directive provide that:

- EU member states must ensure that their legislation allows contracts to be concluded electronically, subject to a limited number of exceptions;
- mere carriers of information over, or providers of access to, communications networks will not be liable for the content of that information; and
- a provider of hosting services is not liable for the information hosted except where it knows that it is illegal and does not disable access to that information. It also clarifies jurisdictional and contract formation issues.

Closely connected with electronic commerce is the issue of electronic signatures. In May 1998, the European Commission published a directive on a common framework for electronic signatures called the electronic signatures directive. The proposed directive establishes a framework in which "certification service providers" issue "qualified certificates" which link individuals to their public keys in the case of public key cryptography or other devices used to verify their electronic signatures. It also sets out criteria for the legal recognition of electronic signatures, in the hope that this will promote electronic commerce both within the EU and in other countries. The proposed directive was adopted in December 1999 and EU member states have 18 months to implement it.

Until the proposed electronic commerce directive is adopted, and the scope, timescale and method of the implementation of the electronic commerce and the electronic signature directives in the U.K. and other relevant jurisdictions is known, our activities in the field of electronic commerce will be subject to a large number of uncertainties within Europe and elsewhere.

#### **Financial Services Regulation**

The provision of a number of financial services in the U.K. is regulated under the Financial Services Act 1986. The body responsible for ensuring compliance with the Financial Services Act is the Financial Services Authority. Some of the services provided on our Web site amount to financial services regulated by the Financial Services Act. These services include the giving of investment advice and receiving and transmitting orders on our Web site from registered account holders to stockbrokers for online execution.

In order to provide these financial services in the U.K. a company must be authorised by one of the self-regulating organisations that falls under the control of the Financial Services Authority. We will provide the regulated services described above through one of our wholly-owned subsidiaries, interactive investor trading

limited, which is authorised as a Category D firm to provide these financial services by the Securities and Futures Authority, or SFA, a self-regulating organisation. interactive investor trading limited is subject to the SFA's rules and regulations relating to membership, financial resources, conduct of business, complaints and arbitration and enforcement. interactive investor trading limited is required to meet two capital adequacy tests; it must maintain (1) "own funds", broadly meaning shareholders funds and qualifying subordinated loans, and (2) net liquid assets, as specified by the SFA, in excess of a minimum level set by the SFA called the "financial resources requirement". interactive investor trading limited's financial resources requirement is currently set at six weeks of the company's expenditure, subject to a minimum of £50,000. Adequate "financial resources" must be maintained in a form approved by the SFA. These include shareholders funds and qualifying subordinated loans but exclude various "illiquid assets", as defined by the SFA. Because one of our subsidiaries, interactive, is the sole shareholder of interactive investor trading limited, we would be the first party called upon by interactive investor trading limited if it required further funds in order to meet its SFA financial resources requirement. As at December 31, 1999 interactive investor trading limited's SFA financial resources requirement was less than £50,000. If the SFA's Enforcement Committee determines that an SFA-authorised firm has breached its rules or committed an act of misconduct, or has ceased to be fit and proper to carry on investment business of the kind and scale in respect of which it is authorised, it may institute disciplinary proceedings. An act of misconduct includes:

- a breach of the SFA rules;
- a breach of the Financial Services Act 1986;
- an act or omission of an SFA firm that causes another firm to be in breach of the SFA rules;
- an act or omission of an SFA registered person that causes an SFA firm or SFA registered person to be in breach of the SFA rules or the Financial Services Act or related provisions;
- failure to comply with an order of the SFA, for an example, to produce documents and records;
- the provision to the SFA of information that is false, misleading or inaccurate in a material respect;
- failure to comply with any requirement of an SFA firm's policy relating to the dealing in investments by members of staff for their own account; and
- a failure to notify the SFA of any material change to the information previously given to it in an application for membership or individual registration.

The penalties that may be imposed on an authorised firm, depending on the circumstances of the case, include a reprimand, a fine, a suspension in whole or in part of the firms entitlement to carry on SFA authorised business and/or expulsion from membership. Any cancellation or alteration of interactive investor trading limited's authority to provide financial services could affect our ability to provide these services on our Web site.

The financial services regulatory regime in the U.K. is currently being reviewed by Parliament and the Financial Services Act is expected to be replaced by new legislation, which is currently in the form of the Financial Services and Markets Bill. This Bill includes provisions relating to the promotion of financial products, which are intended to reflect changing technology. The Bill also provides for the replacement of self-regulating organisations by the Financial Services Authority. It is possible that some or all of the activities currently regulated and undertaken by us may become subject to increased regulation or that those activities not currently regulated may become so.

A European Directive on Distance Selling of Financial Services is currently under consideration. This is a consumer protection directive that builds on the directive governing the distance selling of goods. It is intended to cover contracts concerning financial services that are concluded at a distance, whether by mail, telephone, fax or electronic means, such as the Internet. The key provisions relate to:

- the supply of information to consumers,

- the right to withdraw from a contract, except with respect to foreign exchange services, transactions in securities, derivatives and units in collective schemes and specified types of non-life insurance contracts, and
- protection of consumers from unsolicited communications.

It is possible that the introduction of the kinds of consumer protection provisions contained in the European Directive on Distance Selling of Financial Services could involve new compliance costs and/or the need to restrict our operations in some states in the European Economic Area, such as all states in the European Community as well as Norway, Iceland and Liechtenstein. The possibility of this happening would be increased if full harmonisation of consumer protection rules throughout member states were not achieved and it was necessary for us to comply with a diversity of national provisions. At this stage in the Directive's consideration, the scope for member states to impose requirements over and above those proposed in the Directive is uncertain.

### **Regulatory Considerations in Hong Kong**

The provision of the financial services offered in Hong Kong by one of our subsidiaries, interactive investor (international) asia limited, or interactive Asia, may be regulated under the Securities Ordinance, the Protection of Investors Ordinance, or the PIO, and the Companies Ordinance. The Securities and Futures Commission, or the SFC, is the regulatory body with responsibility for the securities and futures markets in Hong Kong.

The Securities Ordinance requires that any person carrying on the business in Hong Kong of dealing in securities or acting as an investment adviser, or any person who holds himself out as such, be registered with the SFC as a dealer, or obtain exempt dealer status, or as an investment adviser, as the case may be.

The PIO and the Companies Ordinance regulate the issue of investment advertisements in Hong Kong. Under the PIO no person may issue, or have in his possession for issue, any advertisement or invitation to the public to enter into any agreement for or with a view to acquiring, disposing of, subscribing for or underwriting securities, unless otherwise permitted by the PIO. The Companies Ordinance similarly restricts the issue, circulation or distribution of any document by which any shares or debentures in a company are offered to the public, unless otherwise permitted by that Ordinance. Registered or exempt dealers and investment advisers are exempt from the prohibition under the PIO on issuing or possessing advertisements, invitations or documents with respect to securities except where the advertisement, invitation or document relates to a mutual fund or other collective investment scheme that is not authorised in Hong Kong under the Securities Ordinance. If the price information or advertisements that appear on interactive Asia's web site are not issued solely by or on behalf of a registered or exempt dealer or investment adviser or relates to an unauthorised mutual fund or other collective investment scheme, interactive Asia may have to seek another exemption under the PIO or the approval of the SFC.

Under the Advertising Guidelines in the SFC's Code on Unit Trusts and Mutual Funds, SFC approval is required for advertisements relating to mutual funds authorised by the SFC under the Securities Ordinance, unless they are general corporate advertisements that do not refer to specific products or are press releases, in which case no such approval is required. If SFC consent is required, the content of the advertisement must comply with the requirements set out in the SFC's Code on Unit Trusts and Mutual Funds.

interactive Asia provides services and information relating to financial services and products on a web site that is targeted at persons residing in Hong Kong. interactive Asia has had discussions with the SFC in order to determine which, if any, of its current activities fall to be regulated by the SFC. As a result of these discussions, the SFC has confirmed that the current services provided on interactive Asia's Web site do not give rise to a registration requirement under the Securities Ordinance. interactive Asia does not currently intend to apply to the SFC for registration under the Securities Ordinance.

## Regulatory Considerations in South Africa

We are subject to the Unit Trusts Control Act 1981, which provides that no person may display information regarding any scheme, entity or company that is registered or carries on business outside the Republic of South Africa, unless the scheme, entity or company has been approved by the Registrar of Unit Trust Companies. We do not display information on our Web site based in South Africa on any scheme, entity or company not approved by the Registrar of Unit Trust Companies.

Under the Financial Markets Control Act No 55 of 1989, or the FMCA, and the Stock Exchanges Control Act of 1985, or SECA, no person may, as a regular feature of his business, manage investments on behalf of any other person for remuneration unless he or she has been approved by the Registrar of Financial Markets or is a person who falls within a category of persons approved by the Registrar. The term "manage investments" is defined to include buying, selling or otherwise dealing with investments, an offer or agreement regarding buying, selling or dealing with investments, whether or not an investment manager is required to exercise his discretion, and the implementation on behalf of another person of a decision to buy, sell or deal with investments. This term does not include the giving of advice on the merits of transactions without receiving funds or assets from a client. Based on advice we have received from counsel in South Africa relating to the relevant regulations and previous discussions with the Financial Services Board, we do not believe that our current activities constitute the management of investments for the purposes of the FMCA or SECA.

Any entity providing financial services in South Africa is subject to regulations and legislation regarding the advertisement or canvassing of investments and financial instruments. Both the FMCA and SECA provide that no person, other than a duly permitted member of a financial exchange or an officer or employee of a member, may directly or indirectly advertise or canvass for any business relating to the buying and selling of financial instruments. No person is entitled to advertise or canvass for any business related to buying and selling of financial instruments listed on a foreign exchange not recognised by the Registrar. To the extent that a provider of financial services does advertise or canvass investments and financial instruments, it will have to apply to be registered as a member of a financial exchange. Based on advice we have received from counsel in South Africa, we believe that our activities on our South Africa site of providing price lists, performance data, news and similar information do not constitute advertising for the purposes of the FMCA or SECA. Nevertheless, given the fact that the South African regulatory regime is, to some extent, uncertain and currently subject to change, we will monitor our continued compliance with these provisions by liaising with the Financial Services Board from time to time.

Both the FMCA and SECA prevent any person from inducing another person to deal in a financial instrument on a financial market by making or publishing any statement, promise or forecast that he or she knows to be misleading, false or deceptive. In addition, a person cannot induce another person to deal with a financial instrument on a financial market by concealing material information. The FMCA and SECA further prohibit any person from publishing or issuing to the public, or circulating any written comment which may influence the value of the listed financial instruments, unless the comment includes the name of the person that compiled the comment and the source of the comment. We carry on our activities in South Africa in such a way so as to comply with these regulations by making all members of staff in South Africa aware of the regulations and monitoring compliance.

The regulations under the FMCA and SECA contain a number of provisions regarding the general requirements for marketing material in relation to the management of investments. Marketing material includes all media advertising, press releases, presentations to third parties, sale and promotional material and advertising on electronic media, such as television, e-mail, the Internet. The general requirements are applicable to investment managers as well as any other party providing marketing material. We do not believe that our current activities fall within the marketing restrictions regime. Nevertheless, we will monitor our continued compliance with these provisions by liaising with the Financial Services Board from time to time.

In South Africa, we undertake neither the management of investments nor the business of buying or selling financial instruments, as regulated by the FMCA and SECA. Therefore, it is unnecessary for us to be registered with the Financial Services Board. We do not currently intend to apply to the FSB for registration under the FMCA or SECA.

## MANAGEMENT

### Directors and Executive Officers

The directors, executive officers and key employees of interactive investor international plc and their ages and positions are:

<u>Name</u>	<u>Position</u>	<u>Age</u>
<i>Directors and Executive Officers</i>		
Sherry Leigh Coutu .....	Chairman*	35
Peter Dicks .....	Deputy Chairman*	57
Daniel Colson .....	Deputy Chairman*	52
Tomás Carruthers .....	Chief Executive Officer, Board Director	32
Max Ashton .....	Chief Financial Officer, Board Director	38
Julian Jaffe .....	Chief Operations Officer, Board Director	44
Laurie Yoler .....	Board Director*	35
Charles Young .....	Board Director*	59
<i>Key Employees</i>		
John Blowers .....	Product Marketing Director	35
Martin Harris .....	Group Sales Director	42
Candice Hodgson .....	Marketing Communications Director	28

\* Non-executive directors.

*Sherry Coutu* was a member of the financial service practice of Andersen Consulting from 1987 to 1989 and Coopers & Lybrand from 1989 to 1991. Prior to forming interactive, Ms Coutu co-founded Internet Securities in early 1994, a database company that provides emerging markets securities information research via the Internet. She left Internet Securities in 1994. Ms Coutu has served as Chairman since founding interactive in late 1994. In addition to serving as Chairman of the Company, Ms. Coutu is also a non-executive director of Research Machines PLC, a leading supplier of software, computer service and systems to schools and colleges in the U.K.

*Peter Dicks* co-founded Abingworth plc, a U.K. based venture capital firm in 1975. Mr Dicks serves as a director of several U.K. and U.S. investment trusts including Henderson Technology Trust, Second London American Trust, Enterprise Capital Trust and Themis Fledgling Investment Trust (since October 1996, September 1996, September 1997 and October 1994 respectively), as well as technology companies and suppliers including Standard Microsystems and Action Computer Supplies (since June 1992 and February 1995 respectively). Mr Dicks has served as our Deputy Chairman since December 1998.

*Daniel Colson* has been a director of Hollinger International, Inc. since February 1995 and has acted as Vice-Chairman since May 1998. He is also Vice-Chairman of Hollinger Inc., Hollinger Canadian Publishing Holdings Inc. and Southam Inc. (which are Canadian reporting companies). He is also Deputy Chairman and Chief Executive Officer of Telegraph Group Limited and Chairman of UniMedia Inc., as well as a director of various other companies including Argus Corporation and The Spectator (1828) Limited. Mr Colson's non-executive and non-publishing directorships include Molson Inc. and Hellespont Shipping Corporation. Mr Colson has served as a Director of interactive investor international plc since November 1998, and as deputy Chairman since January 2000.

*Tomás Carruthers* joined Electronic Share Information in 1994 as Business Development Director, now the U.K. subsidiary of E\*Trade. He left that company and joined us in August 1997. He founded and served as Managing Director of Interactive Markets, one of our wholly-owned subsidiaries, as well as our Sales and Business Development Director. He has served as our Chief Executive Officer since March 1999.

*Max Ashton* served for six years from June 1993 as Group Finance Director for European Telecom plc, a leading distributor in Europe of cellular communications products and a provider of value added logistic services. During this time, European Telecom plc completed an initial public offering of its shares on the London Stock Exchange. Mr Ashton joined interactive investor international plc as our Chief Financial Officer in August 1999.

*Julian Jaffe* worked for Oracle Corporation U.K. Limited between August 1991 and June 1993 where he was a business systems manager for the utilities division. He then served for four years (between July 1993 and June 1997) as Technical Director of Interleaf (Europe), a leading document management and electronic publishing company. He joined interactive investor international plc in June 1997 and has served as our Chief Operations Officer since November 1998.

*Laurie Yoler* served as a Management Consultant at the consulting firms, Andersen Consulting and Coopers & Lybrand. She subsequently joined Visa International, the largest international card association. At Visa, she worked closely with top executives from most of the major U.S. banks to design and implement new products, provide consulting in risk management and develop strategy that allowed U.S. supermarkets to accept VISA cards. In November 1993, Ms Yoler joined Sun Microsystems where she became responsible for building Sun's strategic direction and sales strategy for banking, insurance, securities, payment systems and electronic commerce. She now serves as director of corporate developments where she is responsible for identifying potential acquisition candidates, conducting vigorous strategic and financial analysis, recommending deal structures and taking the lead in negotiating agreements including mergers and acquisitions with outside companies. Ms Yoler has served as a Director of interactive investor international plc since March 1999.

*Charles Young* served as Deputy Chairman at Olympia & York Canary Wharf Limited between 1992 and 1995, where he was a senior member of the team that developed the Canary Wharf Office Scheme in London. In 1998, he joined Ascent Management, where he is responsible for investment and advisory services for Internet companies. In addition, he is currently a director of various other companies, including Middlefield Bancorp, Obvious Technology and Willett International. He has served as a director of interactive investor international plc since January 2000.

*John Blowers* worked for The Financial Times Group from November 1989 until May 1994 and from April 1997 until June 1998, where he had operation responsibility for a number of magazines, including the Investors Chronicle. From May 1994 until March 1997, Mr Blowers was a director for a financial advertising and strategy agency. Mr Blowers joined interactive investor international plc in July 1998 as a publisher and has served as Product Marketing Director since September 1999, with responsibility for new product development and management.

*Martin Harris*, prior to working at Sun Microsystems, he was in sales and sales management roles with NCR Corporation and Torch Corporation. Prior to joining interactive investor international plc, was employed for ten years from February 1989 by Sun Microsystems where he formed and developed the retail finance sales team. Mr Harris was one of Sun's top European Salesman for several years. Mr Harris joined interactive investor international plc in August 1999 as Group Sales Director.

*Candice Hodgson*, spent four years in the financial marketing industry, which included the position of Senior Brand Manager at Investec Group in Johannesburg from December 1994 to September 1998. Ms Hodgson joined interactive investor international plc in October 1998. From October 1998 to May 1999, Ms Hodgson was marketing director of the South African Division of interactive investor international plc where she was responsible for marketing and communications. She has served as our Marketing Communications Director since May 1999.

#### **Employment Agreements**

Each of the directors and executive officers referred to above, other than the non-executive directors, is a party to an employment agreement with interactive investor international plc. Each employment agreement is



terminable by either party giving to the other not less than six months' prior written notice, other than the agreement with Tomás Carruthers, which requires twelve months' notice. We are entitled to pay our directors the amount of their salary and benefits in lieu of any notice entitlement. The salary of each of our executive directors is £105,000, except for our Chief Executive Officer, Tomás Carruthers, whose salary is £125,000. Under the terms of our standard service agreement, our executive directors are also entitled to receive private medical insurance, life insurance cover of up to four times base salary, permanent health insurance of up to 75 per cent. of base salary, a pension contribution of up to 12 per cent. of base salary and a bonus of up to 50 per cent. of base salary. Our directors are also bound by non-competition and confidentiality provisions, both during and after employment. For a period of six months post-termination, each of our directors is restricted from engaging in a competing business or soliciting our senior employees, customers or suppliers.

Ms. Coutu, Mr. Dicks, Mr. Colson, Ms. Yoler and Mr. Young each have been engaged by us as non-executive directors under letters of appointment dated January 2000, in each case for an initial term of two years terminable at any time by either party giving not less than six months' notice. A fee of £40,000 per annum is payable to Ms. Coutu as Chairman and £30,000 per annum is payable to each of Mr. Dicks and Mr. Colson as Deputy Chairmen. Each of our other non-executive directors is entitled to receive £25,000 per annum.

No compensation is payable upon termination of these employment agreements except in respect of any payment in lieu of notice.

#### **Corporate Governance**

Our board of directors is currently comprised of our non-executive chairman, three executive directors, one non-executive director appointed by each of Hollinger Digital, Inc. and Porpoise Investments Limited, which are our principal shareholders, and two non-executive directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. We regard Peter Dicks and Charles Young as independent non-executive directors. We intend to appoint a third independent non-executive director as soon as possible after the offering, in order to comply with the principles of good governance and the code of best practice prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel, published in June 1998, the Combined Code.

The Combined Code provides that non-executive directors should comprise not less than one third of the board and that a majority of the non-executive directors should be independent, with written terms of reference which deal clearly with authority and duties.

In January 2000, our board established audit, remuneration and nomination committees.

The audit committee comprises three non-executive directors, two of which must be independent. The audit committee is chaired by Charles Young and its other members are Daniel Colson, Sherry Couni and Peter Dicks. The audit committee has responsibility for, among other things, the planning and review of the annual report and accounts and quarterly reports and the involvement of the auditors in that process, focusing particularly on compliance with legal requirements, accounting standards and the requirements of the London Stock Exchange and the Securities Exchange Commission, and ensuring that an effective system of financial reporting and internal control is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts and the quarterly report remains with our board of directors. We may in the future appoint a fourth director to the audit committee. If the audit committee is comprised of four directors and a casting vote from the Chairman of the committee is required to determine a specific issue, then we will ensure that the committee Chairman is one of the independent non-executive directors.

The remuneration committee comprises our two independent non-executive directors. The remuneration committee is chaired by Peter Dicks and its other member is Charles Young. The Combined Code provides that a remuneration committee should consist exclusively of independent non-executive directors. This committee determines our policy on compensation of executive officers and specific remuneration packages for each of the

executive directors, including option entitlements and pension rights. When appointed, our third independent non-executive director also will be a member of this committee.

The nomination committee comprises four non-executive directors. The nomination committee is chaired by Peter Dicks and its other members are Sherry Coutu, Daniel Colson and Charles Young. The Combined Code provides that a nomination committee should be established with a majority of its members being non-executive directors and its chairman being either the chairman of the board or a non-executive director. This committee nominates candidates to fill board vacancies and makes recommendations to our board on board composition and balance.

Our directors intend to conduct our affairs so that we comply fully with the requirements of the U.K. Combined Code on corporate governance.

### **Compensation of Executive Officers and Directors**

The aggregate compensation paid by interactive investor limited to all persons that served in the capacity as director or executive officer for the year ended September 30, 1999, which included 15 persons, was approximately £489,000, excluding pension contributions of approximately £27,000. This does not include expenses reimbursed to officers, including business travel, professional and business association dues and expenses and other benefits commonly reimbursed or paid by companies in the U.K.

Cash compensation of approximately £45,000 in aggregate was payable by us to Mr. Dicks and Ms. Yoler as directors' fees for the first year of their appointments as non-executive directors. The cash amount due to each of Mr. Dicks and Ms. Yoler was satisfied by the issuance by us to them of options to purchase 71,311 ordinary shares in aggregate at an exercise price of 1p per share, calculated at a fair market value of £0.63 per share. Accrued but unpaid fees due to Mr. Dicks and Ms. Yoler as at the date of this document and all future directors' fees due to them will be paid in cash. Mr. Colson previously agreed to receive no compensation for his services as a non-executive director up to and including January 28, 2000. On January 28, 2000, we entered into new letters of appointment with each of Mr. Dicks, Ms. Yoler and Mr. Colson, effective from October 1, 1999.

### **Directors' Interests**

Section 324 of the Companies Act 1985 requires directors of U.K. companies to notify the company in writing of interests held, acquired or disposed of by them in the shares of that company, or in the shares of any subsidiary or holding company of that company. Section 328 of the Companies Act 1985 requires a director of a U.K. company to notify the company of interests in the company held, acquired or disposed of by the spouse and children of that director. Section 325 of the Companies Act 1985 requires a U.K. company to maintain a register of those interests of which it is notified. For an explanation of these shareholdings, see "Principal Shareholders".

### **Board Action and Powers**

Our Articles of Association, as in effect upon completion of this offering, provide that, unless otherwise determined by ordinary resolution, our board of directors shall consist of not fewer than two directors. A director is not required to hold any of our shares to qualify as a director. A director who is not a shareholder is entitled to attend and speak at shareholders' meetings.

At each annual general meeting, all those directors who were elected or last re-elected at or before the annual general meeting held in the third calendar year before shall retire from office by rotation. A retiring director shall be eligible for re-election.

### *Borrowing Powers*

Our board may exercise all our powers to:

- borrow money,
- mortgage and/or charge all or any part of our business, property or assets and uncalled capital,
- issue debentures and other securities, and
- give security, either outright or as collateral security for any of our debts, liabilities or obligations, or those of a third-party.

Our directors must limit our borrowings and those of our subsidiaries so that the total aggregate principal amount of all borrowings outstanding at any time does not exceed £300,000,000. However, this limit may be exceeded with 75 per cent. majority consent of our shareholders at a general meeting.

### *Remuneration and Expenses*

As provided by our Articles of Association, the ordinary remuneration of our directors shall be determined by the directors from time to time. Their remuneration shall not exceed £2 million per annum in aggregate or a higher amount as may be determined by an ordinary resolution of our shareholders. Any director that holds an executive office, including for this purpose the office of chairman or deputy chairman, or that serves on any committee of the directors, or that otherwise performs services that, in the opinion of the directors, are outside the scope of ordinary duties of a director, may be paid extra remuneration or may receive other benefits as the directors may determine. A director shall be paid those reasonable expenses properly incurred by him in the course of his duties including his expenses of travelling to and from directors' or shareholders' meetings or otherwise in connection with our business. Our directors have the power to pay and agree to pay gratuities, pensions or other retirement, superannuation, death or disability benefits to or on behalf of any person that is or has been at any time one of our directors and, for the purpose of providing those gratuities, pensions or other benefits, to contribute to any scheme or fund or to pay premiums.

### *Indemnification and Insurance*

Each of our directors, officers and the secretary will be indemnified by us and/or exempted by us from all costs, charges, losses and liabilities incurred by them in the actual or purported exercise or discharge of their powers or duties. This indemnity and exemption extends to any liability incurred by them in defending any civil or criminal proceedings which relate to anything done or alleged to have been done by them as our officer or employee and in which judgement is given in their favour; or where proceedings are disposed of without any finding or admission of any material breach on their part; or in which they are acquitted or in respect of which relief from liability is granted.

Our directors have the power to purchase and maintain insurance for, or for the benefit of, any persons that are or were at any time a director or officer of a relevant company, which means any company we control or that is part of our Group or that are or were trustees of any pension fund or employees' share scheme in which employees of any relevant company are interested. Their insurance may include insurance against any liability incurred by them in respect of any act or omission, in the actual or purported exercise or discharge of their powers or duties in relation to any relevant company, or the pension fund or employees' share scheme.

### *Interested Director Transactions*

Provided that the nature and extent of any interest of a director is disclosed to all directors, a director:

- may be party to, or otherwise interested in, any contract, transaction or arrangement with us or in which we are otherwise interested;

- may be a director or other officer of, or be employed by or be a party to any contract, transaction or arrangement with, or otherwise interested in, any company promoted by us or in which we are otherwise interested;
- may act in a professional capacity for us, other than as auditor, and be appropriately remunerated; and
- will not, except as otherwise agreed by him, be accountable to us for any benefit that he derives from any of the activities described above of this kind, and no contract transaction or arrangement of this kind will be voidable because of any such interest or benefit.

Except as provided below, our directors shall not vote in respect of any contract, arrangement or proposal in which they have any material interest, other than by virtue of an interest in our shares, debentures or other securities or otherwise. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is not entitled to vote. A director generally will be entitled to vote and be counted in the quorum in respect of any resolution concerning:

- giving any security, guarantee or indemnity in respect of (a) money lent or obligations incurred by him or by any other person at the request of or for the benefit of us or any of our subsidiaries or (b) a debt or other obligation of us or any of our subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by giving security;
- any proposal concerning an offer of shares, debentures or other securities by us or any of our subsidiaries in which he is or may be entitled to participate as a holder of securities or as an underwriter or subunderwriter;
- any proposal concerning any other company in which he is interested, directly or indirectly as an officer, shareholder or otherwise, provided that he and any persons connected with him, within the meaning of Section 346 of the Companies Act, does not have an interest in one per cent. or more of the issued equity share capital of that company, or of any third company through which his interest is derived, or of the voting rights available to shareholders of the relevant company;
- any proposal relating to an arrangement for the benefit of our employees or those of any of our subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom that arrangement relates; or
- any proposal concerning insurance that we propose to maintain or purchase for the benefit of directors.

### **Executive Share Option Scheme**

We adopted an executive share option scheme on November 24, 1998. No other employee share-based option schemes have been adopted. The terms of the scheme are summarised as follows:

#### *Grant of options*

At any time prior to the tenth anniversary of the date the scheme was adopted, our remuneration committee may grant options to acquire our Ordinary Shares, subject to any special performance conditions that may be imposed by the remuneration committee, to any of our full time directors or employees or those of any of our subsidiaries that are designated by the directors as a member of our Group for the purposes of the scheme.

No option may be granted under the scheme if, immediately after grant, the maximum aggregate number of shares that may be acquired, or have been acquired, upon the exercise of options under the scheme, would exceed 21,643,314, which represents less than 20 per cent. of the issued share capital, as reduced by:

- (a) the 1,787,964 shares already acquired as of the date of adoption of the scheme under the exercise of share options by our employees or directors; and

(b) the number of shares which might become issuable or acquirable under options granted to our employees or directors which were outstanding immediately prior to adoption of the scheme.

If any of the options described in paragraph (b) are released or lapse prior to exercise, or if any of the shares referred to in paragraphs (a) and (b) are subsequently repurchased by us or an employee share trust that is financed, directly or indirectly, by any member of our group because the option holder no longer is employed by us, the number of ordinary shares available for the grant of new options under the scheme shall increase correspondingly but not so as to exceed the maximum number referred to above.

An option holder may renounce an option within 60 days of the date that it is granted.

No consideration is payable upon the grant of options.

Options over 16,701,135 of our shares are currently outstanding under the scheme.

We agreed with Porpoise Investments Limited, pursuant to a linking agreement dated November 24, 1998, as amended, that Porpoise would transfer up to 3,312,036 ordinary shares registered in its name in satisfaction of our obligations under options granted to our employees. It is our intention to exercise these rights and to discharge the linking agreement as soon as practicable.

#### *Option Price*

The remuneration committee will be responsible for determining the exercise price of options on the date that they are granted, provided that the price may not be less than the nominal value of the ordinary shares. When granting any options after November 16, 1999, in determining the option price the remuneration committee must take into account our liability to account for employer's national insurance contributions on the amount of gain per share that could arise upon exercise of the option.

The remuneration committee will not grant any options after completion of the offering with an option price which is less than the market value of the underlying shares at the date of grant.

#### *Effects of Change of Ownership or Listing*

Provided that the aggregate value ascribed to all of our classes of equity share capital carrying rights to participate in the profits of the company, otherwise than solely by way of dividends at a fixed rate, is £30,000,000 or more and any special performance conditions are satisfied, if there is a change in our ownership or if our shares become listed on the London Stock Exchange or another recognised investment exchange, options granted under the scheme become exercisable as to 30 per cent. of the shares under option. If the value ascribed to our equity share capital is £100,000,000 or more, options granted under the scheme become exercisable as to 100 per cent. of the shares under option. Between these two limits, a sliding scale applies, on a straight line basis, to determine the extent to which options become exercisable. A change of ownership takes place when a person acquires shares conferring more than 50 per cent. of the total voting rights in the company and the right to vote at all general meetings.

Upon listing of our shares, options over the appropriate number of shares, as determined above, become exercisable as follows:

- for options executed before November 16, 1999, the option becomes exercisable immediately with respect to 50 per cent. of the shares 50 per cent. of the remainder becomes exercisable on each of the first and second anniversaries of the effective date of the listing if the option holder remains an employee. If the option holder ceases to be an employee within two years of the listing because of death, incapacity, illness, accident or because we terminate employment for any reason other than breach or misconduct, the remaining options become exercisable for 30 days. Otherwise if an option holder ceases to be an employee within two years of listing, only a proportion of the remaining tranches of his option become exercisable for 30 days;

- for options executed on or following November 16, 1999, the options with respect to 20 per cent. of the shares become exercisable immediately on listing. One-quarter of the remaining shares can be exercised on each of the first, second, third and fourth anniversaries of the date of listing, provided the option holder remains an employee, as described in the above paragraph for previously granted options. If the option holder ceases to be an employee, either the whole or a proportion of the balance of the employee's options become exercisable for 30 days, based on monthly vesting during the post-listing period of employment.

Options that have not become exercisable or that have not been exercised shall lapse on the earliest of:

- two years and six months following the listing for previously granted options and four years and six months for other options;
- in cases where the option holder ceases to be an employee of our Group, immediately following listing if options have not yet become exercisable, or, if options have become exercisable, the later of:
  - (a) 30 days after cessation of employment; or
  - (b) 30 days following the end of any period following listing during which the option holder is prevented by lock-up restrictions from disposing of the shares resulting from the exercise of the option;
- ten years from the date that the option was granted; or
- immediately following listing if prior to the listing we notify all option holders that they must exercise their options.

If there are conditions that have yet to be fulfilled relating to the exercise of an option, the option shall not lapse until it becomes impossible for the conditions to be fulfilled or six months after the conditions have been fulfilled.

We may notify option holders in advance of a pending change of ownership or listing of our shares. In this case, each option holder shall be entitled to exercise his options subject to the change of ownership or listing taking place. In addition, we can require option holders to conditionally exercise their options in this way.

#### **Pre-scheme Options and Non-scheme Options**

Options to purchase up to 1,961,598 ordinary shares granted to employees and directors prior to the adoption of the executive share option scheme remain outstanding at the date of this document. Options to subscribe for a further 16,701,135 shares remain outstanding pursuant to options granted under the executive share option scheme, and options to acquire 157,518 shares remain outstanding in favour of current and former non-executive directors. These options are exercisable at prices ranging from less than 1p to 107p per share through April 2001.

Other than 190,000 outstanding options granted on April 7, 1998, the pre-scheme options and options granted to our non-executive directors outside the scope of the scheme are all currently exercisable in full. The options granted on April 7, 1998 are exercisable, in three equal, annual tranches, the first of which became exercisable on April 7, 1999.

As of September 30, 1999, options to purchase an aggregate of 21,959,784 ordinary shares were issued and outstanding under both the scheme and the pre-scheme options. This figure includes 3,312,036 shares that Porpoise Investments Limited has agreed to transfer, pursuant to a linking agreement dated November 24, 1998, between interactive and Porpoise Investments Limited, to optionholders upon exercise of their options. Under the linking agreement, we have absolute discretion to direct Porpoise Investments Limited to transfer 3,312,036 of the shares it holds to optionholders upon exercise of their options before we are required to issue any shares in satisfaction of the exercise of optionholders' rights.

In the year ending September 30, 1999, options were granted over 5,866,062 shares and, in the same period, 595,988 options over shares were exercised. Out of the 5,866,062 shares over which options were granted in that period, options over 123,817 shares were granted outside of the executive share option scheme and options over 5,742,245 shares were granted pursuant to the terms of the scheme.

In September 1999 we agreed to grant options to each of our then non-executive directors, Peter Dicks, Daniel Colson and Laurie Yoler by way of compensation for their services commencing from October 1999. These options were in addition to the directors fees paid by us to these individuals. Each of the three then non-executive directors were entitled to options to subscribe for 90,000 ordinary shares at an exercise price of £0.21 per share (that is, a pre-bonus issue share entitlement of up to 30,000 shares at £0.63 per share). The options were exercisable at any time. On February 4, 2000 we agreed with each of Peter Dicks, Daniel Colson and Laurie Yoler that they should exercise all their options in full with immediate effect. On February 4, 2000 each of Peter Dicks, Daniel Colson and Laurie Yoler subscribed in cash for 90,000 ordinary shares at a price of £0.21 per share. The terms of exercise provided for a tax indemnity given by each such director in our favour and provided that the shares acquired were subject to the dealing restrictions. See the "Shares eligible for Future Sale of Section of this Prospectus.

#### **Settlement Agreement with Mr. Alexander Heath**

On June 4, 1999, interactive investor limited and Mr. Alexander Heath, its former Chief Executive Officer, entered into a settlement agreement whereby interactive investor limited was granted the right require Mr. Heath to sell 1,200,000 shares held by him at a price of £1 per share. This right was subject to the prior exercise by Mr. Heath of his options to acquire 700,000 shares.

In January 2000, we agreed to assume all of the obligations of interactive investor limited under the settlement agreement with Mr. Heath.

As part of the agreement with Mr. Heath, described below, conditionally upon the Offer becoming effective, Mr. Heath was released from his obligation to sell his shares to interactive investor limited, or as interactive investor limited may direct, for £1 per share.

#### **Future use of scheme**

As of February 4, 2000, a total of 18,820,251 shares were under option. This figure includes shares issuable by us and shares to be transferred by Porpoise under the linking agreement. This represents less than 20 per cent. of our issued share capital.

Immediately after the offering, the scheme will be used only to grant new options over a number of our ordinary shares equivalent to those in respect of which Alexander Heath's options will lapse or which will be re-purchased by us under the Heath proposals described below, and within the overall scheme limit. No options will be granted with an option price that is less than the market value of the underlying shares at the date of grant. The remuneration committee will impose testing performance conditions on the right of exercise of any significant option grant to any director or senior employee following listing.

interactive investor limited agreed to grant Hollinger warrants to subscribe for 5,441,807 'A' ordinary shares at an exercise price of 26.65p per share. These warrants were granted in return for the termination of Hollinger Digital, Inc.'s right to increase its shareholding up to a maximum of 49.9% if interactive investor limited's revenues fell below specified targets. Hollinger exercised these warrants and subscribed for these shares on October 28, 1999. On the same day, Hollinger subscribed for an additional 50,000 'A' shares.

We intend to use the excess capacity in our existing executive share option scheme to provide effective incentives and commonality of interest between our shareholders and employees in the first year following listing, after which we may consider adopting new share option or incentive arrangements. In the event that we

wish to adopt any new share option or incentive arrangement, we may be required to obtain prior approval from our shareholders.

#### **Arrangement with Mr. Alexander Heath**

The agreement in relation to Alexander Heath's option over 2.1 million of our shares and his holding of 1.5 million of our shares is as follows:

- Subject to the sale of 400,000 shares back to us as described below (and conditionally on Admission), Mr. Heath is released from his obligation contained in the deed of agreement dated 4 June 1999 to sell his existing shares and any shares derived from the exercise of his option to an overseas entity for £1 per share;
- Mr. Heath has agreed to sell 1,100,000 of the shares comprised in his shareholding in the offering under the over-allotment option conditional upon Admission. This represents the number of shares which would be equivalent to £1.2m at the lowest estimated offer price on flotation net of commissions and taxes;
- Mr. Heath has agreed to release his entire option holding conditional on Admission;
- Mr. Heath has agreed to sell his 400,000 remaining shares back to us for an aggregate sum of £10.00. conditional on Admission; and
- Mr. Heath has agreed to enter into a six-month lock-up restriction in relation to any shares he holds following Admission.

#### **National Insurance on exercise of share options**

Following recent changes in legislation which are effective from April 6, 1999, secondary class 1 national insurance contributions will be payable by us at the prevailing rate, currently 12.2 per cent., on the gains arising on the exercise of options granted on or after April 6, 1999.

#### **Pensions**

We contribute to a group personal pension plan that is comprised of a number of approved personal pension schemes for the benefit of qualified employees and their dependants. The plan is administered by Skandia Life and provides benefits on a defined contribution basis whereby benefits are determined based on the amount of payments made by or in respect of a member and the investment return earned on those payments. Employer contributions in respect of the plan are made at a rate of between five and eight per cent. of the employees base salary per annum.

We also make employer contributions to approved personal pension schemes in respect of the following employees at the following rates:

- Sherry Coutu, our non-executive Chairman—7.5 per cent. of base salary per annum;
- Julian Jaffe, our Chief Operations Officer—12 per cent. of base salary per annum;
- Peter McKenna, an employee—5 per cent. of salary per annum.

In addition to the above pension arrangements, we participate in an approved occupational pension scheme, which provides benefits on a defined contribution basis. The trustee of this pension scheme is Standard Life Trustee Company Limited. We pay employer contributions to this scheme in respect of Max Ashton, our Chief Financial Officer, at the rate of £566.67 per month.

We also operate and are the trustee of an approved life assurance scheme which provides death-in-service benefits for eligible employees.



## CERTAIN TRANSACTIONS AND RELATIONSHIPS

### Agreements with Shareholders

The transactions described below have been made between us or our subsidiary, interactive investor limited (formerly known as interactive investor international limited), and some or all of Hollinger Digital, Inc., Cheetah International Investments Limited, Porpoise Investments Limited, F.C. Holtz and J.N. Holtz, John Cooper and our non-executive chairman Sherry Coutu, who are all principal shareholders in that they hold or have an interest in at least three per cent. of our issued shares. Details of the number of shares and percentage shareholding for each are set out in the "Principal Shareholders" section of this Prospectus.

### *Previous Financing Transactions*

The following descriptions of our previous financing transactions set out the number of shares involved at the date the agreements were entered into; that is, prior to the January 2000 two-for-one bonus issue.

On November 24, 1998, our subsidiary, interactive investor limited, or interactive, entered into a subscription and shareholders' agreement with Sherry Coutu, Simon Coop, Julian Jaffe, Tomás Carruthers and Gordon Yeun, who were executives of interactive investor limited at that time, and Porpoise Investments Limited, Cheetah International Investments Limited, F.C. Holtz and J.N. Holtz, J.A. Cooper and Hollinger Digital, Inc., which are some of our shareholders. Under this agreement:

- Hollinger Digital, Inc. subscribed for 8,066,723 'A' ordinary shares of interactive investor limited for £5,000,000;
- Hollinger Digital, Inc. agreed to provide, or ensure that one of its subsidiaries would provide, up to £1,000,000 of advertising and other services during calendar year 1999, at market value, to interactive investor limited in exchange for the issue of up to 1,613,344 'A' shares;
- Hollinger Digital, Inc. became entitled to increase its shareholding in interactive investor limited on a sliding scale up to a maximum of 49.9 per cent. if the revenues of interactive investor limited for the year ended December 31, 1999, were significantly below agreed targets;
- interactive investor limited granted Hollinger Digital, Inc. and Porpoise Investments Limited veto rights over any change to its share capital and constitution and other fundamental business matters. These rights were terminated in accordance with the termination agreement described below; and
- interactive investor limited, Sherry Coutu and Tomás Carruthers gave warranties to Hollinger Digital, Inc., including warranties as to the accuracy of the information provided. These warranties will be terminated pursuant to the termination agreement described below.

In September 1999, one of interactive investor limited's principal shareholders, Hollinger Digital, Inc., agreed to make a loan of £900,000 in aggregate to interactive investor limited for working capital purposes. The loan was repayable on demand and did not accrue interest. The loan was repaid in full by interactive investor limited on October 1, 1999.

On October 1, 1999, interactive investor limited entered into a supplemental shareholders' agreement with Sherry Coutu, Tomás Carruthers, Max Ashton, Porpoise Investments Limited, Cheetah International Investments Limited, F.C. Holtz and J.N. Holtz, J.A. Cooper and Hollinger Digital, Inc. In connection with this agreement:

- an affiliated company of the global co-ordinator for this offering, Credit Suisse First Boston, London branch, and one of interactive investor limited's principal shareholders, Hollinger Digital, Inc., agreed to make a loan of £3,500,000 in total to interactive investor limited. This loan is described below and has been repaid in full; and

- interactive investor limited agreed to grant Hollinger warrants to subscribe for 5,441,807 'A' shares at an exercise price of 26.65p per share. These warrants were granted in return for the termination of Hollinger Digital, Inc.'s right to increase its shareholding up to a maximum of 49.9% by a percentage if interactive investor limited's revenues fell below specified targets. Hollinger exercised these warrants and subscribed for these shares on October 28, 1999. On the same day, Hollinger subscribed for an additional 50,000 'A' shares.

The overall effect of the supplemental shareholders' agreement was to delete the adjustment provision, described above, contained in the subscription and shareholders' agreement and fix the number of shares for which Hollinger was entitled to subscribe under the subscription and shareholders' agreement.

Pursuant to the terms of subscription warrants issued by interactive investor limited on November 24, 1998, to sixteen former holders of its convertible loan notes, all of which were, at the time, either officers or shareholders of interactive investor limited, the events that occurred in connection with the supplemental shareholders' agreement described above had the following effects:

- the determination of the exact number of interactive investor limited shares for which Hollinger had the right to subscribe under the warrant granted to it triggered the determination that the former noteholders had the right, under their warrants, to subscribe for, in aggregate, 659,892 ordinary shares at an exercise price of 21.32p per share.
- the subsequent exercise by Hollinger of its rights under its warrant triggered the exercise by these former noteholders of their rights under their warrants.

As a result, the rights of all warrant holder and Hollinger have been exercised in full.

On October 1, 1999, interactive investor limited entered into a loan facility agreement with Hollinger and Credit Suisse First Boston, London branch, pursuant to which Hollinger and CSFB agreed to advance to us a secured short term loan facility in two tranches totalling £3,500,000, for working capital and general corporate purposes. This facility was drawn down in full on October 1, 1999 and, as required under the loan facility agreement repaid in full in November 1999, with the proceeds of the rights issue described below. Interest was payable under the facility at the rate of 8.25 per cent. per annum. The loan was secured by charges over all the assets of the Group, other than any real property, and was guaranteed by all of the Group subsidiaries.

On October 29, 1999, interactive investor limited issued 1,613,344 'A' shares to Hollinger in exchange for the advertising and other services that Hollinger agreed to provide under the subscription and shareholders' agreement, as described above.

#### *Porpoise Linking Agreement*

On November 24, 1998, interactive investor limited entered into a linking agreement with Porpoise Investments Limited, one of its principal shareholders, under which Porpoise agreed to make available and transfer up to 1,700,000 ordinary shares to interactive investor limited option holders in satisfaction of interactive investor limited's obligations under options granted. To date, 595,988 shares have been transferred under this agreement in satisfaction of options exercised. This agreement did not dilute any shareholder other than Porpoise. The holdings of directors and officers remained unchanged. The overall effect of the agreement was to record a prior oral agreement in which Porpoise agreed to transfer these shares to enable interactive investor limited to satisfy its obligations under options granted with an exercise price below nominal value, which it would be prohibited from issuing itself. Although the agreement diluted Porpoise's shareholding, the shares were used as an incentive to employees, with the intention of ultimately improving the performance of interactive investor limited and the value of Porpoise's investment.

### *Share Exchange Agreement*

On December 13, 1999, interactive investor international plc, interactive investor limited and interactive investor limited's shareholders entered into an agreement under which each interactive investor limited shareholder agreed to exchange all of his or her shares in interactive investor limited for the same number of shares in interactive investor international plc.

Each party to the share exchange agreement that was a party to the original subscription and shareholders' agreement referred to above further agreed that the terms of that shareholders' agreement would apply in all respects to interactive investor international plc as if interactive investor international plc had been named as an original party in the place of interactive investor limited. Each of the interactive investor limited shareholders also gave representations and warranties in favour of interactive investor international plc regarding his or her holding of shares in interactive investor limited, and appointed any of the directors of interactive investor limited or interactive investor international plc as his or her attorney for limited purposes relating to the implementation of the offering.

The share exchange agreement also contained an agreement between interactive investor international plc, interactive investor limited and Porpoise Investments Limited amending the terms of the Porpoise linking agreement to provide that it would apply to the same number of shares of interactive investor international plc held by Porpoise as were previously held by Porpoise in interactive investor limited but subject to the adjustment arising out of the two for one share bonus issue by interactive investor limited implemented before closing the share exchange.

### *Termination Agreement*

On January 31, 2000, interactive investor international plc entered into an agreement with Sherry Coutu, Tomás Carruthers, Max Ashton, Hollinger Digital, Inc., Porpoise Investments Limited, Cheetah International Investments Limited, F.C. Holtz and J.N. Holtz and J.A. Cooper, under which, conditionally upon the admission of interactive investor international plc's shares to trading on the London Stock Exchange, the shareholders' agreement and the supplementary shareholders' agreement referred to above were terminated.

### *Relationship Agreements*

On January 31, 2000, interactive investor international plc entered into a relationship agreement with Hollinger Digital Inc. to regulate its ongoing relationship with Hollinger. This relationship agreement was entered into because Hollinger Digital Inc. will continue to hold approximately 31.5 per cent. of interactive investor international plc's share capital, following the offering. The relationship agreement is required in order to ensure that interactive investor international plc operates independently of Hollinger Digital, Inc. at all times. That is, interactive investor international plc must be able to make decisions that are in its best interests although they may not be in the best interests of Hollinger. Hollinger Digital, Inc. has nominated Daniel Colson as a non-executive director under this agreement.

The relationship agreement also grants Hollinger the right to appoint a non-executive director to interactive investor international plc's board for so long as it holds five per cent. or more of our issued shares. Hollinger Digital, Inc. is entitled to appoint an additional non-executive director to interactive investor international plc's board for so long as it holds 20 per cent. or more of its issued shares.

On January 31, 2000 interactive investor international plc entered into an agreement with Porpoise Investments Limited, the terms of which provide that, for so long as Porpoise holds five per cent. or more of interactive investor international plc's issued share capital, it shall be entitled to appoint a non-executive director to interactive investor international plc's board. Porpoise Investments Limited has nominated Laurie Yoler as a non-executive director under this agreement.

On June 4, 1999, interactive investor limited and Alexander Heath, its former Chief Executive Officer, entered into a settlement agreement whereby interactive investor limited was granted the right to require Mr. Heath to sell 1,200,000 shares held by him of a price of £1 per share. This right was subject to the prior exercise by Mr. Heath of his option to acquire 700,000 shares.

In January 2000, we agreed to assume all of the obligations of interactive investor limited under the agreement with Mr. Heath.

As part of the agreement with Mr. Heath, described above, conditionally upon the Offer becoming effective, Mr. Heath was released from his obligation to sell his shares to interactive investor limited, or as interactive investor limited may direct for £1.00 per share.

#### *Rights Issue*

On October 29, 1999, interactive investor limited announced its intention to raise approximately £6,000,000 by way of a one-for-ten rights issue of 3,371,968 shares at a price of £1.77 per share. A circular setting out the terms and conditions of the rights issue was mailed to interactive investor limited's shareholders on October 29, 1999. Under an agreement dated October 29, 1999, between interactive investor limited and Hollinger Digital, Inc., Hollinger agreed to subscribe at the issue price for any rights issue shares not subscribed by interactive investor limited's other shareholders under the terms of the rights issue. By the time of closing of the rights issue, 2,826,071 shares had been subscribed by interactive investor limited's shareholders. A balance of 545,896 shares were subscribed by Hollinger in accordance with its agreement with interactive investor limited.

#### **Business agreements**

##### *Data base agreement with Oracle U.K. Corporation*

On August 31, 1999, interactive investor limited entered into a licence agreement with Oracle Corporation U.K. Limited, under which Oracle Corporation U.K. Limited granted interactive investor limited a non-exclusive, non-transferable licence to use its software. The agreement is for a three year term beginning August 31, 1999.

#### **Miscellaneous Agreements**

##### *Substitution Agreement with Sherry Coutu*

On January 28, 2000, we entered into a settlement agreement with Ms. Coutu whereby her employment agreement with interactive investor limited was immediately terminated and we agreed to pay £90,000 to her in lieu of her entitlement to twelve months' notice set out in her employment agreement. On January 29, 2000, interactive investor international plc also entered into a letter of appointment whereby Ms. Coutu was appointed as a non-executive director and Chairman of interactive investor international plc. See "Management—Employment Agreements".

##### *Option Agreement with Hollinger Digital, Inc.*

On December 17, 1999, we entered into an agreement with Hollinger Digital, Inc. under which Hollinger was granted an option to purchase 2% of our fully diluted share capital at a price of £1.77 per share but only in the event that the offering did not take place prior to April 1, 2000. If the offering takes place prior to that date, the option lapses.

##### *Options exercise agreements with directors*

On February 4, 2000 we entered into agreements with each of Daniel Colson, Peter Dicks and Laurie Yoler pursuant to which they each acquired 90,000 ordinary shares at a price of £0.21 per share. Further details of these agreements are entered in the section entitled "Management" in this Prospectus.

## PRINCIPAL AND SELLING SHAREHOLDERS

The following table contains information concerning:

- the selling shareholder and its affiliates;
- each of our directors and executive officers;
- each person that we know owns beneficially more than three per cent. of our common stock;
- all of our directors and executive officers as a group; and
- an additional shareholder.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to the securities. The address for each listed director or officer is c/o interactive investor international plc, First Floor, 2 East Poultry Avenue, London, EC1A 9PT, England. Except as indicated by footnote, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them. The number of shares outstanding used in calculating the percentage for each listed person includes the shares underlying options or warrants held by each person that are exercisable within 60 days of January 31, 2000. Percentage of beneficial ownership is based on 112,149,425 shares outstanding before this offering and 164,149,425 shares outstanding after completion of this offering.

Name of Beneficial Owner	Beneficial Ownership Prior to the Offering		Shares to be Sold	Beneficial Ownership After the Offering	
	Number	Percentage		Number	Percentage
Directors and Named Executive Officers:					
Sherry Coutu(1) . . . . .	28,812,036	25.7	3,000,000	25,812,036	15.7
Tomás Carruthers(2) . . . . .	2,301,000	2.1	—	2,301,000	1.4
Max Ashton(3) . . . . .	1,652,627	1.5	—	1,652,627	1.0
Peter Dicks . . . . .	232,623	*	—	232,623	*
Daniel Colson(4) . . . . .	51,794,871	46.2	—	51,794,871	31.6
Laurie Yoler . . . . .	161,310	*	—	161,310	*
Julian Jaffe(5) . . . . .	1,055,172	*	—	1,055,172	*
Martin Harris(6) . . . . .	450,000	*	—	450,000	*
Candice Hodgson(7) . . . . .	100,440	*	—	100,440	*
John Blowers(8) . . . . .	111,900	*	—	111,900	*
All directors and executive officers as a group (ten persons)(9) . . . . .	86,671,979	77.6	3,000,000	83,671,979	51.0
Other 3% shareholders:					
Hollinger Digital, Inc.(10) . . . . .	51,704,871	46.1	—	51,704,871	31.5
Porpoise Investments Limited(1) . . . . .	28,812,036	25.7	3,000,000	25,812,036	15.7
F.C. Holtz and J.N. Holtz . . . . .	9,572,718	8.8	—	9,572,718	5.8
John Cooper . . . . .	6,337,011	5.7	—	6,337,011	3.9
Cheetah International Investments Limited . . .	6,586,959	5.9	—	6,586,959	4.0
Additional Shareholder:					
Alexander Heath(11) . . . . .	1,224,014	*	—	1,224,014	*

\* Indicates less than 1 per cent. of the shares

- (1) Includes 28,812,036 shares held by Porpoise Investments Limited, a Jersey, Channel Islands, investment company that is wholly owned by Charwell Trustees Limited, in its capacity as trustee of the Porpoise Trust, a discretionary trust of which members of Ms. Coutu's immediate family are beneficiaries. Ms. Coutu has no pecuniary interest in and disclaims beneficial ownership of the shares listed above. This number also includes 3,312,036 shares held by Porpoise Investments Limited pursuant to a linking agreement dated November 24, 1998, under which Porpoise Investments Limited agreed to

transfer these ordinary shares in satisfaction of part of our obligations under options granted to our employees. Pursuant to this offering, Porpoise Investments Limited is selling 3,000,000 shares. If the underwriters' over-allotment option is exercised, Porpoise Investments Limited will sell up to 2,000,000 additional shares at such time. If Porpoise sells these additional shares, it will beneficially own 23,812,036 shares after this offering, or 14.5 per cent.

- (2) Includes options to acquire 2,199,000 shares.
- (3) Includes options to acquire 1,176,437 shares.
- (4) Includes 90,000 shares held by Daniel Colson and 51,704,871 shares held by Hollinger Digital Inc. Mr. Colson, a director of Hollinger Digital, Inc. and an executive employee of other companies in the Hollinger group, disclaims beneficial ownership of the shares listed above except to the extent that Mr. Colson has a pecuniary interest in those shares as a director and executive employee of those companies.
- (5) Includes options to acquire 1,013,835 shares.
- (6) Includes options to acquire 450,000 shares.
- (7) Includes options to acquire 100,440 shares.
- (8) Includes options to acquire 111,900 shares.
- (9) Includes 81,620,367 issued shares held by the directors and named executive officers above and 5,051,612 options and warrants to acquire shares exercisable within 60 days of January 31, 2000.
- (10) Includes 51,704,871 shares held by Hollinger Digital, Inc. If the underwriters' over-allotment option is exercised, Hollinger Digital, Inc. will sell up to 5,000,000 shares at such time. If Hollinger Digital, Inc. sells 5,000,000 shares, it will beneficially own 46,704,871 shares after the offering, or 28.5 per cent.
- (11) Mr. Heath was our Chief Executive Officer until November 1998. If the underwriter's over-allotment option is exercised, Mr. Heath will sell up to 1,100,000 shares at such time. If Mr. Heath sells 1,100,000 shares, he will beneficially own 124,014 shares after this offering, or less than one per cent.

## DESCRIPTION OF SHARE CAPITAL

### General

This section summarises the material rights of the holders of shares under English law and the material provisions of our Memorandum and Articles of Association. This summary is subject to and is qualified in its entirety by reference to the Companies Act and our Memorandum and Articles of Association.

When this offering is completed, our authorised share capital will consist of 325,000,000 ordinary shares with a nominal value of 1p per share. 164,149,425 of our ordinary shares will have been issued and fully paid or credited as fully paid, all of which will be in registered form. No holder of our shares will be required to make additional contributions of capital in respect of our shares in the future.

The following summarises the material rights of holders of our shares. Copies of our Memorandum and Articles of Association have been filed as exhibits to the registration statement of which this prospectus is a part.

### Memorandum of Association

Clause 3.1 of our Memorandum of Association provides that our principal object is to carry on the business of a general commercial company.

### Shareholder Meetings

An annual general meeting of our shareholders must be held once each calendar year within a period of not more than 15 months after the previous annual general meeting, the first annual general meeting to be held in 2000.

### Voting Rights

Subject to the Articles generally, at a general meeting, every shareholder who is present in person shall have one vote on a show of hands, and every shareholder who is present in person or by proxy shall have one vote for every share he holds on a poll.

A poll may be demanded by any of the following:

- the chairman of the meeting, or
- any shareholder or shareholders representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote at the meeting.

A proxy form will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one.

Matters are transacted at our general meetings by the proposing and passing of resolutions, of which there are three kinds:

- an ordinary resolution, which includes resolutions for the election of directors, the approval of financial statements, the cumulative annual payment of dividends, the appointment of auditors, the increase of authorized share capital or the grant of authority to allot shares;
- a special resolution, which includes resolutions amending our Memorandum and Articles of Association or changing our name; and
- an extraordinary resolution, which includes resolutions modifying the rights of any class of our shares at a meeting of the holders of such class or relating to certain matters concerning our winding-up.

An ordinary resolution requires the affirmative vote of a majority in the votes of those persons voting at a meeting at which there is a quorum.

Special and extraordinary resolutions require the affirmative vote of not less than three-fourths of the persons voting at a meeting at which there is a quorum.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting is not entitled to cast the deciding vote in addition to any other vote he or she may have. Meetings are generally convened upon advance notice of 21 days for the passing of a special resolution and 14 days for any other resolution; depending on the nature of the business to be transacted. The days of delivery or receipt of the notice are not included.

### **Dividends**

We have never paid or declared any cash dividends. We may, by ordinary resolution, declare dividends to be paid to our shareholders not to exceed the amount recommended by our directors. If our directors believe that dividends are justified, they may pay dividends, including interim dividends, and in the amounts and on the dates that they deem appropriate. Where shares are not fully paid throughout the relevant period, unless the rights of the shares otherwise provide, all dividends shall be apportioned and paid on a pro rata basis. For this purpose, no amount paid on a share in advance of calls shall be treated as paid on the share.

No dividend will be paid other than from our profits available for distribution.

Any dividend that is unclaimed for 12 years from the date on which it was declared or became due for payment shall be forfeited and will revert to us.

Our directors may offer shareholders the right to receive new shares instead of a dividend.

### **Winding Up**

If we are dissolved, a liquidator may, with the authority of an extraordinary resolution:

- divide among the shareholders our assets and may determine and assign fair value to the property to be divided and may decide how the division will be carried out between the shareholders of different classes of shares; and
- place any part of our assets in trusts for the benefit of shareholders, as the liquidator shall think fit, and our liquidation may be closed and we may be dissolved. No shareholder may be compelled to accept any shares or other property in respect of which there is a liability.

### **Issues of Shares and Pre-emptive Rights**

All of our unissued shares may be allotted by our directors and they may grant options over, or otherwise dispose of, our shares to those persons, at the times and on the terms as they think proper, subject to the provisions of applicable English law and to obtaining the approval of our shareholders pursuant to a resolution of shareholders passed in a general meeting.

Our directors may determine that any class of shares may be held in uncertificated form and title to shares may be transferred by means of a relevant system in accordance with the CREST regulations. Our directors also may determine that shares of any class should cease to be held and transferred as stated above. Any provisions of our Articles that are inconsistent with this right of our directors shall not apply to shares of any class that are in uncertificated form.

### **Transfer of Shares**

All transfers of shares that are in certificated form may be effected in writing in any common form or in any other form acceptable to our directors. The transfer instrument must be signed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The transferor will



remain the holder of the shares until the transferee's name is entered in our share register. All transfers of shares that are in uncertificated form may be effected by means of a relevant system.

Our directors may decline to recognise any transfer of shares in certificated form unless it is

- in respect of only one class of share, and
- registered at the transfer office, duly stamped if required, accompanied by the relevant share certificates and any other evidence reasonably required by our directors to show the transferor's right to make the transfer.

Our directors may, refuse to register a transfer if, in their opinion, and with the concurrence of the London Stock Exchange, exceptional circumstances so warrant. Our directors also may refuse to register an allotment or transfer of shares, whether fully paid or not, in favour of more than four persons jointly.

If our directors refuse to register an allotment or transfer of shares, they shall send to the allottee or transferee notice of the refusal within two months after the date on which:

- the letter or notice of allotment or transfer was lodged with us, in the case of shares held in certificated form, or
- the operator-instruction required by the CREST regulations was received by us, in the case of shares held in uncertificated form.

#### **Untraced shareholders**

We will be entitled to sell shares registered in the name of an untraceable shareholder at the best price reasonably obtainable as long as:

- during the period of 12 years prior to the date of the publication of the advertisement referred to below at least three dividends in respect of the shares have become payable and no dividend has been claimed;
- we have, on expiry of this 12-year period, advertised our intention to sell the shares in both a national newspaper and in a newspaper circulating in the area of the last known address of the shareholder or the address at which service of notices on that shareholder may be effected under the Articles;
- during the period of three months following the publication of these advertisements, we have not received any communication from the relevant shareholder; and
- notice has been given to the London Stock Exchange of our intention to sell these shares.

The net proceeds of sale will belong to us and we will be obliged to account to the former shareholder for those proceeds. No trust shall be created in respect of this debt, no interest shall be payable on it and we will not be required to account for any money earned on the net proceeds which may be retained and used by us as our directors may see fit, other than by investing in our shares or those of our holding company, if any.

#### **Disclosure of Interests**

The U.K. Companies Act 1985 requires that if you become directly or indirectly interested in three per cent. or more of any class of our issued shares, including shares held in the form of ADSs, that carry the right to vote at our general meetings, you must notify us of this interest within two U.K. business days. After the three per cent. threshold is exceeded, you must notify us in respect of increases or decreases of one per cent. or more within two U.K. business days of any increase or decrease.

For the purposes of the notification obligation, the interest of a person in shares includes interests in any shares:

- of that person's spouse, or
- of that person's child or stepchild under the age of 18, or
- of a corporate body and either (a) that corporate body or its directors generally act in accordance with that person's directions or instructions or (b) that person controls one-third or more of the voting power of that corporate body, or
- another party and the person and the other party are parties to a "concert party" agreement as defined under Section 204 of the Companies Act. A concert party agreement is one that provides for one or more parties to acquire interests in shares of a particular company and imposes obligations or restrictions on any one of the parties as to the use, retention or disposal of the interests acquired pursuant to the agreement and any interest in the relevant company's shares is, in fact, acquired by any of the parties pursuant to the agreement. Some interests defined in the Companies Act, such as those held by investment fund managers, may be disregarded for the purposes of calculating the three per cent. threshold, but the disclosure obligation will still apply where interests exceed 10 per cent. or more of any class of our relevant share capital and to subsequent increases or decreases of one per cent. or more.

In addition, Section 212 of the Companies Act provides that we may, by written notice, require a person that we know, or have reasonable cause to believe, is or has been, at any time during the three years immediately preceding the date on which the notice is issued, interested in our share capital to confirm that fact. Where that person holds or, during the relevant time, held an interest in those shares, that person can be required to give further information relating to that interest and any other interest in our shares of which that person is aware.

Where notice is served by us under the foregoing provisions on a person that is or was interested in our shares and that person fails to give the company the information required by the notice within the time specified in the notice, we may apply to the English courts for an order directing that the shares in question be subject to restrictions prohibiting, among other things, transfer of those shares, exercise of voting rights and any other rights in respect of those shares including, other than in liquidation, payments in respect of the shares.

A person that fails to fulfil the obligations imposed by Section 198 and Section 212 of the Companies Act described above may be subject to criminal penalties.

### **Restrictions on Voting**

If any shareholder, or any other person with an interest in a shareholder's shares, has been duly served with a notice under Section 212 of the Companies Act and is in default for a period of 14 days in supplying us the information required by the notice, then, unless our directors determine otherwise, that shareholder will not, for so long as the default continues, be entitled to attend or vote, either personally or by proxy, at a shareholders' meeting or to exercise any other right conferred to shareholders in relation to shareholders' meetings, in respect of the shares to which the default relates, referred to as Default Shares, as well as any other shares held by the shareholder.

Where the Default Shares represent 0.25 per cent. or more of the issued shares of the class in question, any one of our directors or our corporate secretary may, in their absolute discretion, by notice to the shareholder, direct that:

- any dividend or part thereof or other money that otherwise would be payable in respect of the Default Shares shall be retained by us, without any liability to pay interest when the dividend or other money

is finally paid to the shareholder, and the shareholder shall not be entitled to elect to receive shares instead of a dividend, and/or

- no transfer of any of the shares held by the shareholder shall be registered unless (a) the transfer is an approved transfer as defined in our Articles or (b) the shareholder is not in default with supplying the information required, the transfer is only part of the shareholder's holding and, when presented for registration, is accompanied by a certificate by the shareholder, in a form satisfactory to our directors, to the effect that, after due and careful inquiry, the shareholder is satisfied that none of the shares subject to the transfer are Default Shares. In the case of shares in uncertificated form, our directors may only exercise their discretion to register a transfer if the CREST Regulations permit it. Any notice described in this paragraph shall cease to have effect in relation to any shares that are transferred by the shareholder through an approved transfer or as described above.

### **Variation of Rights**

As our share capital may be divided into different classes of shares, the special rights attached to any class existing from time to time may only be changed with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the relevant class. These rights may be so changed either while we are a going concern or during or in contemplation of a winding-up. At every separate meeting the necessary quorum shall be at least two persons holding, or representing by proxy, at least one third of the issued shares of the class. If the meeting is adjourned, any holder of shares of the class present in person or by proxy may demand a poll in which every holder has one vote for every share of the class held by him.

### **Alteration of Share Capital**

Our board may, by ordinary resolution:

- increase our capital by any amount;
- consolidate or divide all or any of our share capital into shares of a larger, or smaller, nominal amount than our existing shares;
- cancel any shares that have not been taken or agreed to be taken, by any person and reduce our share capital by the amount of the shares so cancelled; and
- subdivide our shares into shares of a smaller nominal amount than is fixed by our Memorandum of Association; and determine that one or more of the shares may, as compared with the others, have the preferred, deferred or other special rights or be subject to the restrictions, that we have power to attach to unissued or new shares.

We may purchase, or may enter into a contract under which we purchase, any of our own shares of any class, including any redeemable shares. If there are at any time in issue any shares or other securities that are admitted to the Official List of the London Stock Exchange and that are convertible into our equity share capital of the class proposed to be purchased, then we will not purchase, or enter into a contract under which we purchase, those equity shares, unless either:

- the terms of issue of the convertible securities include provisions that permit us to purchase our own equity shares or provide for adjustment to the conversion terms upon purchase by us of the underlying equity shares; or
- the purchase or the contract first has been approved by an extraordinary resolution passed at a separate meeting of the holders of the convertible shares or other securities.

Subject to any rights conferred on the holders of any class of shares, we may, by special resolution, reduce our share capital or any capital redemption reserve, share premium account or other undistributable reserve in any way.

## **Reserves**

Our directors may occasionally set aside a portion of our profits or reserve the sum they think proper that, in their discretion, will be applicable for any purposes that our profits may be used. Pending that application, these profits may either be employed in our business or invested. Our directors may divide the reserve into the special funds they think fit and may consolidate into one fund any special funds or parts of special funds into which the reserve may have been divided. Our directors may carry forward any profits rather than place them in reserve.

## **Capitalisation of Profits and Reserves**

Our directors may, with the sanction of an ordinary resolution, capitalise any sum in our reserve accounts, including any share premium account, capital redemption reserve or other undistributable reserve, or our profit and loss account. That capitalisation will be effected by appropriating the sum to shareholders on our register at the close of business on the date of the resolution, or another date as may be specified or determined, in proportion to their then shareholdings and applying that sum in paying up in full unissued shares or, subject to any special rights of any shares or class of shares, unissued shares of any other class, to be allotted and distributed to them as bonus shares. Our directors may do anything considered necessary for the capitalisation and have full power to make any necessary provisions for entitlements to fractional shares which arise. Our directors may authorise any person to enter into an agreement with us on behalf of all our interested shareholders in relation to any capitalisation and incidental matters, and any agreement made under that authority shall be effective and binding on all concerned.

## DESCRIPTION OF THE AMERICAN DEPOSITARY RECEIPTS

### American Depositary Receipts

*The Deposit Agreement will be entered into between the Company and the Bank of New York prior to announcement of the Offer Price. However, the following description of the depositary arrangements is given on the basis that the Deposit Agreement has been entered into as at the date of this Prospectus. Accordingly, the depositary arrangements may be subject to change prior to the entering into of the Deposit Agreement. The Company will notify you of any material changes to such arrangements.*

The Bank of New York will issue the ADSs. Each ADS will represent an ownership interest in ten shares. The shares or the right to receive shares will be deposited by us with the custodian, which is currently the London office of The Bank of New York. Each ADS will also represent securities, cash or other property deposited with The Bank of New York but not distributed to ADS holders. The Bank of New York's Corporate Trust Office is located at 101 Barclay Street, New York, NY 10286, its principal executive office is located at One Wall Street, New York, New York 10286, and the Custodian's office is currently located at One Canada Square, London E14 5AL.

You may hold ADSs either directly or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because The Bank of New York will actually be the legal owner of the shares, you must rely on it to exercise the rights of a shareholder. The obligations of The Bank of New York are set out in a deposit agreement among interactive investor international plc, The Bank of New York and you, as an ADS holder. The deposit agreement and the ADSs are generally governed by New York law.

The following is a summary of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the ADR. Copies of the deposit agreement and the ADR will be available for inspection at the Corporate Trust Office of The Bank of New York and at the London office of the Custodian set forth above.

### Share Dividends And Other Distributions

The Bank of New York has agreed to pay to you the cash dividends or other distributions it or the Custodian receives on shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

#### *Cash*

The Bank of New York will, as promptly as practicable, convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from any government is needed and can not be obtained, the agreement allows The Bank of New York to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It may hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for the interest.

Before making a distribution, any withholding taxes that must be paid will be deducted. See "Taxation". It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when The Bank of New York cannot convert the foreign currency, you may lose some or all of the value of the distribution.

### *Shares*

The Bank of New York will distribute new ADSs representing any shares we may distribute as a dividend or free distribution, if we request it to make this distribution. The Bank of New York will only distribute whole ADSs. It will sell shares which would require it to issue a fractional ADS and distribute the net proceeds in the same way as it does with cash. If The Bank of New York does not distribute additional ADSs, each ADS will also represent the new shares.

### *Rights to receive additional shares.*

If we offer holders of securities any rights to subscribe for additional shares or any other rights, The Bank of New York, after consultation with us, will have discretion as to the procedure to be followed in making these rights available to you. If The Bank of New York decides it is not legal or feasible to make these rights available to you, The Bank of New York may sell the rights and allocate the net proceeds. The Bank of New York may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

After consultation with us, if The Bank of New York makes rights available to you, upon instruction from you it will exercise the rights and purchase the shares on your behalf. The Bank of New York will then deposit the shares and issue ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. For example, you may not be able to trade the ADSs freely in the United States. In this case, The Bank of New York may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for the changes needed to put the restrictions in place. The Bank of New York will not offer you rights unless those rights and the securities to which the rights relate are either exempt from registration or have been registered under the Securities Act with respect to a distribution to you. We will have no obligation to register under the Securities Act those rights or the securities to which they relate.

### *Other Distributions*

The Bank of New York will, after consultation with us, send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, The Bank of New York, after consultation with us, may decide to sell what we distributed and distribute the net proceeds in the same way as it does with cash or it may decide to hold what we distributed, in which case the ADSs will also represent the newly distributed property.

The Bank of New York is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, shares, rights or anything else to ADS holders. This means that you may not receive the distribution we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.

### **Deposit, Withdrawal and Cancellation**

The Bank of New York will issue ADSs if you or your broker deposit shares or evidence of rights to receive shares with the Custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, The Bank of New York will register the appropriate number of ADSs in the names you request and will deliver the ADSs at its Corporate Trust Office to the persons you request.

You may turn in your ADSs at The Bank of New York's Corporate Trust Office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees. The Bank of New York will deliver (1) the underlying shares to the office of the Custodian to or upon the order of the person designated in the instructions received by the Bank of New York and (2) any other deposited securities underlying the ADS at The Bank of New York's Corporate Trust Office. Or, at your request, risk and expense. The Bank of New York will deliver the deposited securities at its Corporate Trust Office.

### **Voting Rights**

You may instruct The Bank of New York to vote the shares underlying your ADSs. Otherwise, you won't be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.

We will ask The Bank of New York to notify you of the upcoming vote and to arrange to deliver our voting materials to you. The materials will (1) describe the matters to be voted on and (2) explain how you, on a specified date, may instruct The Bank of New York to vote the shares or other deposited securities underlying your ADSs as you direct. For instructions to be valid, The Bank of New York must receive them on or before the date specified. The Bank of New York will try, as far as practical and permitted by English law, subject to the provisions of the Memorandum and Articles of Association, to vote or to have its agents vote the shares or other deposited securities as you instruct. If The Bank of New York does not receive instructions from you by the date specified, The Bank of New York will deem you to have instructed The Bank of New York to give a discretionary proxy to a person designated by us and The Bank of New York will give a discretionary proxy to a person designated by us to vote those shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct The Bank of New York to vote your shares. In addition, The Bank of New York and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as your requested.

### **Fees and Expenses**

<b><i>ADS holders must pay:</i></b>	<b><i>For:</i></b>
\$5.00 (or less) per 100 ADSs	• Each issuance of an ADS, including as a result of a distribution of shares or rights or other property. Each cancellation of an ADS, including if the agreement terminates.
\$.02 (or less) per ADS	• Any cash payment.
Registration or Transfer Fees	• Transfer and registration of shares on the share register of the Foreign Registrar from your name to the name of The Bank of New York or its agent when you deposit or withdraw shares.
Expenses of The Bank of New York	• Conversion of foreign currency to U.S. dollars Cable, telex and facsimile transmission expenses.
Taxes and other governmental charges The Bank of New York or the Custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	• As necessary.

### Payment of Taxes

The Bank of New York may deduct the amount of any taxes owed from any payments to you. The Bank of New York may refuse to transfer your ADS or allow you to withdraw the deposited securities underlying your ADSs until these taxes or other charges are paid. The Bank of New York may withhold any dividends or other distributions, or may also sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes. If The Bank of New York sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

### Reclassifications, Recapitalisation and Mergers

If we:	Then:
<ul style="list-style-type: none"><li>• Change the nominal or par value of our shares;</li><li>• Reclassify, split up or consolidate any of the deposited securities;</li><li>• Distribute securities on the shares that are not distributed to you; or</li><li>• Recapitalise, reorganise, merge, liquidate, sell all or substantially all of its assets, or take any similar action,</li></ul>	<p>The cash, shares or other securities received by The Bank of New York will become deposited securities.</p> <p>Each ADS will automatically represent its equal share of the new deposited securities.</p> <p>The Bank of New York may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also issue new ADSs or ask you to surrender your outstanding ADSs in exchange for new ADSs, identifying the new deposited securities.</p>

### Disclosure of Interests

You, and each ADS holder, agree to provide the information that we request in each disclosure notice given pursuant to the Companies Act or our Memorandum and Articles of Association. You acknowledge that you understand that if you fail to provide this information on a timely basis, sanctions may be imposed against the holder of shares represented by ADSs in which you are or were or appear to be or have been interested, as provided in the Companies Act and our Memorandum and Articles of Association. These sanctions include the withdrawal of the voting rights and the imposition of restrictions on the rights to receive dividends. You also agree to comply with the provisions of the Companies Act that require you to notify us if you become directly or indirectly interested, within the meaning of the Companies Act, in three per cent. or more of our outstanding shares or are aware that another person for whom you hold ADRs is so interested. You must notify us of your or their interest within two business days after becoming so interested or so aware. In addition, the Companies Act requires that you notify us if your or their interest changes by at least one per cent. of our outstanding shares.

### Amendment and Termination

We may agree with The Bank of New York to amend the agreement and the ADSs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or administrative expenses of The Bank of New York, or prejudices an important right of ADS holders, it will only become effective thirty days after The Bank of New York notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADR, to agree to the amendment and to be bound by the ADR and the agreement as amended.



The Bank of New York will terminate the agreement if we ask it to do so. The Bank of New York may also terminate the agreement if The Bank of New York has told us that it would like to resign and we have not appointed a new depositary bank within 90 days. In both cases, The Bank of New York must notify you at least 90 days before termination.

After termination, The Bank of New York and its agents will be required to do only the following under the agreement:

- collect dividends and distributions on the deposited securities,
- sell rights offered to you,
- and deliver shares and other deposited securities upon cancellation of ADSs.

Any time after one year after termination, The Bank of New York will, if practical, sell any remaining deposited securities by public or private sale. After that, The Bank of New York will hold the proceeds of the sale, as well as any other cash it is holding under the agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and will have no liability for interest. The Bank of New York's only obligations will be to account for the proceeds of the sale and other cash. After termination our only obligations will be with respect to indemnification and to pay fees and expenses of The Bank of New York.

#### **Limitations on Obligations and Liability to ADS Holders**

The deposit agreement expressly limits our obligations and the obligations of The Bank of New York, and it limits our liability and the liability of The Bank of New York. We and The Bank of New York:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the deposit agreement on your behalf or on behalf of any other party; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we and The Bank of New York agree to indemnify each other under specified circumstances.

#### **Requirements for Depositary Actions**

Before The Bank of New York will issue or register transfer of an ADS, make a distribution on an ADS, or withdrawal of shares, The Bank of New York may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with laws or governmental regulations relating to ADSs or the withdrawal of deposited securities and any reasonable regulations, if any, that The Bank of New York may establish, from time to time, consistent with the agreement, including presentation of transfer documents.

The Bank of New York may refuse to deliver, transfer, or register transfers of ADSs generally when our books or The Bank of New York's books are closed, or at any time if The Bank of New York or we think it advisable to do so.

You have the right to cancel your ADSs and withdraw the underlying shares at any time except:

- when temporary delays arise because: we or The Bank of New York have closed our transfer books in connection with voting at a shareholders' meeting; or we are paying a dividend on the shares;
- when you or other ADS holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the agreement.

### **Pre-Release of ADSs**

Subject to the provisions of the deposit agreement, The Bank of New York may issue ADSs before deposit of the underlying shares. This is called a pre-release of ADSs. The Bank of New York may also deliver shares prior to the receipt and cancellation of pre-released ADSs even if the ADSs are cancelled before the pre-release transaction has been closed out. A pre-release is closed out as soon as the underlying shares are delivered to The Bank of New York. The Bank of New York may receive ADSs instead of shares to close out a pre-release. The Bank of New York may pre-release ADSs only under the following conditions:

- (1) before or at the time of the pre-release, the person to whom the pre-release is being made must represent to The Bank of New York in writing that it or its customer, as the case may be,
  - (a) owns the shares or ADSs to be remitted,
  - (b) will assign all beneficial rights, title and interest in the ADSs or shares to The Bank of New York in its capacity as the depositary and for the benefit of the holders of the ADSs and
  - (c) will not take any action with respect to the ADSs or shares that is inconsistent with the assignment of beneficial ownership, including, without the consent of The Bank of New York, disposing of the ADSs or shares, other than in satisfaction of the pre-release;
- (2) the pre-release must be fully collateralised with cash or collateral that The Bank of New York considers appropriate; and
- (3) The Bank of New York must be able to close out the pre-release on not more than five business days' notice.

The pre-release will be subject to whatever indemnities and credit regulations that The Bank of New York considers appropriate. In addition, The Bank of New York will limit the number of ADSs that may be outstanding at any time as a result of pre-release.

## SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of our shares and ADSs in the public market could adversely affect prevailing market prices of our shares and ADSs. Furthermore, since few shares will be available for sale shortly after this offering because of the contractual and legal restrictions on resale described below, sales of substantial amounts of shares and ADSs in the public market after these restrictions lapse could adversely affect the prevailing market price and our ability to raise equity capital in the future.

Upon completion of this offering, we will have outstanding an aggregate of 164,149,425 shares, assuming no exercise of outstanding options. Of these shares, all of the shares sold in this offering will be freely tradeable in the U.S. without restriction or further registration under the Securities Act, unless those shares are purchased by "affiliates", as that term is defined in Rule 144 under the Securities Act. The remaining shares held by existing shareholders are "restricted securities", as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the U.S. public market only if registered or if they qualify for an exemption from registration under Rule 144 or 701 under the Securities Act, which rules are summarised below. All of our shares, regardless of whether these shares are deemed to be "restricted securities" under the Securities Act, are freely tradeable on the London Stock Exchange.

### Lock-up Agreements

We will sign a lock-up agreement with the underwriters agreeing, subject to limited exceptions, not to offer, sell, pledge or otherwise dispose of, directly or indirectly, any shares or any securities convertible into or exercisable or exchangeable for shares, for a period of 180 days after the date of Admission without the consent of Credit Suisse First Boston.

Our principal shareholders and Mr Alexander Heath have signed lock-up agreements with us and Credit Suisse First Boston under which they have agreed not to sell, transfer or otherwise dispose of any shares or interests in shares, subject to certain exceptions set out below, for the following restricted periods:

- Porpoise Investments Limited—12 months from Admission
- Hollinger Digital, Inc.—six months from Admission
- Alexander Heath—six months from Admission.
- FC Holtz and JN Holtz—three months from Admission
- Cheetah International Investments Limited—three months from Admission
- John A Cooper—three months from Admission

In relation to the last three shareholders referred to above, in the period from three to six months from Admission, the shareholders may sell, transfer or dispose of up to 10 per cent. of the nominal value of their shares. The balance of their shareholdings will remain locked-up.

Our directors and key employees including Sherry Coutu, Tomás Carruthers, Max Ashton, Peter Dicks, Daniel Colson, Laurie Yoler, Julian Jaffe, Martin Harris, Candice Hodgson and John Blowers have also signed lock-up agreements with us and Credit Suisse First Boston.

They have agreed not to sell, transfer or otherwise of any shares or interests of shares for a period of 12 months from Admission, subject to certain exceptions set out below.

The restrictions in the lock-up agreements on sales, transfers or other disposals of shares and interests in shares do not apply:

- where the shareholder is a corporate entity, to permitted transfers to group companies;

- where the shareholder is an individual, to permitted transfers to spouses, children or to the trustee of a trust under which no person other than the shareholder, his or her spouse and/or his or her children has or is able to take any beneficial interest;
- in the event of a general offer for the whole of our share capital in accordance with the U.K.'s City Code on Takeovers and Mergers;
- where we have agreed, together with CSFB, to waive the restrictions; and
- where the shareholder is a party to either the underwriting agreement (described in the section entitled "Underwriting") or the linking agreement (described in the section entitled "Certain Transactions and Relationships"), to sales permitted by those agreements.

All of the Group's other employees will be subject to restrictions on sales of their shares and will be required to comply with the Company's share dealing rules. Employees holding 300,000 shares or more are subject to a lock-up of 12 months from Admission. Employees holding less than 300,000, but more than 150,000 shares, are subject to a lock-up of six months. Each employee is entitled to sell 15,000 shares in any six month period.

#### **Rule 144**

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned "restricted shares", as defined in Rule 144, for at least one year, including the holding period of any prior owner, except an affiliate, is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of

- (a) one per cent. of the number of ordinary shares then outstanding or
- (b) the average weekly trading volume of the ordinary shares on the Nasdaq National Market during the four calendar weeks preceding the required filing of a Form 144 with respect to that sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us. Under Rule 144(k), a person that is not deemed to have been an affiliate at any time during the 90 days preceding a sale and that has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner, except an affiliate, is entitled to sell those shares without complying with the manner of sale, public information, volume and other limitation or notice provisions of Rule 144. In general, under Rule 701 of the Securities Act as currently in effect, any employee, consultant or adviser of ours that purchases shares from us in connection with a compensatory share or option plan or other written agreement is eligible to resell those shares 90 days after the effective date of our initial public offering in reliance on Rule 144, but without compliance with restrictions, including the holding period, contained in Rule 144.

## TAXATION

The following discussion summarises the material U.S. federal income tax consequences and U.K. tax consequences of the acquisition, ownership and disposition of shares, including shares represented by ADSs evidenced by ADRs. This summary applies to you only if you are a beneficial owner of ADSs or shares and you are:

- an individual citizen or resident of the United States;
- a corporation organised under the laws of the United States or any state thereof or the District of Columbia; or
- otherwise subject to U.S. federal income tax on a net income basis in respect of the shares or ADSs.

This summary applies only to holders who will hold ADSs or shares as capital assets. This summary is based:

- upon current U.K. tax law and U.S. law, and U.K. Inland Revenue and U.S. Internal Revenue Service practice,
- upon the United Kingdom-United States Income Tax Convention as in effect on the date of this Prospectus and the United Kingdom-United States Convention relating to estate and gift taxes as in effect on the date of this Prospectus, and
- upon the assumption that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any related agreement will be performed in accordance with its respective terms.

The following summary is of a general nature and does not address all of the tax consequences that may be relevant to you in light of your particular situation. For example, this summary does not apply to U.S. expatriates, insurance companies, regulated investment companies, tax-exempt organisations, financial institutions, persons subject to the alternative minimum tax, securities broker-dealers, holders who hold ADSs or shares as part of hedging or conversion transactions or holders who own directly, indirectly or by attribution 10 per cent. or more of the voting power of our shares and holders whose functional currency for U.S. tax purposes is not the United States dollar. In addition, the following summary of U.K. tax considerations does not, save where indicated otherwise, apply to you if:

- you are resident or, in the case of an individual, ordinarily resident in the United Kingdom for U.K. tax purposes,
- your holding of ADSs or shares is effectively connected with a permanent establishment in the United Kingdom through which you carry on business activities or, in the case of an individual who performs independent personal services, with a fixed base in the United Kingdom, or
- you are a corporation which, alone or together with one or more associated corporations, controls directly or indirectly, 10 per cent. or more of our issued voting share capital.

You should consult your own tax advisers as to the particular tax consequences to you under U.K., U.S. federal, state and local and other foreign laws, of the acquisition, ownership and disposition of ADSs or shares. For U.S. federal income tax purposes, U.S. holders of ADSs will be treated as owners of the underlying shares and the discussion of U.S. federal income tax consequences to U.S. holders of ADSs applies as well to U.S. holders of shares.

## United Kingdom Tax Considerations

The following discussion of U.K. tax consequences is based on the opinion of S J Berwin & Co., our U.K. counsel.

### *Taxation of Dividends and Distributions*

Under current U.K. taxation legislation, no tax will be withheld from dividend payments by us.

U.S. holders of shares or ADSs will not receive any payment from the U.K. Inland Revenue in respect of any tax credit on dividends paid by iii. This is because the U.S./U.K. Income Tax Convention provides for a notional U.K. withholding tax, at the rate of 15 per cent., which exceeds the tax credit of 10 per cent. to which an individual resident in the U.K. would have been entitled had he received the dividend.

You should consult your own tax advisers as to whether any tax credit or the notional U.K. withholding tax under the U.S./U.K. Income Tax Convention will be considered to have been paid with respect to dividends.

### *United Kingdom Taxation of Capital Gains*

You will not ordinarily be liable for U.K. tax on capital gains realised on the disposal of a share or ADS, including in respect of the Exchange Event, unless, at the time of the disposal, you carry on a trade, including a profession or vocation, in the U.K. through a branch or agency and the disposed share or ADS is, or has been, held or acquired for the purposes of that trade or branch or agency.

A holder of shares or ADSs who is an individual and who has on or after March 17, 1998, ceased to be resident or ordinarily resident for tax purposes in the U.K. and continues not to be resident or ordinarily resident in the U.K. for a period of less than five years and who disposes of shares or ADSs during that period may also be liable to U.K. tax on capital gains, notwithstanding that he or she is not resident or ordinarily resident in the U.K. at the time of the disposal.

### *United Kingdom Inheritance Tax*

Subject to the discussion of the U.S./U.K. Convention on Estate Tax in the next paragraph, shares or ADSs beneficially owned by an individual will be subject to U.K. inheritance tax on the death of the individual or, in some circumstances, if the shares or ADSs are the subject of a gift, including a transfer at less than full market value, by that individual. Inheritance Tax is not generally chargeable on gifts to individuals or to some types of settlement made more than seven years before the death of the donor. Special rules apply to shares or ADSs held in a settlement.

A share or ADS held by an individual whose domicile is determined to be the United States for purposes of the U.S./U.K. Convention on Estate Tax, and who is not a national of the U.K., will not be subject to U.K. inheritance tax on the individual's death or on a lifetime transfer of the share or ADS except where the share or ADS:

- is part of the business property of a U.K. permanent establishment of an enterprise, or
- pertains to a U.K. fixed base of an individual used for the performance of independent personal services.

The U.S./U.K. Convention on Estate Tax generally provides a credit against U.S. federal tax liability for the amount of any tax paid in the U.K. in a case where the share or ADS is subject both to U.K. inheritance tax and to U.S. federal estate or gift tax.

### *United Kingdom Stamp Duty and Stamp Duty Reserve Tax*

A liability to stamp duty or stamp duty reserve tax will arise in relation to the sale of shares by the selling shareholder under the offering. The selling shareholder will meet any liability to stamp duty or stamp duty reserve tax, at the rate of 0.5 per cent., arising in respect of the initial transfer of the shares sold by them to purchasers under the offering.

U.K. stamp duty will, subject to specific exceptions, be payable at the rate of 1.5 per cent., rounded up to the nearest £5, of the value of shares in registered form on any instrument pursuant to which shares are issued or transferred:

- to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or
- to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts.

This would include issues or transfers of shares in registered form to the Custodian for deposits under the deposit agreement. Stamp Duty Reserve Tax, or SDRT, at the rate of 1.5 per cent. of the value of the shares, could also be payable in these circumstances, but no SDRT will be payable if stamp duty equal to that SDRT liability is paid. In circumstances where stamp duty is not payable on the transfer of shares in registered form to the Custodian at the rate of 1.5 per cent., such as where there is no chargeable instrument, SDRT will be payable to bring the charge up to 1.5 per cent. in total.

In accordance with the terms of the deposit agreement, any tax or duty payable by the Custodian on any transfers of shares in registered form will be charged by the Custodian to the party to whom ADRs are delivered against those transfers.

We will pay any U.K. stamp duty or SDRT charges that arise as a result of the initial deposit of shares with the Custodian or issue by us of shares to the Custodian pursuant to the offering. In accordance with the terms of the deposit agreement, any stamp duty, SDRT or other taxes or duties payable by the Custodian on any other deposit of shares will be charged by the Custodian to the holder of the ADS or any deposited security represented by the ADS.

No U.K. stamp duty will be payable on the acquisition of any ADS or on any subsequent transfer of an ADS, provided that the transfer and any subsequent instrument of transfer remains at all times outside the U.K. and that the instrument of transfer is not executed in or brought into the U.K. An agreement to transfer an ADS will not give rise to SDRT.

Subject to some exceptions, a transfer on sale of shares in registered form will attract *ad valorem* U.K. stamp duty at the rate of 0.5 per cent, rounded up to the nearest £5, of the amount or value of the consideration for the transfer. Generally, *ad valorem* stamp duty applies neither to gifts nor on a transfer from a nominee to the beneficial owner, although in cases of transfers where no *ad valorem* stamp duty arises, a fixed U.K. stamp duty of £5 may be payable. SDRT at a rate of 0.5 per cent. of the amount or value of the consideration for the transfer may be payable on an unconditional agreement to transfer shares. If, within six years of the date of that agreement, an instrument transferring the shares is executed and stamped, any SDRT paid may be repaid or, if it has not been paid the liability to pay that tax, but not necessarily interest and penalties, would be cancelled. SDRT is chargeable whether the agreement is made or effected in the U.K. or elsewhere and whether or not any party is resident or situated in any part of the U.K.

## United States Federal Income Tax Considerations

The following discussion of U.S. federal income tax consequences is based on the opinion of Shearman & Sterling, our U.S. counsel.

### *Taxation of Dividends*

Subject to the discussion below under "Passive Foreign Investment Company Considerations", the gross amount of a distribution paid on a share or an ADS, including the full amount of the related tax credit, will be a dividend for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits. To the extent that a distribution exceeds our earnings and profits, it will be treated as a nontaxable return of capital and thereafter as a capital gain. Dividends paid by us generally will be treated as foreign source income and will not be eligible for the dividends received deduction allowed to corporate shareholders under the U.S. Internal Revenue Code.

The amount of any distribution will equal the fair market value in U.S. dollars of the pounds sterling or other property received on the date received by you in the case of shares, or by the Depositary, in the case of ADSs, based on the spot exchange rate on that date. You will have a basis in any pounds sterling distributed, equal to the dollar value of pounds sterling on the date received by you, in the case of shares, or by the Depositary, in the case of ADSs. Any gain or loss recognised upon a subsequent disposition of pounds sterling will generally be U.S. source ordinary income or loss.

Subject to complex limitations, the U.K. notional withholding tax will be treated for U.S. tax purposes as a foreign tax that may be claimed as a foreign tax credit against your U.S. federal income tax liability. You must file a duly completed Form 8833 (Treaty-Based Return Position Disclosure) with your income tax return for the year in which you claim the foreign tax credit and comply with generally applicable requirements relating to the verification and computation of foreign tax credits. Dividends distributed by us will generally be categorised as "passive income" or, in the case of some holders, as "financial services income", for purposes of computing allowable foreign tax credits for U.S. tax purposes. The rules relating to the determination of the foreign tax credit are complex and you should consult your own tax advisers to determine whether and to what extent a credit would be available. In lieu of claiming a credit, you may claim a deduction of foreign taxes paid in the taxable year. However, a deduction generally does not reduce U.S. tax on a dollar for dollar basis like a tax credit.

### *Taxation of Capital Gains*

Upon the sale or exchange of a share or an ADS, you will recognise a gain or a loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realised and your adjusted tax basis in the ADS. Subject to the discussion below under "Passive Foreign Investment Company Considerations", that gain or loss will be a capital gain or loss. The gain or loss will generally be treated as U.S. source gain or loss. If you are an individual, any capital gain will generally be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met.

The surrender of ADSs in exchange for shares will not be a taxable event for U.S. federal income tax purposes. Accordingly, you will not recognise any gain or loss upon such the surrender of ADSs.

### *Passive Foreign Investment Company Considerations*

We believe that we will not be treated as a passive foreign investment company for U.S. federal income tax purposes for our current taxable year, or for future taxable years. However, an actual determination of passive foreign investment company status is fundamentally factual in nature and generally cannot be made until the close of the applicable taxable year. We will be a passive foreign investment company if either:

- 75 per cent. or more of our gross income in a taxable year is passive income or



- the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 per cent. The IRS has indicated that cash balances, even if held as working capital, are considered to be assets that produce passive income.

If we were classified as a passive foreign investment company, unless you timely made one of specific available elections, a special tax regime would apply to both:

- any "excess distribution", which would be your share of distributions in any year that are greater than 125 per cent. of the average annual distributions received by you in the three preceding years or your holding period, if shorter, and
- any gain realised on the sale or other disposition of the ADSs.

Under this regime, any excess distribution and realised gain would be treated as ordinary income and would be subject to tax as if:

- the excess distribution or gain had been realised ratably over your holding period,
- the amount deemed realised had been subject to tax in each year of that holding period at the highest applicable tax rate, and
- the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years.

You are urged to consult your own tax adviser concerning the potential application of the passive foreign investment company rules to your ownership and disposition of shares or ADSs.

#### *Controlled Foreign Corporation Considerations*

We will be a controlled foreign corporation for U.S. tax purposes if over 50 per cent. of either the value of our stock or our voting power is owned by U.S. persons who each own at least 10 per cent. of our voting power. We do not believe that we will be a controlled foreign corporation upon consummation of the offering. In any event, the adverse tax consequences associated with controlled foreign corporation status generally will affect only U.S. persons who own at least 10 per cent. of our voting power. If you are a U.S. person who will own 10 per cent. or more of our voting power immediately after consummation of the offering, you should consult your own tax adviser regarding the U.S. tax consequences that could result if we were to become a controlled foreign corporation.

#### *United States Information Reporting and Backup Withholding*

Dividend payments with respect to ADSs and proceeds from the sale, exchange or redemption of ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding at a 31 per cent. rate. Backup withholding will not apply to you, however, if you furnish a correct taxpayer identification number or certificate of foreign status and make any other required certification or if you are otherwise exempt from backup withholding. If you are required to establish your exempt status you generally must provide that certification on IRS Form W-9 in the case of U.S. persons and on IRS Form W-8 in the case of non-U.S. persons. Treasury regulations applicable to payments made on or after December 31, 2000, generally expand the circumstances under which information reporting and backup withholding may apply unless the holder provides the information described above.

Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

## UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated \_\_\_\_\_, 2000, we and Porpoise Investments Limited have agreed to sell to the underwriters, named below, for whom Credit Suisse First Boston (Europe) Limited is acting as representative, the following respective numbers of shares:

<u>Underwriters</u>	<u>Number of Shares</u>
Credit Suisse First Boston (Europe) Limited .....	33,000,000
DLJ International Securities .....	11,000,000
Salomon Brothers International Limited .....	11,000,000
Total .....	<u>55,000,000</u>

The underwriters are institutions that, pursuant to the underwriting agreement, are obligated to purchase or to procure purchasers for all of the shares in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that, if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering of shares may be terminated. Credit Suisse First Boston (Europe) Limited will act as representative of the underwriters. As such, it will act on their behalf with respect to the underwriting agreement.

The offering consists of public offerings in the United Kingdom and the United States and private placements to institutional investors in other jurisdictions.

The public offering in the United Kingdom will comprise an institutional offering and a retail offering. The retail offering will be open only to our registered account holders who are residents of the United Kingdom, Jersey and the Isle of Man, our friends and suppliers and our U.K. employees on the payroll on January 28, 2000. The institutional offering will be decreased by the number of shares sold in the retail offering, which will be determined in response to investor demand.

At our request, the underwriters have reserved up to two million shares for sale, at the initial public offering price, to U.K. employees on our payroll as at January 28, 2000, and our friends and suppliers. Although some of these persons are our current shareholders, none of these persons held more than five per cent. of our shares at the time of this offering, and none is an affiliate of ours as defined in Rule 144 under the Securities Act. None of these persons has any agreements or understandings with the underwriters which would in any way limit the transfer of the securities they are purchasing in this offering. The number of shares available for sale in the retail offering will be reduced to the extent that our employees and other persons associated with us who have expressed an interest in purchasing shares in the offering purchase the reserved shares. Any reserved shares not purchased will be offered by the underwriters on the same terms as the other shares.

We and some of our shareholders and key employees have signed lock-up agreements under which we and they have agreed not to dispose of, directly or indirectly, any shares for periods from three to twelve months without the prior written consent of Credit Suisse First Boston (Europe) Limited subject to certain exemptions. See "Shares Eligible for Future Sale—Lock-Up Agreements."

Hollinger Digital, Inc. Porpoise Investments Limited and one of our former officers have granted an option to Credit Suisse First Boston (Europe) Limited exercisable for 30 days from the date of admission of our shares to the Official List of the London Stock Exchange, which we anticipate will occur on February 23, 2000, to purchase or to procure purchasers for up to an aggregate of 8,100,000 additional shares at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover over-allotments or short sales permitted under the stabilisation rules in the U.K.

The underwriters propose to offer the shares and ADSs initially at the public offering prices on the cover page of this prospectus. Shares and ADSs offered and sold in the United States will be offered and sold only

through the underwriters' U.S. broker-dealer affiliates. The underwriters may allow discounts of p per share or \$ per ADS on sales to other broker-dealers. After the initial public offering, the public offering prices and concessions and discounts to broker-dealers may be changed by the representative.

The underwriting commission per share will equal the public offering price per share less the amount paid to us per share by the underwriters. The following table summarises the compensation and estimated expenses we will pay to the underwriters:

	Per share		Per ADS		Percentage per share or ADS	Total	
	without over-allotment	with over-allotment	without over-allotment	with over-allotment		Without over-allotment	With over-allotment
Underwriting discounts and commissions paid by us . . . .	p	p	\$	\$	per cent.	\$	\$
Expenses payable by us . . . . .	p	p	\$	\$	per cent.	\$	\$

The underwriters have informed us that they do not expect discretionary sales to exceed five per cent. of the shares being offered.

We, Porpoise Investments Limited and Hollinger Digital Inc. have agreed to indemnify the underwriters against liabilities under the Securities Act that are described in the underwriting agreement, or contribute to payments which the underwriters may be required to make in that respect. We also have agreed to reimburse the underwriters for any legal or other expenses they reasonably incur in connection with investigating or defending those liabilities. In the case of us, Porpoise Investments Limited and Hollinger Digital, Inc., these include liabilities arising from or based on untrue statements or alleged untrue statements of material fact contained in this prospectus, any of its amendments or supplements, the registration statement for this offering, and related preliminary prospectuses. These also include liabilities arising from or based on omissions or alleged omissions to state in those documents a material fact required to be stated in them or required to make a statement in them not misleading.

We have applied to have our ADSs quoted on the Nasdaq National Market under the symbol "IINV" and to list our shares on the Official List of the London Stock Exchange under the symbol "IIN".

Prior to this offering, there has been no public market for the shares or the ADSs. The initial public offering price for the shares and ADSs will be determined by negotiation among us Porpoise Investments Limited, Hollinger Digital Inc. and the underwriters. Among the factors to be considered in determining the initial public offering price will be prevailing market and economic conditions, our revenue and earnings, market valuations of other companies engaged in activities similar to ours, estimates of our business potential and prospects, the present state of our business operations, our management and other factors deemed relevant. The estimated initial public offering price range set forth on the cover page of this prospectus is subject to change as a result of market conditions and other factors. We cannot assure you that a regular trading market for the shares or the ADSs can be sustained. The prices at which the shares or ADSs will sell in the public markets after this offering may be lower than the price at which the shares or ADSs are sold by the underwriters in this offering.

Credit Suisse First Boston (Europe) Limited may engage in over-allotment, stabilising transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.
- Stabilising transactions permit bids to purchase the underlying security so long as the stabilising bids do not exceed a specified maximum.

- Syndicate-covering transactions involve purchases of the shares or ADSs in the open market after the distribution has been completed in order to cover syndicate short positions.
- Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the shares or ADSs originally sold by the syndicate member are purchased by a syndicate covering transaction to cover syndicate short positions.

These stabilising transactions, syndicate covering transactions and penalty bids may cause the price of shares or ADSs to be higher than they would otherwise be in the absence of these transactions. Under the stabilisation rules in the U.K., Credit Suisse First Boston (Europe) Limited may engage in over-allotment and stabilising transactions. These transactions may be effected on the Nasdaq National Market, on the London Stock Exchange or otherwise and, if commenced, may be discontinued at any time. Credit Suisse First Boston (Europe) Limited does not intend to disclose the extent of any stabilising transactions or the amount of any long or short positions.

In connection with settlement and stabilisation, Hollinger Digital, Inc. will grant an option to Credit Suisse First Boston Equities Limited to enable Credit Suisse First Boston Equities Limited to require Hollinger Digital, Inc. to lend to Credit Suisse First Boston Equities Limited up to 8,100,000 ordinary shares. Credit Suisse First Boston Equities Limited may exercise this lending option on one or more occasions. Credit Suisse First Boston Equities Limited is to enter into a separate agreement with Credit Suisse First Boston whereby it will lend the shares which are the subject of the lending option to Credit Suisse First Boston. Credit Suisse First Boston will use any borrowed shares to settle any over-allotments. Any ordinary shares borrowed or lent pursuant to these lending arrangements will not be subject to the lock-up arrangements described under the Shares Eligible for Future Sale section of this prospectus.

Offers and sales of our shares and ADSs being sold outside the United States and Canada in this offering are being made in reliance on Regulation S.

## **NOTICE TO CANADIAN RESIDENTS**

This document has not been, nor will it be, filed with any Canadian securities regulatory authority, and does not constitute a prospectus for the purposes of Canadian securities legislation. No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence.

### **Resale Restrictions**

The distribution of the shares or ADSs in Canada is being made only on a private placement basis, exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of shares or ADSs are effected. Accordingly, any resale of the shares or ADSs in Canada must be made in accordance with applicable securities laws, which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or pursuant to a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the shares or ADSs.

### **Representations of Purchasers**

Each Canadian investor who receives a purchase confirmation will be deemed to represent to us, Hollinger Digital, Inc., the Selling Shareholder and the dealer from whom such purchase confirmation has been received that:

- (a) such purchaser is entitled under applicable provincial securities laws to purchase such common stock without the benefit of a prospectus qualified under such securities laws;
- (b) where required by law, such purchaser is purchasing as principal and not as agent; and
- (c) such purchaser has reviewed the text above under "Resale Restrictions".

### **Rights of Action (Ontario Purchasers)**

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual rights of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws.

### **Enforcement of Legal Rights**

All of the issuer's directors and officers as well as the experts named herein and the Selling Shareholder, Hollinger Digital, Inc. and Alexander Heath may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer may be located outside of Canada and, as a result, it may not be possible to satisfy a judgement against the issuer or those persons in Canada or to enforce a judgement obtained in Canadian courts against such issuer or persons outside of Canada.

**Notice to British Columbia Residents**

A purchaser of shares or ADSs to whom the *Securities Act* (British Columbia) applies is advised that such purchaser is required to file with the British Columbia Securities Commission a report within 10 days of the sale of any shares or ADSs acquired by that purchaser pursuant to this offering. The report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one report must be filed in respect of shares or ADSs acquired on the same date and under the same prospectus exemption.

**Taxation and Eligibility for Investment**

Canadian purchasers of shares or ADSs should consult their own legal and tax advisers with respect to the tax consequences of an investment in the shares or ADSs in their particular circumstances and with respect to the eligibility of the shares or ADSs for investment by the purchaser under relevant Canadian legislation.

## LEGAL MATTERS

The validity of the ADSs offered hereby and other matters governed by U.S. law will be passed upon for us by Shearman & Sterling and for the underwriters by Brobeck Hale and Dorr. The validity of the shares offered hereby and other matters governed by U.K. law will be passed upon for us by S J Berwin & Co. our U.K. counsel. S J Berwin & Co beneficially owns 183,330 of our shares.

## EXPERTS

The consolidated financial statements, as of September 30, 1997, 1998 and 1999 for interactive investor international plc and interactive investor limited, which are included in Part I of this prospectus, have been included herein and in the registration statement in reliance upon the independent auditors' reports by KPMG, given on the authority of said firm as experts in auditing and accounting. Other operating data relating to our users, visits and page impressions, which are included in this prospectus, have been so included in reliance on the audit report and certification of faithful extraction of ABC ELECTRONIC, given on the authority of said firm as an expert in media statistical auditing.

## DEFINITIONS

'A' shares .....	preferred convertible voting shares of 0.01p each in the capital of the Company, or interactive, as the case may be
Act or the Companies Act .....	the Companies Act 1985
Admission .....	admission of the Ordinary Shares to the Official List becoming effective in accordance with the Listing Rules
ADRs .....	American Depositary Receipts, the terms of which are set out in the section entitled "Description of the American Depositary Receipts"
ADSs .....	American Depositary Shares, each representing 10 Ordinary Shares, and evidenced by American Depositary Receipts to be approved for quotation on Nasdaq
Application Form .....	the application form to be sent to those members of the general public in the U.K., Jersey or the Isle of Man who completed the authentication process and opened a registered account with the Company, and who have then registered online for the Offer on or before the close of the registration period on or before 11.59 pm on February 1, 2000
Articles of Association .....	the Articles of Association of the Company in force at the date of this Prospectus
Cheetah .....	Cheetah International Investments Limited
Company or interactive investor international .....	interactive investor international plc, a company incorporated in England and Wales with registered number 3824695
Credit Suisse First Boston .....	Credit Suisse First Boston (Europe) Limited of 1 Cabot Square, London E14 4QJ
CREST	the computerised settlement system to facilitate the transfer of title to Shares in uncertificated form operated by CRESTco Limited
Custodian .....	the London office of the Bank of New York
Deposit Agreement .....	the agreement to be entered into between the Company and The Bank of New York pursuant to which the Bank of New York will hold ADSs on behalf of shareholders in the Company
Eligible Employees .....	an employee in the U.K. on the Group's payroll as at Friday January 28, 2000
Directors .....	each of S L Coutu, T Carruthers, M Ashton, D Colson, J Jaffe, P Dicks, C Young and L Yoler
Friends and Employees Application Form .....	the application form whereby friends and suppliers and Eligible Employees can apply under the Friends and Employees Offer to subscribe or purchase Ordinary Shares



Friends and Employees Offer . . . . .	that part of the U.K. Retail Offer whereby Eligible Employees and friends and suppliers of the Company shall be entitled to apply for Shares
Group . . . . .	the Company and its subsidiaries and subsidiary undertakings as at the date of this Prospectus
Hollinger . . . . .	Hollinger Digital, Inc.
Hollinger Subscription Agreement . . . . .	the subscription and shareholders' agreement dated November 24, 1998 between (1) interactive, (2) S Coutu and Others, (3) Cheetah and Others and (4) Hollinger
Inland Revenue . . . . .	the U.K. Inland Revenue
interactive . . . . .	interactive investor limited, a company incorporated in England and Wales with registered number 3090413
interactive Asia . . . . .	interactive investor (Asia) limited, a company incorporated in Hong Kong with registered number 623370
Listing Rules . . . . .	the Listing Rules made under Section 142 of the Financial Services Act 1986
London Stock Exchange or LSE . . . . .	London Stock Exchange Limited
Memorandum of Association . . . . .	the Memorandum of Association of the Company in force at the date of this Prospectus
Mini-Prospectus . . . . .	the short-form prospectus which members of the public in the U.K., the Isle of Man and Jersey will receive once they have registered for the Offer
Nasdaq . . . . .	the Nasdaq National Market
Offer . . . . .	the offer described in this Prospectus to subscribe for Ordinary Shares
Offer Price . . . . .	the price per share at which Ordinary Shares are to be issued or sold under the Offer
Official List . . . . .	the official list of the London Stock Exchange
Ordinary Shares or Shares . . . . .	ordinary shares of £0.01 each in the capital of the Company following the Re-organisation
Over-allotment Option . . . . .	the option expected to be granted to Credit Suisse First Boston by Hollinger, Porpoise and Mr. Alexander Heath which entitles Credit Suisse First Boston to acquire up to 8,100,000 ordinary shares of £0.01 each to cover over-allotments, if any, made in connection with the Offer
Porpoise . . . . .	Porpoise Investments Limited
Prospectus . . . . .	this document
Price Range . . . . .	the indicative price range of the Offer as set out on page ii of this Prospectus
Receiving Agent . . . . .	Lloyds TSB Registrars, Antholin House, 71 Queen Street, London ECL 15L
Registrar . . . . .	Lloyds TSB Registrars, the Causeway, Worthing, West Sussex BN99 6DA

Registration Statement .....	the part of this Prospectus which forms the registration statement on Form F-1 under the United States Securities Act 1933 as amended
Re-organisation .....	the re-organisation of the share capital of the Company described in the "Corporate History and Developments" section in this Prospectus
Rights Issue .....	the one for ten rights issue whereby interactive offered, in aggregate, 3,371,967 shares at a price of £1.77 per share to its shareholders pursuant to the terms set out in a circular to shareholders dated October 29, 1999
Selling Shareholder .....	Porpoise
Share Exchange Agreement .....	the share exchange agreement dated December 13, 1999 as further described in Part 6 of this Prospectus
Sponsor .....	Credit Suisse First Boston
Sponsor's Agreement .....	the agreement entered into between <i>inter alios</i> the Company and Credit Suisse First Boston January 28, 2000
Supplementary Agreement .....	the supplementary shareholders agreement dated October 1 1999 between (1) Interactive, (2) S Coutu and Others, (3) Cheetah and (4) Hollinger
U.K. ....	United Kingdom of Great Britain and Northern Ireland
U.K. Combined Code .....	The U.K. Combined Code appended to the Listing Rules
U.K. GAAP .....	accounting principles generally accepted in the United Kingdom
U.K. Retail Offer .....	the part of the Offer to members of the public in the U.K., Jersey and the Isle of Man, and to friends and supplies and Eligible Employees under the Friends and Employee Offer
Underwriters .....	Credit Suisse First Boston, DLJ International Securities and Salomon Brothers International Limited
Underwriting Agreement .....	the agreement expected to be entered into between <i>inter alios</i> the Company and Credit Suisse First Boston on February 16, 2000
U.S. ....	United States of America
"\$" or "dollar" .....	U.S. Dollar
U.S. GAAP .....	accounting principles generally accepted in the U.S.

## GLOSSARY

Knowledge bank . . . . .	a service allowing investors to conduct their own research into financial products
Internet . . . . .	an international network linking computers over telephone lines
Mortgage Best Buys . . . . .	a service whereby investors can access a whole range of information on mortgage products
Pay per view . . . . .	a service which allows investors to purchase investment research on an occasional basis
Real Time Service . . . . .	a service which allows subscribers to analyse multiple share prices on a real-time basis
Snap Service . . . . .	a service to subscribers of the Company which provides them with real-time prices available when monitoring a particular equity
Trust Leader Board . . . . .	a service to subscribers which lists top-performing investment trusts by category
Web . . . . .	the world wide web whereby persons can access various organisations' websites

