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Application has been made for all the Ordinary Shares of the Company in issue immediately following the Placing to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies, to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. Prospective investors should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document. The Ordinary Shares are not dealt on any other recognised exchange and no application has been or is being made for the Ordinary Shares to be admitted to any such exchange.

The Directors, whose names appear on page 7 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

A copy of this document, which comprises an admission document for the purposes of the AIM Rules and a prospectus drawn up in accordance with the POS Regulations, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with regulation 4(2) of the POS Regulations.

Alternative Networks plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 02888250)

Placing of 12,666,280 Ordinary Shares at 100 pence per share
and

Admission to trading on AIM

Nominated adviser, broker and placing agent
Investec

Share Capital on Admission

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount</i>		<i>Number</i>	<i>Amount</i>
80,000,000	£100,000	in ordinary shares of 0.125 pence each	44,345,200	£55,431.50

It is expected that Admission will take place and that trading in the Ordinary Shares will commence on AIM on 18 February 2005.

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation. In particular, this document is not for distribution in or into the United States of America, Canada, Australia or Japan. Accordingly, the Ordinary Shares may not, subject to certain exceptions, be offered or sold, directly or indirectly in or into the United States of America, Canada, Australia, or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or the applicable securities laws of Canada, Australia or Japan.

Your attention is drawn to Part II of this document, which contains risk factors. The whole text of this document should be reviewed in light of these risk factors.

Investec Bank (UK) Limited, acting through its divisions Investec Investment Banking and Investec Securities, which is authorised and regulated in the United Kingdom by The Financial Services Authority, is acting as nominated adviser and broker to the Company in connection with the matters described herein and is not acting for any other person and it will not be responsible to any other person for providing the protections afforded to customers of Investec Investment Banking and Investec Securities or for advising on the transactions and arrangements proposed in this document.

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EXPECTED TIMETABLE

Publication of this document	15 February 2005
Admission to trading on AIM effective and dealings expected to commence	8.00 a.m. on 18 February 2005
CREST accounts credited with Ordinary Shares	8.00 a.m. on 18 February 2005
Despatch of definitive share certificates (where applicable)	4 March 2005

PLACING AND SHARE STATISTICS

Placing Price	100 pence
Total number of Sale Shares to be sold pursuant to the Placing	8,666,280
Total number of Ordinary Shares being placed on behalf of the Company	4,000,000
Number of Ordinary Shares in issue on Admission	44,345,200
Proportion of Enlarged Issued Ordinary Share Capital being placed	28.6 per cent.
Market capitalisation at the Placing Price	£44.3m
Estimated proceeds, after expenses, of the Placing receivable by the Company	£3.3m

DEFINITIONS

In this document, the following expressions have the following meanings, unless the context requires otherwise:

“Act”	the Companies Act 1985 (as amended)
“Admission”	admission to AIM of the whole of the ordinary share capital of the Company becoming effective in accordance with the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the rules of that name published by the London Stock Exchange in relation to AIM
“Alternative” or the “Company”	Alternative Networks plc and/or its subsidiary undertakings (as the context requires)
“Alternative Networks EMI Scheme”	the Alternative Networks 2004 Employees’ Share Option Plan adopted by the Company as described in Part V of this document
“Awards of Interests in Shares”	the awards of interests in shares made by the EBT as described in paragraph 3 of Part V of this document
“Board” or “Directors”	the directors of the Company, as set out on page 7 of this document
“Combined Code”	the combined code principles of good governance and code of best practice published by the Financial Reporting Council
“CREST”	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo
“CRESTCo”	CRESTCo Limited
“EBT”	the Alternative Networks Employee Benefit Trust established by the Company of which Abacus Corporate Trustee Limited is the trustee
“Enlarged Issued Ordinary Share Capital”	the number of Ordinary Shares in issue following the Placing
“FSA”	the Financial Services Authority Limited
“Investec”	Investec Investment Banking, a division of Investec Bank (UK) Limited
“London Stock Exchange”	London Stock Exchange plc
“OFCOM”	Office of Communications
“Ordinary Shares”	ordinary shares of 0.125 pence each in the capital of the Company
“Placing”	the placing of the Placing Shares
“Placing Agreement”	the conditional agreement dated 15 February 2005 between Investec (1), the Directors (2), the Company (3) and the Selling Shareholders (4), details of which are set out in paragraph 5.1 of Part V of this document
“Placing Price”	100 pence per Ordinary Share
“Placing Shares”	the Ordinary Shares to be issued or sold under the Placing, comprising the 4,000,000 new Ordinary Shares to be issued in connection with the Placing and the Sale Shares
“POS Regulations” or “Regulations”	the Public Offers of Securities Regulations 1995 (as amended)
“Registrars”	Capita IRG plc trading as Capita Registrars
“Sale Shares”	the 8,666,280 Ordinary Shares being sold by the Selling Shareholders pursuant to the Placing

“Selling Shareholders”	James Murray, Benjamin Marnham, James Sewell, Christopher Wilson, Edward Spurrier, Lucinda Spurrier and Julia Combe
“Shareholder(s)” or “Ordinary Shareholder(s)”	(a) holder(s) of Ordinary Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UKLA” or “UK Listing Authority”	the FSA, acting in its capacity as competent authority for the purposes of admissions to the Official List
“United States”, “USA” or “US”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia

GLOSSARY

“ARPU”	average revenue per user
“Capex”	capital expenditure
“CPS”	carrier pre-selection – the facility offered to customers which allows them to opt for certain defined classes of call to be carried by an operator, selected in advance, without having to dial a prefix or follow any other different procedure to invoke such routing
“DSL”	digital subscriber line
“LAN”	local area network
“NGN”	non-geographic numbers
“SME”	small and medium-sized enterprises
“Voice over IP”	a means for sending voice information in digital form in discrete packets rather than in the traditional circuit-committed protocols of the public switched telephone network
“WAN”	wide area network
“WLR”	the requirement by OFCOM allowing alternative telecoms suppliers to rent access lines on cost-based and non-discriminatory wholesale terms from BT

DIRECTORS, SECRETARY AND ADVISERS

Directors	Kenneth Roy McGeorge (Non-executive Chairman) James David George Murray (Chief Executive Officer) Edward John Marston Spurrier (Chief Financial Officer) James Patrick Toyne Sewell (Group Sales Director) Benjamin Luke Marnham (Chief Operating Officer) Timothy Hugh Holland-Bosworth (Non-executive Director) Anthony Lindsay Caplin (Non-executive Director)
Secretary	Edward John Marston Spurrier
Registered and Head Office	Chatfield Court 56 Chatfield Road London SW11 3UL
Nominated Adviser and Broker	Investec Investment Banking a division of Investec Bank (UK) Limited 2 Gresham Street London EC2V 7QP
Solicitors to the Company	Bird & Bird 90 Fetter Lane London EC4A 1JP
Auditors and reporting accountants	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Solicitors to the issue	DLA Piper Rudnick Gray Cary UK LLP 3 Noble Street London EC2V 7EE
Registrar	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

KEY INFORMATION

The following summary should be read in conjunction with the full text of this document:

- Alternative is the leading UK independent, privately owned, business to business telecoms reseller.
- Alternative provides a broad portfolio of communications products including mobile, fixed line and data products to UK SME and small corporate customers.
- Alternative has no network infrastructure resulting in a low Capex business model when compared with telecoms companies which own or operate networks. This allows the Company to leverage existing overcapacity from its suppliers.
- Alternative has direct ownership of its customer base, which it achieves through its highly focused sales force. It does not rely on third party distributors such as equipment resellers.
- Alternative has a ten year track record of year on year turnover growth, profitability and strong cash conversion.
- Alternative has a stable and entrepreneurial management team with a proven track record. James Murray, Benjamin Marnham and James Sewell have been with the business for ten years. Edward Spurrier has been with the business for six years.
- The net proceeds of the Placing to be received by the Company will be approximately £3.3 million. This will enable the Company to pursue its growth strategy through:
 - facilitating the roll out of regional offices in the UK;
 - expanding the existing regional sales offices;
 - investing further in its customer relationship management systems; and
 - maintaining its independence from its suppliers.
- The Admission and Placing will also:
 - provide currency for further acquisitions; and
 - enhance opportunities to reward staff for their efforts in developing and growing the business, while aligning their interests with those of Shareholders, through share based incentive schemes.

PART I

INFORMATION ON ALTERNATIVE NETWORKS PLC

1. Introduction

Alternative Networks plc is the leading UK independent, privately owned, business to business telecommunications reseller. The Company offers a broad portfolio of communications products including mobile, fixed line and data products to UK SME and small corporate customers. Alternative does not own a network, enabling it to provide its suite of products and services from a range of suppliers to best suit its customers' needs. Other than in relation to one off maintenance or installation services, the Company aggregates all of its products and services onto one bill, invoiced under the Alternative brand. The Alternative business model focuses on higher spending business customers within the UK SME and small corporate markets. These customers are acquired via the Alternative in-house sales force, rather than through indirect channels such as dealers and other resellers. Alternative services and develops its ongoing customer relationships with its dedicated client management team. Alternative also provides customers with telecoms consultancy services and offers maintenance and telecoms equipment installation.

Alternative does not have exclusive ties to any one particular supplier, enabling the Company to offer "best of breed" solutions to its customers. This can lead to cost savings and other efficiencies for the customers and helps to deliver what the Directors believe is a reputation for excellent customer service. Alternative maintains close relationships with key suppliers, including: Vodafone and O2 for mobile telephony; Cable & Wireless, MCI, Energis, COLT and BT for fixed line telephony; and is a reseller for Mitel and Avaya for hardware products. Despite the highly competitive UK telecoms environment, this ability to manage supplier relationships in a cost effective way has been a factor in Alternative's increasing gross margins in each of its product groups for the three years ended 30 September 2004.

For the last ten years Alternative has demonstrated year on year turnover growth, profitability and strong cash conversion. Compound annual turnover growth from 30 September 2002 to 30 September 2004 was 24.5 per cent. and compound annual gross profit growth over the same period was 32.7 per cent.. At the same time, the Alternative business model has low Capex when compared with telecoms companies which own or operate networks. Capex was approximately one per cent. of turnover in the year to 30 September 2004.

The achievements of the Alternative management team have been recognised with several awards. The Company was a Sunday Times Virgin Atlantic Fast Track 100 winner in 2000, 2001 and 2002 and a Deloitte & Touche Fast Track 50 winner in 2003 and 2004. Alternative was the winner of the National Business Awards "Growth Strategy of the Year" in 2002.

2. History and background

The Company was founded in September 1994 by James Murray and Christopher Wilson, with a loan to the Company of £10,000. Later that year Benjamin Marnham and James Sewell joined the Company. The original aim of the Company was to take advantage of the deregulation of the UK domestic telecoms market by providing services to small business customers in competition with the large network operators such as BT and Cable & Wireless. The Company initially sold telephone systems under the Alternative brand and also offered call products as a dealer in order to increase the Company's recurring revenue base.

By the 12 months to 30 September 1998 revenues from service provision had outstripped revenues from equipment sales and maintenance.

Data products were launched in February 2000.

In August 2000 Alternative launched mobile services as a reseller for Lumina Limited (formerly Martin Dawes Communications Limited). The Company secured service provider licence agreements with Vodafone and O2 in 2002, thus substantially improving gross profit margins. Mobile subscriber and turnover growth has been particularly rapid growing from approximately 3,260 mobile subscribers at 30 September 2002 to 14,313 mobile subscribers at 30 September 2004.

The Company opened its first regional sales office outside of London in Bracknell in April 2000. It now has a national UK presence with offices in London, Manchester, Bracknell, Leeds, Birmingham and Bristol.

Alternative has grown strongly throughout its ten year history, with no external institutional equity funding. Sales were approximately £41.0 million and pre-tax profit was approximately £3.5 million for the year ended 30 September 2004.

In October 2004, the Company announced that Christopher Wilson, the co-founder of Alternative, would leave the business to join his family in Australia. Mr Wilson resigned as a director of the Company on 31 October 2004 and on 2 November 2004 he sold 855 shares (representing approximately 23.8 per cent. of the then issued share capital of the Company) to the Company which were then cancelled. The consideration for the sale was approximately £4.4 million. The consideration was agreed following negotiations to allow Mr Wilson to retain a stake of greater than the 5 per cent. in the Company that he was entitled to pursuant to the articles of association of the Company which were then in effect. Mr Wilson will retain a 14.8 per cent. interest in Alternative immediately following Admission and has undertaken, subject to certain exceptions, not to dispose of any of his Ordinary Shares for a period of one year from Admission.

To date, the Company's growth has been predominantly organic. In January 2004 the Company made its first significant acquisition of 1,000 business mobile subscribers in the London area. In January 2005 the Company acquired a base of 1,300 business customers in the Birmingham area for £715,000. The acquisition will form the base of an additional regional presence in the Midlands.

3. Key strengths

The Directors believe that the Company has a number of attributes which, collectively, differentiate it in the market place. These include the following:

- (i) it is a business focused "one stop shop", providing a comprehensive communication offering including mobile, fixed line and data services. Alternative has a number of supplier relationships in each product group and is not dependent on any one product or customer;
- (ii) it has no network infrastructure, resulting in a low Capex business model when compared with telecoms companies which own or operate networks. The lack of network infrastructure also allows the Company to leverage existing overcapacity from its suppliers;
- (iii) it has a highly focused and targeted direct sales force that concentrates on a direct relationship with and ownership of the customer, rather than a reliance on third party distributors such as equipment resellers. Alternative has a dedicated client management team focusing on client service, development and retention;
- (iv) the Directors believe that Alternative has high ARPU compared to other business resellers in the industry. For the year to 30 September 2004, ARPUs per month were £1,123 in its network services product group and £78 in its mobile product group;
- (v) it offers multiple products from multiple suppliers, all provided by the Alternative brand under one bill save in relation to one off maintenance or installation services;
- (vi) it has a stable and entrepreneurial management team with a proven track record. James Murray (CEO), Benjamin Marnham (COO) and James Sewell (Group Sales Director) have been with the business for ten years. Edward Spurrier (CFO) has been with the business for six years;
- (vii) it has a ten year unbroken track record of turnover growth and profitability, despite highly competitive market conditions;
- (viii) it has strong cash conversion. In the three years ended 30 September 2004, Alternative reported retained profits of £4.5 million and net cash inflows of £4.4 million. Alternative has paid dividends for each of the past 5 years; and
- (ix) management believe that Alternative has a young, vibrant and enthusiastic work culture.

4. Reasons for Admission and use of proceeds of the Placing

The Directors believe that a listing on AIM is the next step for the Company in achieving its long term growth strategy. The Admission and Placing will enable the Company to pursue this strategy through:

- (i) facilitating the roll out of regional offices in the UK;
- (ii) expanding the existing regional sales offices;
- (iii) further investing in its customer relationship management systems; and
- (iv) maintaining its independence from its suppliers.

The Admission and Placing will also:

- (i) provide a currency for further acquisitions. The Directors have identified a number of potential bolt-on acquisitions which they believe would further enhance the product portfolio or the customer base; and
- (ii) enhance opportunities to reward staff for their efforts in developing and growing the business, while aligning their interests with those of the Shareholders, through share based incentive schemes.

5. The Business

Alternative offers a comprehensive range of business communications products and services which have been categorised within the following three product groups:

- i) *Mobile*
- ii) *Network Services*
- iii) *Advanced Solutions*

The Directors intend to provide information on each product group at the Company's interim and final results announcements.

Operationally, the Directors run these three product groups as one business. The sales force is tasked to sell the whole range of Alternative products to its target market save in relation to telephone systems for which there is a specialist sales division.

Once a client contract has been signed, the sales force hands over the responsibility for the customer to the client management team, which comprises three separate functions: project management, client management and client services. The project management team is responsible for the integration of the client in to the Company's products and services suite; client management provides a specific manager who is responsible for the ongoing relationship with each client; and client services ensures that the clients' end users are able to call the Company direct with issues relating to the Alternative service.

The Company's products are typically solutions tailored to an individual client comprising combinations of bespoke tariffs and products. The Directors intend to enhance the Company's product portfolio as and when they believe it is appropriate to do so given clients' communication requirements. The Company also provides comprehensive consolidated monthly billing and reporting information, including both call traffic and line rental information. This gives clients additional reporting functionality and enables them to manage and report on costs and usage down to a per-extension or per user level.

Alternative had 2,444 customers as at 30 September 2004 and 14,313 mobile subscribers. For the year ended 30 September 2004, the Company's ten largest customers accounted for less than ten per cent. of reported revenue. As at 31 December 2004, the Company had 283 staff, with a head office in Battersea, London and four regional sales offices in Manchester, Bracknell, Bristol and Leeds. A regional sales office in Birmingham was established in January 2005.

Mobile

Alternative launched as a mobile service provider in 2002. The timing of its market entry coincided with the launch of mobile data products by the UK telecommunications networks. The mobile offering has allowed the Company to enhance its product range and helps retain existing customers by offering them a more complete communication solution. Mobile has been a strong area of revenue and customer growth for Alternative. Turnover in the product group for the year ended 30 September 2004 was approximately £12.8 million, representing approximately 31.2 per cent. of total revenue. Mobile gross profit represented approximately 22.0 per cent. of total gross profit for the year ending 30 September 2004 at £3.5 million. The Directors believe that Alternative has achieved low rates of mobile subscriber churn, which was 16 per cent. for the year ended 30 September 2004. The Directors believe that mobile monthly ARPUs, which were £78 for the year ended 30 September 2004, are and are likely to remain high relative to the rest of the sector. The Directors expect ARPUs to decline as the customer base broadens and the popularity of lower ARPU data devices such as Blackberry increases.

Alternative offers tailored mobile business products encompassing flexible tariffs, itemised billing and reporting for both corporate voice and corporate data applications (GPRS and 3G), and ancillary products and services including data hardware.

The Company offers the following products and services to its Mobile customers which the Directors believe are complementary to the Company's other business offerings:

- Corporate Voice – the Company offers bespoke tariffs, including packages which enable business subscribers to call each other using short dialing codes based around their office extension numbers, and competitively priced, inter group call plans.
- Corporate Data
 - Blackberry – as an approved Blackberry supplier, the Company is able to supply this mobile data device which allows access to clients' corporate networks, internet, e-mail, diary and other applications.
 - Data cards – the Company provides GPRS and 3G data cards which allow a subscriber to use their laptop to access corporate networks and the internet.
- Other value added services and accessories – the Company also provides products and services including voice mail, replacement handsets, car kits, installation services, bluetooth applications and insurance services.

The Company has two airtime partners through service provider agreements with Vodafone and O2. The Company purchases airtime from its service provision partners at wholesale rates and earns a profit margin by reselling this to its subscriber base. The Company also earns commissions from its service provider partners, principally in respect of customer connections.

Network Services

Through non-exclusive partnerships with a range of wholesale fixed network suppliers including Cable & Wireless, MCI, Energis, COLT Telecom and BT the Company is able to provide a range of products and services from basic outbound voice products to direct connections and WLR. These products and services enable customers to route their call traffic in an efficient and cost effective manner. The Company was providing outbound voice services to 1,374 SME and small corporate customers as at 30 September 2004.

Typically, service is provided using CPS, which routes call traffic to a network of the Company's choice at the local exchange, rather than at the client premises. The Company also has extensive experience in programming clients' telephone systems to route call traffic from clients' premises. This enables the Company to offer more resilient, bespoke solutions through the provisioning of a second carrier to maintain an uninterrupted service in the event that the primary carrier should have a network failure or interruption. Through supplier relationships with leading wholesale providers in the UK and by offering clients a choice of networks for its call traffic, the Company is able to provide an enhanced service for its clients.

The Company is also promoting the sale and implementation of WLR services. Until recently, customers using Alternative for fixed line voice services would receive two bills – one for call charges from Alternative and another for line rental from BT. BT has now been mandated by the industry regulator to allow other resellers to sell WLR, so it is now possible for Alternative's customers to receive only one bill. The Directors believe that WLR is a key growth opportunity for the Company.

The Company is also able to offer a range of dedicated private circuits and ISDN circuits enabling it to meet the needs of larger multi site or high volume clients.

Network Services gross profit and gross margin increased to £7.8 million and 39.6 per cent. respectively in the year to 30 September 2004 although turnover fell by 6.6 per cent. to £19.8 million over the same period. The product group has high and stable ARPUs which, for the year to 30 September 2004 were £1,123 per month. The Directors believe that Network Services sales in 2004 were impacted adversely by the Company's successful focus on the growth in its mobile product group, the effect of fixed to mobile price cuts by OFCOM and accelerated churn of dial up internet access traffic which is included within this product group.

Advanced Solutions

The Advanced Solutions product group comprises a range of more complex products and services which help companies manage their communications. The Directors believe that the Advanced Solutions product group has higher margins and lower churn than has been experienced in the other product groups due to the specialist sales approach required and more limited competition. The Advanced Solutions product group had revenues of £8.5 million and gross profits of £4.6 million for the year ended 30 September 2004.

Advanced Solutions' operations can be split into three product categories:

- i) *Inbound call solutions*
- ii) *IP, Internet & Data services*
- iii) *Hardware sales*

Inbound call solutions

Inbound call solutions comprises a range of products based on NGN, including additional services such as advanced call reporting, call routing and flexible call management. NGN Services include the provision of 0800 Free Phone services, 0870 and 0871 "National Rate" services, 0845 "Lo-Call" services and international freephone numbers.

The Company's NGN solutions are designed to help clients improve their call handling, and better manage customer service levels. Typically, the solutions provide customers with information and reporting functionality, for example enabling them to analyse the results of marketing campaigns.

Other Inbound products and services also include:

- Comprehensive call routing options
 - Time, Day and Date Routing – calls are routed to a different location depending on given criteria;
 - Area Routing – calls are routed depending on the location of the call originator; and
 - Divert Routing – when first choice locations are busy, calls are re-routed to predetermined alternative locations.
- Flexible Call Management – the Company can provide web based management tools that enable clients to manage and control their own call routing plans and options.

Suppliers of NGN products include MCI, Energis and Cable & Wireless.

IP, Internet & Data services

The Company offers a variety of data services ranging from point to point data circuits to leased line internet access and a comprehensive suite of Broadband services. Suppliers include MCI, Energis and Easynet Group.

The product suite is split into three key areas:

- Broadband – this is a high speed internet connection that is always on. It is based on DSL technology and delivers internet services to businesses via an ordinary copper telephone line. The Company offers a range of solutions including, at the top end of the business market, a 1:1 contention ratio which gives the client sole use of a circuit ranging from 1 megabit per second to 4 megabits per second in bandwidth;
- Leased Line Internet Access – offering high speed dedicated connections to the internet ranging from 64 kilobits per second to 155 megabits per second. The solutions offered can be scalable, allowing clients to increase or decrease the bandwidth of their leased line depending on their demand; and
- Private Circuits – these allow clients to create a dedicated network between multiple offices and locations. These links can be used for both voice and data traffic and range in bandwidth from 1 megabit per second to 622 megabits per second. The Company is also currently in negotiations in relation to launching an Ethernet product, a very high speed solution that allows clients to extend their LAN to other locations around the UK. It provides exclusive use of bandwidth from 10 megabits per second upwards and is designed for clients who have a need to move or access very large amounts of data across multiple sites.

Hardware sales

The Company is able to offer clients a comprehensive portfolio of telephone systems and solutions as a reseller of Avaya and Mitel products.

The Company is able to supply and manage telephone systems ranging from traditional switchboard and handset equipment to Voice over IP technology. Advanced features include WAN links so that multiple sites can be connected as if on one system; call centre management and voice messaging systems.

In the year ended 30 September 2004 hardware revenue was less than 5 per cent. of total revenue and approximately 27 per cent. of hardware sales were derived from maintenance contracts, which are normally three years in duration.

The Directors intend to separate the hardware sales business from the rest of the Alternative business as soon as is practicable following Admission. The business will be transferred into Alternative TS Limited, currently a dormant subsidiary of the Company. This business has been independently valued in January 2005 at £1.5 million. It is intended that the senior management of this subsidiary be allowed to purchase up to a 15 per cent. interest in Alternative TS Limited.

6. Sales and marketing

A key strength of the Company is its direct sales approach to the customer, rather than using indirect sales channels such as dealers and resellers which are employed by many of its peers. As a result, Alternative acquires full ownership of its customers through its in-house sales force. The Directors believe that this sales approach gives the Company greater control over both the targeting of new business and the ongoing customer relationship. The Company invests in the training of its sales force through its internal training department, the Alternative Academy which the Directors believe will enhance the productivity of the sales team in the future. Alternative's sales team focus on targeting SME and small corporate customers.

Alternative employs approximately 150 personnel who are directly responsible for the sale of Alternative products, as well as for retaining and developing opportunities within existing clients. The Directors see a significant opportunity through both the cross selling of additional products and services to Alternative's existing customer base. As at 30 September 2004 approximately 27 per cent. of customers took more than one product of which 5 per cent. of customers took more than two products.

The Directors believe that a key competitive advantage of Alternative is the ability to bundle a suite of products and services to any client. This could be through the provision of remote working solutions, through fixed line and mobile integration or through the provision of private voice networks.

Commissions are paid to the in-house sales teams, principally based on the level of client spend. Another internal department is responsible for monitoring the profitability of business wins. Higher commissions are paid to the sales force on higher revenue customers won, as well as for signing longer term contracts, and multiple products per client. Service based and marketing led companies are targeted by the Advanced Solutions product group, with double commissions paid on the NGN Solutions due to its greater margin. The client managers are incentivised to retain their clients.

7. Revenue model and operating trends

Revenue model

As a reseller, Alternative takes responsibility for customer acquisition, billing and revenue collection and is responsible for setting tariffs. It purchases capacity (minutes or mobile phone airtime) at wholesale rates from a variety of suppliers.

Operating trends

To aid financial visibility, Alternative has provided the following key performance indicator data for its three product groups for the three years ended 30 September 2004. Gross profit and gross margins have grown in each of the three product groups every year over the three years ended 30 September 2004.

Mobile

	Year ended 30 September		
	2002	2003	2004
Turnover (£000)	2,503	6,878	12,794
ARPU (£)*	100	83	78
Gross profit (£000)	272	1,844	3,515
Gross Margin (%)	10.9%	26.8%	27.5%

Network Services

	Year ended 30 September		
	2002	2003	2004
Turnover (£000)	18,088	21,164	19,758
ARPU (£)**	1,126	1,168	1,123
Gross profit (£000)	6,121	7,655	7,834
Gross Margin (%)	33.8%	36.2%	39.6%

Advanced Solutions

	Year ended 30 September		
	2002	2003	2004
Turnover (£000)	5,863	7,169	8,475
Gross profit (£000)	2,693	3,727	4,640
Gross Margin (%)	45.9%	52.0%	54.7%

Note:

* Mobile ARPU is defined as the annual line rental, calls and data charges divided by the average number of subscribers in the respective year

** Network Services ARPU is defined as the annual turnover arising from continuing operations divided by the average number of customers in the respective year

8. Historic audited turnover and pre-tax profits – ten year record

The table below sets out the turnover, gross profit and pre-tax profit for the Alternative business for the ten years ended 30 September 2004. Alternative has grown its turnover and gross profit each year for the ten years ended 30 September 2004.

	Year ended 30 September									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
£000										
Turnover*	233	670	1,658	2,852	6,897	11,737	18,354	26,454	35,211	41,027
Gross profit*	83	296	505	994	2,022	4,835	6,808	9,086	13,226	15,989
Pre-tax profit*	4	31	106	312	889	1,029	111	1,044	3,087	3,452

Note:

* Turnover, gross profit and pre-tax profits for the relevant year have been extracted from the audited Financial Statements of Alternative for the ten years ended 30 September 2004

9. Financial information

The table below sets out the turnover, EBITDA and operating profit for the Alternative business for the three years ended 30 September 2002, 2003 and 2004 and the net assets at each of those dates.

	Year ended 30 September		
	2002	2003	2004
	£000	£000	£000
Turnover*	26,454	35,211	41,027
EBITDA**	1,384	3,342	3,543
Operating profit*	1,092	3,059	3,197
Net assets*	2,388	4,261	6,212

Note:

* Turnover, operating profit and net assets are extracted from the profit and loss account of the Accountants' Report as set out in Part III of this document

** EBITDA for the relevant year is obtained by adding depreciation and goodwill amortisation charges (set out in the Accountants' Report in Part III of this document) to operating profit for the relevant year

In order to make a proper assessment of the financial position of Alternative, you should not rely solely on the summary financial information set out above but should read the whole of this document.

10. Current Trading and Prospects

Based on the Company's performance since 1 October 2004, the Directors are confident about the financial and trading prospects of the Company for the current financial year. They believe that Alternative is well positioned to take advantage of opportunities to strengthen the Company's market position both geographically and in terms of its product portfolio.

11. Dividend policy

On 19 January 2005 a dividend in respect of the period from 1 October 2004 of £200,385 was paid to shareholders on the register of members as at 31 December 2004.

In the absence of unforeseen circumstances, and taking into account that Admission is only expected to occur on 18 February 2005, the Directors intend to pay in December 2005 a final cash dividend of approximately £0.5 million for the six months ended 30 September 2005. For the avoidance of doubt, this is not a profit forecast.

Thereafter, the Directors intend to declare an interim and final dividend in respect of each financial year, in the approximate respective ratio of 30:70. The Directors intend to adopt a progressive dividend policy taking account of the underlying long-term earnings growth of the Company.

Any dividends will be subject to the availability of sufficient distributable reserves and cash, taking into account the Company's working capital requirements.

12. The UK Telecoms market

Alternative operates within the UK telecoms market, which includes fixed line and mobile products and services combining both voice and data traffic. The UK telecoms market for business customers was estimated by OFCOM, the industry regulator, to be worth £14.2 billion in 2003 (source: "The Communications Market 2004", OFCOM). Within this market, OFCOM suggested that services to SME customers accounted for revenues of £8.1 billion, or 57 per cent. of total business telecom revenues (source: "Strategic Review of Telecommunications" Phase 1 Consultation Document – Research Annexes 28 April 2004, OFCOM). Although Alternative's market share remains small, the Directors believe that the size of the market opportunity for the Company is significant.

13. Principal Competitors

The Directors believe that, although there are competitors in each of its product groups, there are very few companies that compete with Alternative across the entire range of its product offerings.

Mobile

Competition in the mobile marketplace comes predominantly from Vodafone, O2, BT and Orange. Alternative uses its service provision agreements with O2 and Vodafone to compete in this market with a focus on targeting the SME and small corporate market.

Network Services

Alternative competes with all the network operators in the provision of Network Services. The Directors believe that the principal competition in this product group comes from MCI, BT and Opal Telecom (part of The Carphone Warehouse).

Advanced Solutions

The Directors believe there are fewer competitors in this product group than in the rest of the business. Principal competitors include: BT, Energis and Cable & Wireless.

14. Directors and Key Employees

Directors

Kenneth McGeorge, age 56 – Non-executive Chairman

Kenneth McGeorge joined Vodafone in 1984 some six months before services commenced and was initially involved in the recruitment and training of the first 100 sales staff in the business. He has held various senior sales, marketing and general management positions in the group, culminating in Head of Enterprise Business Unit following the successful combination of the Project Telecom,

Vodafone Business Direct, and 4U Corporate businesses into a single entity for which he was responsible.

James Murray, age 35 – Chief Executive Officer

James Murray co-founded Alternative in 1994 following several sales and engineering positions within London based telecoms dealers. He held the position of Joint Managing Director from 1994 until 2000 when he moved to the position of Managing Director. In 2003 he became Chief Executive Officer. James was a finalist in the London “Entrepreneur of the Year” Awards in 2000 and 2004.

Edward Spurrier, age 39 – Chief Financial Officer

Edward Spurrier joined Alternative as Finance Director in 1999. A member of the Institute of Chartered Accountants in England and Wales, he trained and qualified at Coopers and Lybrand (now PwC) in London. He has over 11 years experience in public practice. He led the establishment of both billing and finance departments within Alternative. His current responsibilities include finance and business development, billing, IT, legal and company secretarial.

Benjamin Marnham, age 32 – Chief Operating Officer

Benjamin Marnham graduated from the University of York in 1994 and joined Alternative at its inception in October 1994. His role expanded from sales manager in 1996 to include management of the telemarketing and account management operations in 1997. In 1998, he was promoted to Network Resale Director retaining responsibilities over client management and Benjamin joined the Board of Alternative in 1999 as Commercial Director. He was appointed Chief Operating Officer in 2004 with a revised remit covering commercial, operational and client management in addition to chairing the newly formed operational management group.

James Sewell, age 34 – Group Sales Director

James Sewell graduated from Manchester University in 1993 and joined Alternative in October 1994. In 1996 he became sales manager of one of the two sales teams, before setting up and managing the NGN Solutions division in 1997. In 1998 he took over management of the Managed Voice Solutions sales team, and in 1999 joined the Board of Alternative as Sales Director. Appointed Group Sales Director in 2004, James is now responsible for new sales from the 5 network sales teams, the telemarketing team, and sales from the client management team. James is also responsible for the marketing and products teams to ensure that these support the sales and client retention focus.

Anthony Caplin, age 53 – Non-executive Director

Anthony Caplin was appointed non-executive director of Alternative in April 2001. Anthony has held many executive senior management positions including managing director of Manchester News Limited, President of Pacific Telesis, European Division and Chief Executive of First City GB and Hunterprint Plc. Anthony is currently non-executive chairman of Durlacher Plc, Norprint Labelling Systems Limited, Ealing Hospital NHS Trust, Coppice Alupack Limited, Britton Holdings Limited, Edengene Limited and Ant Limited. In addition, he is currently a non executive director of Northamber Plc, Easynet Group Plc and Hand Picked Hotels Limited.

Timothy Holland-Bosworth, age 66 – Non-executive Director

Timothy Holland-Bosworth has spent almost his entire working life in the financial services industry including 25 years as a director of corporate finance in Kleinwort Benson Limited and 5 years within the Guinness Mahon Group until he retired 2 years after its acquisition by Investec Bank. He was a chairman of Henderson Crosthwaite Corporate Finance and a director of other Henderson Crosthwaite group companies.

Key Personnel

The Company operates an operational management group, which is responsible for the day-to-day running of the Company. The operational management group is chaired by Benjamin Marnham and also includes the following employees:

Fergus Lynch, age 43 – Head of IT

Fergus joined Alternative in September 2001. Prior to joining Alternative he worked at London Business School as Head of Strategic IT and Communications.

Beverly Wise, age 46 – Client Management Director

Beverly joined Alternative in February 2004. She was previously employed by LeasePlan UK rising to Director of Client Services.

James Riley, age 35 – Network Sales Director

James joined Alternative in January 2000. He was promoted to Southern Sales Director in May 2001 and to Network Sales Director in April 2003. Prior to joining Alternative James was at Xerox as Business Development Manager.

Linda Smeaton, age 37 – Financial Controller

Linda joined Alternative in April 2004. Prior to joining Alternative, Linda was employed by Holmes Place where she was Group Financial Controller. She qualified as an ACA in 1993.

Neil Rampe, age 33 – Commercial Director

Neil joined Alternative in November 2004. He was previously employed by Cable & Wireless starting in market and sector development and most recently employed as Commercial Development Director.

Rupert Townsend, age 37 – Head of Marketing

Rupert joined Alternative in February 2004. He previously worked at Orange in product management and marketing. He is a Member of the Chartered Institute of Marketing.

15. Details of the Placing

Pursuant to the Placing, which has been arranged by Investec, the Placing Shares have been conditionally placed with institutional and other investors in the United Kingdom at the Placing Price. The Placing is fully underwritten by Investec.

Subject to the Placing becoming unconditional, the Placing will raise approximately £4.0 million before expenses (approximately £3.3 million net of expenses) for the Company and approximately £8.7 million for the Selling Shareholders.

The Placing Shares will represent approximately 28.6 per cent. of the issued share capital of the Company immediately following Admission. The Placing Shares will be issued credited as fully paid and will, on issue, rank *pari passu* with the Ordinary Shares already in issue on Admission, including the right to receive all dividends and other distributions thereafter declared, made or paid.

Application has been made for the Ordinary Shares to be admitted to AIM. The Placing Shares have not been marketed in whole or in part to the public in conjunction with the application for Admission.

The Placing is conditional, *inter alia*, upon:

- (a) the Placing Agreement becoming unconditional (save for Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (b) Admission taking place on 18 February 2005 or such later date as Investec and the Company may agree not being later than 28 February 2005.

Further details of the Placing Agreement are set out in paragraph 5.1 of Part V of this document.

16. Admission, Settlement and Dealings

Application has been made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. It is expected that Admission will take place, and that dealings on AIM in the Ordinary Shares will commence, on 18 February 2005.

Application will be made for the Enlarged Issued Ordinary Share Capital to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place through CREST.

17. Alternative Networks EMI Scheme and Awards of Interests in Shares

The Directors consider that Admission will provide enhanced opportunities for the Company to recruit, retain and reward employees for their efforts in developing and growing the business of the Company.

Accordingly, the Company has established the Alternative Networks EMI Scheme. No more than ten per cent. of the issued share capital of the Company may be issued or issuable pursuant to options or

other rights granted in the previous ten years under the Alternative Networks EMI Scheme and any other employees' share schemes established by the Company (other than the Awards of Interests in Shares).

The principal terms of the Alternative Networks EMI Scheme are summarised in paragraph 7.1 of Part V of this document.

Certain Awards of Interests in Shares have been made by the EBT as described in paragraph 7.2 of Part V of this document.

18. Share Undertakings

Those Directors who hold Ordinary Shares have undertaken, subject to certain exceptions, not to dispose of the Ordinary Shares held by them immediately following Admission for a period of one year from Admission. Further details of these restrictions are set out in paragraph 5.1 of Part V of this document.

19. Corporate Governance

The Directors recognise the value and importance of high standards of corporate governance and intend to observe the requirements of the Combined Code to the extent that they consider appropriate in light of the Company's size, stage of development and resources.

The Directors have established an audit committee, a remuneration committee and a nomination committee with formally delegated duties and responsibilities.

The audit committee determines the terms of engagement of the Company's auditors and will determine, in consultation with the Company's auditors, the scope of audits. It will receive and review reports from management relating to the interim and annual accounts and the accounting and internal control systems in use by the Company. The audit committee will have unrestricted access to the Company's auditors, including their reports on weaknesses identified in the accounting and internal control environment.

The remuneration committee will review the scale and structure of both the executive Directors' and other key employees' future remuneration and the terms of their service agreements with due regard to the interests of shareholders. No Director will be permitted to participate in discussions or decisions concerning his own remuneration.

The nomination committee is responsible for making recommendations on the appointment of additional Directors and for reviewing the composition of the Board and membership of the board committees.

The Company will comply with Rule 19 of the AIM Rules regarding dealings in the Company's shares and will take all reasonable steps to ensure compliance by the Directors and applicable employees.

The Company has adopted and will operate a share dealing code for Directors and relevant employees equivalent to the Model Code on share dealings (as set out in the appendix to chapter 16 of the Listing Rules of the UK Listing Authority). Furthermore, the Company intends to issue internal guidelines for its Directors and employees in respect of the protection and dissemination of price sensitive information.

20. Taxation

Individual Shareholders who are resident or ordinarily resident in the United Kingdom should be eligible for business or non-business asset taper relief for chargeable gains on disposals of their Ordinary Shares. The availability of business asset taper relief (which after a two-year holding period reduces the effective rate of capital gains tax for higher rate taxpayers to 10 per cent.) will depend (*inter alia*) on the Company being a holding company of a trading group for the relevant period of ownership of the Ordinary Shares. To the extent that Ordinary Shares do not constitute business assets at any time during the relevant period of ownership, they will generally be considered non-business assets during such time.

Further information on United Kingdom taxation with regard to the Placing is set out in the paragraph entitled "Taxation" on pages 58 to 60 in Part V of this document. All information in relation to taxation in this document is intended only as a general guide to the current United Kingdom tax position. If you are in any doubt as to your own tax position, or are subject to tax in a jurisdiction

other than the United Kingdom, you should consult your own independent professional adviser immediately.

21. Risk Factors

The Company's business is dependent on many factors and you are advised to read the whole of this document and in particular Part II entitled "Risk Factors".

22. Accountants' Report, Pro Forma Statement of Net Assets and Additional Information

Your attention is drawn to the Accountants' Report on the Company, the Pro Forma Statement of Net Assets of the Company and Additional Information sections in Parts III, IV and V of this document, which provide additional information on the Company.

PART II

RISK FACTORS

In addition to all other information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. If you are in any doubt about the action you should take, you should consult a personal adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

The Directors believe the following risks to be the most significant for potential investors. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements.

If any of the following risks were to materialise, the Company's business, financial conditions, results or future operations could be materially adversely affected. In such cases, the market price of the Company could decline and an investor may lose part or all of his investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial may also have an adverse effect upon the Company. The information below does not purport to be an exhaustive summary of the risks affecting the Company. The risks listed below are not set out in any particular order of priority.

1. Volatility of Share Price

The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a number of events and factors, such as variations in operating results, announcements of technological innovations or new products and services by the Company or its competitors, changes in financial estimates and recommendations by securities analysts, the operating share price performance of other companies that investors may deem comparable to the Company, the general market perception of telecoms-based companies and news reports relating to trends in the Company's markets. These fluctuations may adversely affect the trading price of the Ordinary Shares, regardless of the Company's performance.

2. Investment in AIM Securities

Investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List of the UK Listing Authority. An investment in Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of the Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

3. Competition

The Directors intend to continue to invest in developing market-leading products and services. However, the telecoms sector is highly competitive, in both the fixed line and mobile sub-sectors. The Company may face significant competition, including from larger telecoms companies (which include key suppliers) which have greater capital resources. There is no assurance that the Company will be able to compete successfully in such a marketplace in the future.

4. Contracts with suppliers

The Company uses a number of network operators for the supply of its products. In particular the Company is a service provider for O2 and Vodafone. These service provider agreements, like most of its supplier and customer arrangements, are of a limited duration. While both O2 and Vodafone have indicated their willingness to continue with these arrangements there can be no guarantee that they will remain in place beyond their current expiry dates. Furthermore, any future service provider contract could be on less favourable commercial terms for the Company. A number of the supplier agreements can be terminated if there is a change of control of the Company. Confirmation has been obtained from O2 and Vodafone that they will not terminate their agreements as a result of the Placing and Admission. The Directors do not believe that there is a serious risk of other contracts being terminated.

5. Product defects and network outage

As a switchless reseller, Alternative does not own a network and is therefore reliant on its third party suppliers, namely network operators, for the provisions of its services. Whilst every step is taken to ensure its suppliers maintain the highest possible level of services to the Company, there can be no guarantee that security or quality of supply will be maintained. This may lead to increased customer churn and loss of turnover.

6. Pricing environment

Retail prices for many telecoms products have declined consistently in recent years, through a combination of regulatory intervention and market competition. These declining price trends are expected to continue moving forward. Although the Company builds price erosion into its financial modelling it remains possible that the pricing environment could become more difficult than anticipated, which could have an unforeseen, adverse impact on the Company's revenues and profit margins.

7. Regulation

The UK telecoms market is subject to periodic regulatory intervention by OFCOM. In particular, the pricing of fixed line to mobile calls has been the subject of a series of price reductions following regulatory scrutiny. There is likely to be further regulatory intervention by OFCOM in the future which may have an unforeseen impact on some or all of Alternative's products and tariffs.

8. Technological Change

The technology upon which the Company's products and services are based may become obsolete or may not continue to have sufficient market acceptance to create adequate demand for the Company's products and services. In order to compete successfully, the Company will need to continue to improve its products and services and to develop and market new products and services that keep pace with technological change. The introduction of Voice over IP may lead to increased competition or new products and services.

9. Certain shareholders will continue to have substantial control over the Company after Placing

Upon completion of the Placing, James Murray will beneficially own approximately 35.9 per cent. of the Enlarged Issued Ordinary Share Capital of the Company and, together with Christopher Wilson, Edward Spurrier, James Sewell and Benjamin Marnham will beneficially own, in aggregate, approximately 64.0 per cent. of the Enlarged Issued Share Capital of the Company. As a result, these shareholders, whilst not acting in concert, could exercise significant control over all matters requiring shareholder approval, which could delay or prevent an outside party from acquiring or merging with the Company.

10. Dependence on Key Executives and Personnel

Alternative's future success is substantially dependent on its senior management and, in particular, each of the Executive Directors, further details of whom may be found in "Directors and Key Employees" in Part I of this document. The departure from the Company of any of the Executive Directors or certain senior employees could, in the short term, have a material adverse effect on Alternative's business. The Company has provided certain key members of its senior management and its employees with share options to reward them for their contribution to the Company's performance and to encourage them to remain with the Company, but the retention of the services of such persons cannot be guaranteed.

11. Ability to recruit and retain sales staff

The Company may be adversely affected by an inability to recruit and retain sufficient personnel of the right calibre. The Company has historically faced difficulty in recruiting sales staff in line with its requirements but the Directors believe that action has now been taken to address this risk.

12. Intellectual Property Rights

The Company relies and will, in the future, rely on intellectual property laws and third party non-disclosure agreements to protect its intellectual property rights. Despite precautions which may be taken by the Company to protect its products, unauthorised parties may attempt to copy, or obtain and use, its products and the technology incorporated in them. There can be no assurance that the

intellectual property required by the Company to develop, market and sell its products will not be challenged or that the intellectual property belonging to the Company will continue to be owned by it indefinitely.

13. International Financial Reporting Standards

The Company prepares its financial statements in accordance with UK GAAP. UK companies listed on AIM will have to comply with International Financial Reporting Standards (“IFRS”) for each financial year beginning on or after 1 January 2007. Therefore, the Company will have to comply with IFRS from 1 October 2007 and will need to provide comparable data in accordance with IFRS for the financial year ending 30 September 2007. It is not possible at this time to accurately quantify the impact that the conversion from UK GAAP to IFRS will have on the Company’s financial results, although it could adversely affect the capital position or reported profitability of the Company.

14. Reliance on software

Alternative relies heavily on the integrity and the serviceability of its billing system to enable the Company to invoice its customers. In the event that there was a problem with this software, standing data would have to be transferred to an alternative software platform which could have an adverse impact on the Company.

15. Litigation

Any litigation, by the Company or against it, is likely to be costly and there can be no assurance that the Company would prevail. Litigation could also involve a significant diversion of resources and management attention which could have a significant adverse effect on the business.

PART III

ACCOUNTANTS' REPORT ON ALTERNATIVE NETWORKS PLC



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15 February 2005

Dear Sirs

Alternative Networks plc

Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 15 February 2005 (“the Admission Document”) of Alternative Networks plc (“the Company”).

Basis of preparation

The financial information set out below is based on the audited financial statements of the Company for the years ended 30 September 2002, 2003 and 2004 to which no adjustment was 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 Admission Document in which this report is included.

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

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us and our predecessor firm PricewaterhouseCoopers relating to the audits of the financial statements underlying the financial information. Our work also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial

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statements underlying the financial information and whether the accounting policies are appropriate to the circumstances of the Company, 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 misstatements, whether caused by fraud or other irregularity or error.

Opinion

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

Consent

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

Profit and Loss Account

		<i>Year ended</i> 30 September	<i>Year ended</i> 30 September	<i>Year ended</i> 30 September
	<i>Notes</i>	2002 £'000	2003 £'000	2004 £'000
Turnover				
Continuing operations		26,228	34,832	40,420
Acquired customer contracts		—	—	288
		<u>26,228</u>	<u>34,832</u>	<u>40,708</u>
Discontinued operations		226	379	319
Total turnover	2	26,454	35,211	41,027
Cost of sales	4	(17,368)	(21,985)	(25,038)
Gross profit		9,086	13,226	15,989
Administrative expenses	4	(7,994)	(10,167)	(12,792)
Operating profit				
Continuing operations		1,123	2,988	3,068
Acquired customer contracts		—	—	103
		<u>1,123</u>	<u>2,988</u>	<u>3,171</u>
Discontinued operations		(31)	71	26
Total operating profit	3	1,092	3,059	3,197
Profit on sale of business	5	—	—	46
Interest receivable and similar charges		46	102	275
Interest payable and similar charges	8	(94)	(74)	(66)
Profit on ordinary activities before taxation		1,044	3,087	3,452
Taxation on profit on ordinary activities	9	(292)	(962)	(1,052)
Profit on ordinary activities after taxation		752	2,125	2,400
Dividends	10	(83)	(252)	(450)
Retained profit for the financial year	20	<u>669</u>	<u>1,873</u>	<u>1,950</u>
Profit per ordinary share				
– basic	11	1.7p	4.2p	4.8p
– diluted	11	1.6p	4.2p	4.8p

The Company has no gains or losses other than the profit above and therefore no separate statement of total recognised gains and loss has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the years stated above and their historical cost equivalents.

Balance Sheet

		<i>Year ended</i> 30 September	<i>Year ended</i> 30 September	<i>Year ended</i> 30 September
	<i>Notes</i>	2002 £'000	2003 £'000	2004 £'000
Fixed assets				
Intangible assets	12	—	—	29
Tangible assets	13	2,123	2,299	2,330
		<u>2,123</u>	<u>2,299</u>	<u>2,359</u>
Current assets				
Stock – finished goods		67	92	76
Debtors	14	8,605	8,343	9,041
Cash at bank and in hand		1,798	7,387	6,170
		<u>10,470</u>	<u>15,822</u>	<u>15,287</u>
Creditors: amounts falling due within one year	15	<u>(9,001)</u>	<u>(12,753)</u>	<u>(10,351)</u>
Net current assets		1,469	3,069	4,936
Total assets less current liabilities		3,592	5,368	7,295
Creditors: amounts falling due in more than one year	16	<u>(1,203)</u>	<u>(1,106)</u>	<u>(1,083)</u>
Net assets		<u><u>2,389</u></u>	<u><u>4,262</u></u>	<u><u>6,212</u></u>
Capital and reserves				
Called up share capital	19	1	1	1
Share premium account	20	96	96	96
Profit and loss account	20	2,292	4,165	6,115
Equity shareholders' funds	21	<u><u>2,389</u></u>	<u><u>4,262</u></u>	<u><u>6,212</u></u>

Cash Flow Statement

		<i>Year ended</i> 30 September	<i>Year ended</i> 30 September	<i>Year ended</i> 30 September
	<i>Notes</i>	2002 £'000	2003 £'000	2004 £'000
Net cash inflow from operating activities	23	<u>729</u>	<u>6,709</u>	<u>934</u>
Returns on investments and servicing of finance				
Interest received		46	103	275
Interest paid		(88)	(71)	(66)
Interest element of finance lease payments		<u>(5)</u>	<u>(4)</u>	<u>(1)</u>
Net cash inflow/(outflow) from returns on investments and servicing of finance		<u>(47)</u>	<u>28</u>	<u>208</u>
Taxation				
UK Corporation tax paid		<u>(303)</u>	<u>(338)</u>	<u>(1,470)</u>
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(159)	(461)	(371)
Sale of tangible fixed assets		<u>1</u>	<u>4</u>	<u>—</u>
Net cash outflow for capital expenditure and financial investment		<u>(158)</u>	<u>(457)</u>	<u>(371)</u>
Acquisitions and disposals				
Payments to purchase customer contracts	12	—	—	(30)
Receipts from sale of business	5	—	—	55
Net cash inflow from acquisitions and disposals		<u>—</u>	<u>—</u>	<u>25</u>
Equity dividends paid		<u>(164)</u>	<u>(252)</u>	<u>(450)</u>
Net cash (outflow)/inflow before financing		<u>57</u>	<u>5,690</u>	<u>(1,124)</u>
Financing				
Issue of shares		96	—	—
Capital element of finance lease payments		(18)	(19)	(18)
Capital element of loan repayments		<u>(72)</u>	<u>(82)</u>	<u>(75)</u>
Net cash (outflow)/inflow from financing		<u>6</u>	<u>(101)</u>	<u>(93)</u>
(Decrease)/increase in net cash	24	<u>63</u>	<u>5,589</u>	<u>(1,217)</u>

Notes to the Financial Information

1 Principal accounting policies

The financial information has been prepared in accordance with applicable Accounting Standards in the United Kingdom and the Act. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Turnover

Turnover from calls, which excludes value added tax and trade discounts, is recognised in the profit and loss account at the time the call is made with the exception of international roamed calls which are recognised when the data is supplied by the UK networks.

Calls made in the year, but not billed by year end, are accrued within debtors as accrued income.

Turnover from line rentals and insurance is recognised in the month that the charge relates to, commencing with a full month's charge in the month of connection. Turnover from the sale of handsets and the related costs, including all of the estimated costs in respect of further handsets to be provided under contractual arrangements, are recognised on the date of connection. Turnover in respect to connection incentive bonuses are recognised when specific performance criteria are confirmed to have been met.

Turnover and related costs from the sale of accessories are recognised on the date of delivery.

Turnover arising from the provision of other services is recognised evenly over the periods in which the service is provided to the customer.

Income and related expenditure is recognised upon completion of work for systems installations.

Maintenance income in respect of systems is recognised evenly over the period to which it relates.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any directly attributable costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Motor vehicles	25%
Fixtures and fittings	25%
Computer equipment	33%
Office equipment	33%
Demonstration equipment	33%
Leasehold improvements	Over the lease term
Building element of long leasehold property	2%
Finance, billing and CRM software	20%

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding.

Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Stock

Stock is stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Deferred taxation

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is recognised to the extent that the transfer of economic benefits in the future is considered reasonably certain. Deferred tax assets and liabilities are not discounted.

Pension scheme arrangements

The Company operates a defined contribution pension scheme and contributes to an independent stakeholder pension. The pension charge represents the amounts payable by the Company to the funds in respect of the year.

Purchased customer contracts

Purchased customer contracts are capitalised at cost and amortised on a straight line basis over their estimated useful economic life from the date of acquisition. The amortisation period of 3 years for the acquisition of the customer base, in the year ended 30 September 2004, is considered by the directors to be a reasonable estimate of the useful economic life.

Financial Instruments

In accordance with FRS13 – “Derivatives and other financial instruments: disclosures”, the Company has taken advantage of the exemption available for short-term debtors and creditors. The company does not use or trade in derivative financial investments.

Capital instruments that contain an obligation to transfer economic benefit are classified as liabilities and are recorded at their net proceeds.

Financial assets are recorded at cost and the return on such assets is accrued in the period to which it relates.

2 Segmental information

Turnover, operating profit and net assets relate entirely to the communications business in the United Kingdom.

3 Operating profit

Operating profit is stated after charging/(crediting):

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Depreciation of tangible fixed assets			
– owned by the Company	278	268	325
– held under finance leases and hire purchase contracts	14	15	14
Amortisation of goodwill	—	—	7
(Profit)/loss on disposal of fixed assets	1	(2)	1
Operating lease charges:			
– other	122	176	280
Auditors' remuneration			
– audit services	27	30	35
– non audit services	—	—	4
	<u> </u>	<u> </u>	<u> </u>

4 Analysis of cost of sales, gross profit and administrative expenses

	<i>Year ended</i> <i>30 September</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2004</i> <i>£'000</i>
Total turnover	26,454	35,211	41,027
Cost of sales			
– Acquired customer contracts	—	—	185
– Continuing operations	17,209	21,736	24,647
– Discontinued operations	159	249	206
	17,368	21,985	25,038
Gross profit			
– Acquired customer contracts	—	—	103
– Continuing operations	9,019	13,093	15,773
– Discontinued operations	67	133	113
	9,086	13,226	15,989
Administrative expenses			
– Acquired customer contracts	—	—	—
– Continuing operations	7,896	10,105	12,705
– Discontinued operations	98	62	87
	7,994	10,167	12,792
Total operating profit	1,092	3,059	3,197

5 Profit on sale of business

During the year ended 30 September 2004 the Company disposed of its residential customer base. The proceeds of the sale were £55,000 with associated costs of £9,000, resulting in a profit of £46,000. The tax impact of this was a charge at 30%.

6 Directors' emoluments and interests

	<i>Year ended</i> <i>30 September</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2004</i> <i>£'000</i>
Aggregate emoluments	1,076	1,371	1,247
Aggregate gain on exercising share options	254	—	—
Pension contributions	25	22	37
	1,355	1,393	1,284

There are benefits accruing under defined contribution schemes for two (2003: two, 2002: two) of the directors.

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Highest paid director			
Aggregate emoluments	206	286	259
Gain on exercise of share options	72	—	—
Pension contributions	6	8	14

Number of shares held in the Company

Directors' interests in £0.25 ordinary shares of the Company were:

	<i>Year ended 30 September 2002 £0.25 shares Number</i>	<i>Year ended 30 September 2003 £0.25 shares Number</i>	<i>Year ended 30 September 2004 £0.25 shares Number</i>
J D G Murray	1,458	1,458	1,458
C E Wilson	1,458	1,458	1,458
E Spurrier and family	270	270	270
J Sewell	180	180	180
B Marnham	180	180	180

Interest in share options

Directors' options over the £0.25 ordinary shares of the Company were:

	<i>1 October 2001 Number</i>	<i>Exercised in the year Number</i>	<i>30 September 2002 Number</i>	<i>Market price at exercise £ per share</i>	<i>Exercise price £ per share</i>	<i>Date exercisable</i>	<i>Gain on exercise £'000</i>
E Spurrier and family	180	(180)	—	575	417	11 June 2002	28
	80	(80)	—	575	31.25	11 June 2002	44
J Sewell	80	(80)	—	575	31.25	11 June 2002	44
	92	(92)	—	575	62.5	11 June 2002	47
B Marnham	80	(80)	—	575	31.25	11 June 2002	44
	92	(92)	—	575	62.5	11 June 2002	47
							254

The above figures have been adjusted for the impact of the share split in June 2002.

There were no share options issued, exercised or lapsed in the years ended 30 September 2003 and 2004.

7 Staff costs and employee information

Staff costs for all employees (including executive directors) were as follows:

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Staff costs			
Wages and salaries	5,742	7,093	8,250
Social security costs	573	776	904
Pension costs	38	29	43
	<u>6,353</u>	<u>7,898</u>	<u>9,197</u>

The average monthly number of persons (including executive directors) employed by the Company during the year was:

<i>By Activity</i>	<i>Year ended 30 September 2002 Number</i>	<i>Year ended 30 September 2003 Number</i>	<i>Year ended 30 September 2004 Number</i>
Selling and distribution	82	107	150
Administration	92	101	110
	<u>174</u>	<u>208</u>	<u>260</u>

8 Interest payable and similar charges

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Finance leases	5	3	1
Bank mortgage	72	64	64
Other loans	13	7	1
Other interest payable	4	—	—
	<u>94</u>	<u>74</u>	<u>66</u>

9 Taxation

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Taxation on the profit for the year			
UK corporation tax on profits for the year	340	939	1,059
Under/(over) provision in previous year	—	(2)	1
Total Current Tax	<u>340</u>	<u>937</u>	<u>1,060</u>
Transfer (from)/to deferred taxation (Note 17)	<u>(48)</u>	<u>25</u>	<u>(8)</u>
	<u>292</u>	<u>962</u>	<u>1,052</u>

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Profit on ordinary activities before tax	1,044	3,087	3,452
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%, 2002: 30%)	313	926	1,036
Effects of:			
Expenses not deductible for tax purposes	6	7	10
Marginal relief	(9)	—	—
Depreciation for period in excess of capital allowances	30	6	13
Under/(over) provision in previous year	—	(2)	1
Current tax	340	937	1,060

10 Dividends

A dividend of £125 per £0.25p ordinary share was declared and paid during the year end 30 September 2004 (2003: £70 per £0.25 ordinary share; 2002: £115 per £1 ordinary share. This amounts to a dividend of £450,000 (2003: £252,000; 2002: £83,000).

11 Earnings per share

The calculation of basic and fully diluted earning per ordinary share is based on the profit after taxation for the period and the weighted average number of ordinary shares in issue during the year, adjusted for the share split on 17 December 2004, the bonus issue on 2 February 2005 and the share split on 8 February 2005.

The profit and weighted average number of shares used in the calculations are set out below:

	<i>Profit attributable to shareholders £'000</i>	<i>Weighted average of £0.00125 ordinary shares Number</i>	<i>Per share amount pence</i>
Basic and fully diluted loss per share			
2002 Earnings per share – basic	752	43,708,000	1.7
potentially dilutive shares	—	3,962,000	(0.1)
2002 Earnings per share – diluted	752	47,670,000	1.6
2003 Earnings per share – basic	2,125	50,400,000	4.2
potentially dilutive shares	—	—	—
2003 Earnings per share – diluted	2,125	50,400,000	4.2
2004 Earnings per share – basic	2,400	50,400,000	4.8
potentially dilutive shares	—	—	—
2004 Earnings per share – diluted	2,400	50,400,000	4.8

The above figures have been adjusted for the impact of the share splits in 2002, 2004 and 2005 and bonus issue in 2005.

12 Intangible fixed assets

	<i>£'000</i>
Purchased customer contracts	
At 1 October 2002	—
Additions	—
	<hr/>
At 30 September 2003	—
Additions	36
	<hr/>
At 30 September 2004	36
Amortisation	
At 1 October 2002	—
Charge for the year	—
	<hr/>
At 30 September 2003	—
Charge for the year	7
	<hr/>
At 30 September 2004	7
	<hr/>
Net book amount	
At 30 September 2004	29
	<hr/> <hr/>
At 30 September 2003	—
	<hr/> <hr/>

During the year end 30 September 2004 the Company acquired a customer base for a cost of £36,000. The cost is being amortised on a straight-line basis over 3 years which is the anticipated life of the asset. No tangible assets were acquired.

Included in the cash flow statement is £30,000 in respect of the cash outflow during the year with the remaining £6,000 of costs accrued.

13 Tangible fixed assets

	<i>Long leasehold land and buildings £'000</i>	<i>Short leasehold improvements £'000</i>	<i>Plant and equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Total £'000</i>
Cost					
At 1 October 2001	1,646	211	847	49	2,753
Additions	—	9	142	8	159
Disposals	—	(8)	(87)	(10)	(105)
At 30 September 2002	1,646	212	902	47	2,807
Additions	—	64	380	17	461
Disposals	—	(26)	(6)	(28)	(60)
At 30 September 2003	1,646	250	1,276	36	3,208
Additions	—	79	292	—	371
Disposals	—	—	(18)	—	(18)
At 30 September 2004	1,646	329	1,550	36	3,561
Depreciation					
At 1 October 2001	10	33	417	36	496
Charge for year	18	32	234	8	292
Disposals	—	(7)	(87)	(10)	(104)
At 30 September 2002	28	58	564	34	684
Charge for year	18	36	220	9	283
Disposals	—	(26)	(5)	(27)	(58)
At 30 September 2003	46	68	779	16	909
Charge for year	18	51	263	7	339
Disposals	—	—	(17)	—	(17)
At 30 September 2004	64	119	1,025	23	1,231
Net book value					
At 30 September 2002	1,618	154	338	13	2,123
At 30 September 2003	1,600	182	497	20	2,299
At 30 September 2004	1,582	210	525	13	2,330

Included above are assets held under finance leases or hire purchase contracts as follows:

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Cost	45	45	45
Aggregate depreciation	(16)	(32)	(45)
Net book amount	29	13	—

14 Debtors

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Amounts falling due within one year:			
Trade debtors	5,633	4,701	4,475
Prepayments	226	366	591
Accrued income	2,700	3,190	3,875
Other debtors	46	86	100
	<u>8,605</u>	<u>8,343</u>	<u>9,041</u>

The other debtors balance includes the deferred tax asset of £24,000 (2003: £16,000, 2002: £41,000). See Note 17.

15 Creditors: amounts falling due within one year

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Bank loans (note 18)	82	79	27
Trade creditors	5,297	7,561	4,837
Corporation Tax	340	939	520
Finance leases (note 18)	19	18	—
Other taxation and social security costs	662	936	945
Other creditors	56	81	108
Accruals	2,080	2,411	3,136
Deferred income	465	728	778
	<u>9,001</u>	<u>12,753</u>	<u>10,351</u>

Secured Creditors

Included in trade creditors are the following balances:

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
O2 (UK) Limited	Nil	669	1,329
Vodafone Limited	43	435	756

On 27 May 2002, the Company granted legal charges to each of the above companies in respect of the balances owing to them under the terms of the service provider agreements both dated 27 May 2002.

The legal charges are secured on the subscriber bases of the Company on each network, and the book debts arising thereon, together with any amount standing to the credit of the companies in any designated account.

In addition, on 27 August 2002, the Company gave a guarantee to Barclays Bank plc in favour of O2 (UK) Limited, in respect of £200,000. On 16 March 2004, the guarantee was increased to £225,000. The guarantee is secured on the Bank's existing first charge over the freehold of Chatfield Court, 56 Chatfield Road, London SW11 3UL, together with a fixed and floating charge on the assets of the Company, registered on 19 December 2002.

16 Creditors: amounts falling due in more than one year

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Bank loans (note 18)	1,185	1,106	1,083
Finance leases (note 18)	18	—	—
	<u>1,203</u>	<u>1,106</u>	<u>1,083</u>

17 Deferred tax

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Provided and potential full liability to deferred taxation			
At 1 October: liability/(asset)	7	(41)	(16)
(Credit)/charge for the year	(48)	25	(8)
At 30 September (asset)	<u>(41)</u>	<u>(16)</u>	<u>(24)</u>

Deferred tax comprises the following amounts:

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Depreciation in excess of capital allowances	41	16	24

18 Financial instruments

The Company's financial instruments comprise cash, bank loans, finance leases and various items such as trade debtors and trade creditors that arise directly from its operations. All financial instruments are denominated in sterling. The main purpose of holding cash is to finance the Company's future growth and operations.

It is (and has been throughout the periods under review) the Company's policy that no trading in financial instruments shall be undertaken. The fair value of financial assets and liabilities is approximately equal to their book values. Financial assets and liabilities included in this note exclude short term debtors and creditors.

The main risks arising from the Company's financial instruments are interest rate and liquidity risks.

The Board reviews its liquidity risk and interest rate risk on cash deposits and borrowings on a regular basis through cash flow projections.

Cash at bank is invested in overnight deposits.

Working capital and capital expenditure requirements are monitored through regular cash flow projections to ensure that significant funds are available to meet obligations as they fall due. The company uses leases and loans arrangements to effectively manage its liquidity risk.

Financial assets

The Company's financial assets comprise of cash at bank and deposits at the year ends. Interest is received on cash deposits at variable rates primarily based on the relevant bank base rate. All cash at bank and cash deposits are held in sterling.

Financial liabilities

The Company's financial liabilities comprise of:

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Sterling			
Secured bank loans	1,173	1,141	1,110
Unsecured bank loans	94	44	—
	<u>1,267</u>	<u>1,185</u>	<u>1,110</u>
Finance leases	37	18	—
	<u>1,304</u>	<u>1,203</u>	<u>1,110</u>

The secured bank loan is secured by a fixed charge over the long leasehold property at Chatfield Court, Battersea. Interest is payable at a variable interest rate 1.8% per annum over the base rate. The loan is repayable in quarterly instalments over a 25 year period commencing February 2001.

As at 30 September 2003 there were four unsecured loans amounting to £44,000 (2002: £94,000), all of which were repayable over a three year period. These loans were all repaid in the year ended 30 September 2004. The interest rates on these loans were fixed over the repayment term at 7.71%, 7.77%, 8.23% and 10.19% per annum. The weighted average interest rate of these loans was 7.9% (2003: 7.9%, 2002: 7.9%). The weighted average period for which the rate is fixed is; Nil years (2003: 1 year, 2002: 2 years).

The unsecured loans held at 30 September 2003 have been fully repaid during the year ended 30 September 2003.

The finance leases are secured over the assets the lease relates to. Interest is payable at a fixed rate of 10.19% per annum for the term of the lease.

Maturity of financial liabilities:

	<i>2002 Finance</i>			<i>2003 Finance</i>			<i>2004 Finance</i>		
	<i>Loans £'000</i>	<i>Leases £'000</i>	<i>Total £'000</i>	<i>Loans £'000</i>	<i>Leases £'000</i>	<i>Total £'000</i>	<i>Loans £'000</i>	<i>Leases £'000</i>	<i>Total £'000</i>
In one year or less	82	19	101	79	18	97	27	—	27
In more than one year but not more than two years	76	18	94	37	—	37	28	—	28
In more than two years but not more than five years	108	—	108	125	—	125	97	—	97
In more than five years	1,001	—	1,001	944	—	944	958	—	958
	<u>1,267</u>	<u>37</u>	<u>1,304</u>	<u>1,185</u>	<u>18</u>	<u>1,203</u>	<u>1,110</u>	<u>—</u>	<u>1,110</u>

Undrawn facilities were as follows:

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Secured bank loans	27	59	90
Unsecured bank loans	56	106	—
	<u>83</u>	<u>165</u>	<u>90</u>

19 Called up share capital

	<i>Year ended 30 September 2002 £'000</i>	<i>Year ended 30 September 2003 £'000</i>	<i>Year ended 30 September 2004 £'000</i>
Authorised			
400,000 ordinary shares of £0.25 each	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>
Allotted, called up and fully paid			
3,600 ordinary shares of £0.25 each	1	1	1
	<u>1</u>	<u>1</u>	<u>1</u>

On 11 June 2002, the option holders in respect of 163 £1 ordinary shares exercised their options. 163 ordinary £1 shares were issued. Consideration of £96,000 was received.

On 13 June 2002, by way of written resolution, each of the issued and unissued ordinary shares of £1 each in the company was sub-divided into 4 ordinary shares of £0.25p each.

On 18 June 2002, the Company issued 36 new shares of £0.25p each. The consideration received was £1,000.

At 30 September 2002, there were no outstanding options. No options were granted in the year, no options lapsed, and all options existing at 30 September 2001 were exercised during the period to 30 September 2002.

20 Reserves

	<i>Share Premium £'000</i>	<i>Profit and loss account £'000</i>
At 1 October 2001	—	1,623
Retained profit for the financial year	—	669
Share premium on shares issued in year	96	—
At 30 September 2002	<u>96</u>	<u>2,292</u>
At 1 October 2002	96	2,292
Retained profit for the financial year	—	1,873
At 30 September 2003	<u>96</u>	<u>4,165</u>
At 1 October 2003	96	4,165
Retained profit for the year	—	1,950
At 30 September 2004	<u>96</u>	<u>6,115</u>

21 Reconciliation of movements in shareholders' funds

	<i>Year ended</i> <i>30 September</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2004</i> <i>£'000</i>
Profit for the year before dividends	752	2,125	2,400
New share capital issued	—	—	—
Share premium	96	—	—
Dividends	(83)	(252)	(450)
Net addition to shareholders' funds	765	1,873	1,950
Shareholders' funds at 1 October	1,624	2,389	4,262
Shareholders' funds at 30 September	2,389	4,262	6,212

22 Reconciliation of net cashflow to net funds

	<i>Year ended</i> <i>30 September</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2004</i> <i>£'000</i>
(Decrease)/increase in cash in the period	63	5,589	(1,217)
Decrease in loans	72	82	75
Decrease in finance leases	18	19	18
(Decrease)/increase in net funds in the period	153	5,690	(1,124)
Net funds at 1 October	341	494	6,184
Net funds at 30 September	494	6,184	5,060

23 Reconciliation of operating profit to net cash inflow from operating activities

	<i>Year ended</i> <i>30 September</i> <i>2002</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2003</i> <i>£'000</i>	<i>Year ended</i> <i>30 September</i> <i>2004</i> <i>£'000</i>
Operating profit	1,092	3,059	3,197
Depreciation on tangible fixed assets	292	283	339
Amortisation of goodwill	—	—	7
(Profit)/ loss on disposal of tangible fixed assets	—	(2)	1
Decrease/ (increase) in stocks	70	(25)	15
Decrease/ (increase) in trade debtors	(2,910)	932	226
(Increase) in other debtors, prepayments and accrued income	(774)	(694)	(924)
(Decrease)/ increase in trade creditors	1,583	2,264	(2,724)
Increase in other taxation and social security	206	274	9
Increase in other creditors, accruals and deferred income	1,170	618	788
Net cash inflow from operating activities	729	6,709	934

24 Analysis of net funds

	<i>1 October</i>			<i>30</i>			<i>30</i>			<i>30</i>
	<i>2001</i>	<i>Cashflow</i>	<i>Non cash</i>	<i>September</i>	<i>Cashflow</i>	<i>Non cash</i>	<i>September</i>	<i>Cashflow</i>	<i>Non cash</i>	<i>September</i>
	<i>£'000</i>	<i>£'000</i>	<i>movements</i>	<i>2002</i>	<i>£'000</i>	<i>movements</i>	<i>2003</i>	<i>£'000</i>	<i>movement</i>	<i>2004</i>
			<i>£'000</i>	<i>£'000</i>		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Net cash:										
Cash at bank and in hand	1,735	63	—	1,798	5,589	—	7,387	(1,217)	—	6,170
Debt:										
Finance leases due within one year	(16)	18	(21)	(19)	19	(18)	(18)	18	—	—
Finance leases due after one year	(39)	—	21	(18)	—	18	—	—	—	—
Debt due within one year	(78)	72	(76)	(82)	82	(79)	(79)	75	(23)	(27)
Debt due after one year	(1,261)	—	76	(1,185)	—	79	(1,106)	—	23	(1,083)
	(1,394)	90	—	(1,304)	101	—	(1,203)	93	—	1,110
	341	153	—	494	5,690	—	6,184	(1,124)	—	5,060

25 Other commitments

At 30 September each year the Company had annual commitments under non-cancellable operating leases as follows:

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>Land and</i>	<i>Land and</i>	<i>Land and</i>
	<i>buildings</i>	<i>buildings</i>	<i>buildings</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Expiry date:			
Within 1 year	25	8	6
Between 2 and 5 years	73	257	243
In more than 5 years	—	—	58
	98	265	307

26 Pension commitments

The Company operates a defined contribution scheme on behalf of the directors, the assets of which are held separately from those of the company in an independently administered fund. Pension costs charged to the profit and loss account amounted to £43,000 (2003: £29,000; 2002: £38,000). No amounts were outstanding at the year end.

27 Capital commitments

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>
	<i>30 September</i>	<i>30 September</i>	<i>30 September</i>
	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Capital expenditure contracted but not provided	—	47	—

28 Related party transactions

There are no material related party transactions requiring disclosure in accordance with FRS 8.

29 Post balance sheet events

On 31 October 2004, Christopher Wilson, Marketing Director and co-founder resigned, and left the business. On 2 November 2004, the company purchased 855 shares for £4,405,000 cash from Chris Wilson. These shares were subsequently cancelled.

On 7 December 2004, the Company entered into a new banking facility. The terms of the facility are:

- £1m overdraft repayable on demand; and
- £2m loan facility repayable after 3 years

Interest is payable at 1.75% over base rate. The debt is secured on the fixed and floating assets of the Company.

On 17 December 2004, the Company undertook a 5:1 share split.

On 11 January 2005, the Company acquired a customer base in the Midlands for a cash consideration of £715,000.

On 2 February 2005, the Company issued 994,221 new Ordinary Shares of £0.05 each as a bonus issue, capitalising the sum of £49,711.05, being part of the amount standing to the credit of the share premium account and appropriating such sum to the members of the Company and applying such sum on behalf of the members in paying up in full the 994,221 bonus issue shares *pro rata* to the existing members of the Company.

On 2 February 2005, the Company re-registered as a public limited company.

On 8 February 2005, the Company undertook a 40:1 share split.

30 Ultimate controlling party

Following the resignation of Christopher Wilson as a director and purchase by the Company of 855 shares, the Directors consider the ultimate controlling party to be James Murray, the majority shareholder.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART IV

Unaudited pro forma statement of net assets of the Company

Set out below is an unaudited pro forma of net assets of the Company, which has been prepared for the purpose of illustrating the effects of the Placing as if it had taken place on 30 September 2004. This statement has been prepared on the basis set out in the notes below for illustrative purposes only and, because of its nature, cannot give a true picture of the financial position of the Company.

	<i>As at 30 September 2004</i>		
	<i>Per</i>		
	<i>Accountants'</i>		
	<i>Report</i>	<i>Adjustments</i>	<i>Pro forma</i>
	<i>(note 1)</i>	<i>(note 2)</i>	
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fixed assets			
Intangible assets	29	—	29
Tangible assets	2,330	—	2,330
	<u>2,359</u>	<u>—</u>	<u>2,359</u>
Current assets			
Stock – finished goods	76	—	76
Debtors	9,041	—	9,041
Cash at bank and in hand	6,170	(1,105)	5,065
	<u>15,287</u>	<u>(1,105)</u>	<u>14,182</u>
Creditors: amounts falling due within one year	<u>(10,351)</u>	<u>—</u>	<u>(10,351)</u>
Net current assets	4,936	(1,105)	3,831
Total assets less current liabilities	7,295	(1,105)	6,190
Creditors: amounts falling due in more than one year	<u>(1,083)</u>	<u>—</u>	<u>(1,083)</u>
Net assets	<u><u>6,212</u></u>	<u><u>(1,105)</u></u>	<u><u>5,107</u></u>

Notes

- (1) The net assets of the Company at 30 September 2004 have been extracted without material adjustment from the Accountants' Report in Part III of this document.
- (2) The net cash outflow of £1.1 million represents:
 - a. a cash inflow of £3.3 million from the net proceeds of the Placing (based on the gross proceeds of £4.0 million less estimated expenses of £0.7 million payable by the Company for the Placing); and
 - b. a cash outflow of £4.4 million paid to Christopher Wilson following his sale of Ordinary Shares to the Company on 2 November 2004.
- (3) The net assets have not been adjusted to reflect the impact of the £715,000 paid for the acquisition of a customer base in the Midlands on 11 January 2005.

PART V
ADDITIONAL INFORMATION

1. INCORPORATION

- 1.1 The Company was incorporated in England on 17 January 1994 as a private limited company under the Act with the name Priestgate Services (No. 110) Limited and with registered number 02888250. On 26 September 1994 the Company changed its name under the Act to Alternative Networks Limited. The Company re-registered under the Act as a public limited company on 2 February 2005.
- 1.2 The Company's registered office is at Chatfield Court, 56 Chatfield Road, London SW11 3UL.
- 1.3 The Company is subject to the provisions of the Act. The liability of the members of the Company is limited.

2. SHARE CAPITAL OF THE COMPANY

- 2.1 The authorised and issued share capital of the Company is as follows:

2.1.1 At the date of this document:

<i>Authorised Number of Ordinary Shares of 0.125 pence each</i>	<i>Issued and credited fully paid Number of Ordinary Shares of 0.125 pence each</i>
80,000,000	40,345,200

2.1.2 Following Admission:

<i>Authorised Number of Ordinary Shares of 0.125 pence each</i>	<i>Issued and credited fully paid Number of Ordinary Shares of 0.125 pence each</i>
80,000,000	44,345,200

2.2 History of share capital

- 2.2.1 The Company's authorised share capital on incorporation on 17 January 1994 was £100,000 divided into 100,000 ordinary shares of £1 each of which 2 were issued fully paid at par.
- 2.2.2 On 2 December 1996, the directors allotted a further 368 ordinary shares of £1 each.
- 2.2.3 On 19 January 1998, the directors allotted a further 358 ordinary shares of £1 each.
- 2.2.4 On 11 June 2002, pursuant to the exercise of various options, the directors allotted 163 ordinary shares of £1 each.
- 2.2.5 On 13 June 2002, the shareholders authorised by special resolution the subdivision of the issued and unissued share capital of 100,000 shares of £1 of the Company, into 400,000 ordinary shares of £0.25 each.
- 2.2.6 On 18 June 2002 the directors allotted 36 additional ordinary shares of £0.25 each to the members of the Company.
- 2.2.7 On 2 November 2004 and further to the resignation of Christopher Wilson as a director of the Company, the shareholders authorised by special resolution pursuant to section 164 of the Act, the purchase by the Company of 855 ordinary shares of £0.25 each held by Christopher Wilson for a consideration of £4,404,823.00. The 855 ordinary shares were immediately cancelled. The provisions of the articles of association of the Company relating to compulsory transfers of shares for members who cease to be a director were waived by special resolution of the members.
- 2.2.8 On 17 December 2004, the shareholders authorised by special resolution the subdivision of the authorised and issued share capital of 400,000 shares of £0.25 each into 2,000,000 ordinary shares of £0.05 each.
- 2.2.9 On 28 January 2005, the Directors allotted 684 ordinary shares of £0.05 each to the trustees of the EBT for a consideration of £831,060.

- 2.2.10 On 2 February 2005, in accordance with the recommendation of the Directors, the sum of £49,711.05, being part of the amount standing to the credit of the share premium account, was capitalised and the Directors were authorised and directed (and for the avoidance of doubt, their power so to do under, and notwithstanding any provision to the contrary in, the Articles of Association of the Company was confirmed) to appropriate such sum for distribution to the members of the Company and to apply such sum on their behalf in paying up in full a total of 994,221 unissued ordinary shares of £0.05 each in the capital of the Company such ordinary shares of £0.05 each to be allotted, credited as fully paid up and distributed pro rata to the existing members of the Company.
- 2.2.11 On 2 February 2005, in accordance with the resolution of the shareholders set out in paragraph 2.2.10 above, the Directors allotted 994,221 ordinary shares of £0.05 each to the members of the Company pro rata to their existing shareholdings in the Company.
- 2.2.12 On 8 February 2005 each of the 1,008,630 issued ordinary shares of £0.05 each in the capital of the Company was subdivided into 40 ordinary shares of 0.125 pence each so that the total issued ordinary shares at that date was £50,431.50 divided into 40,345,200 ordinary shares of 0.125 pence each.
- 2.2.13 On 8 February 2005 each of the 991,370 authorised but unissued ordinary shares of £0.05 each in the capital of the Company was subdivided into 40 ordinary shares of 0.125 pence each so that the total authorised but unissued Ordinary Shares at the date of this resolution shall be £49,568.50 divided into 39,654,800 ordinary shares of 0.125 pence each and the total authorised share capital was £100,000 divided into 80,000,000 ordinary shares of 0.125 pence each.
- 2.3 On 14 February 2005, resolutions of the Company to the following effect were passed subject to and conditionally upon Admission:
- 2.3.1 unconditionally authorising the Directors, pursuant to and in accordance with section 80 of the Act, to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) up to an aggregate nominal amount of £5,000 in connection with (1) the Placing and (2) thereafter up to an aggregate nominal amount of £18,477.166 for a period expiring (unless previously renewed, waived or revoked) at the conclusion of the next annual general meeting of the Company to be held after the date of the passing of this resolution or fifteen months from the date of the passing of this resolution, whichever is the earlier (in each case on terms that during such period the Company may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired) and all previous authorities granted to the Directors pursuant to section 80 of the Act are revoked without prejudice to any allotments made or agreed to be made pursuant to the terms of such authorities; and
- 2.3.2 empowering the Directors, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) wholly for cash pursuant to and for the period of the authorities referred to in resolution 6 above as if section 89(1) of the Act did not apply to such allotment on terms that the Company may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period, (1) in connection with the Placing and (2) thereafter for a period expiring (unless otherwise previously reviewed, waived or revoked) at the conclusion of the next annual general meeting of the Company to be held after the date of the passing of this resolution or fifteen months from the date of the passing of this resolution, whichever is the earlier, provided that such power be limited to:
- (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of such securities to holders of ordinary shares, on a record date fixed by the Directors, of ordinary shares in proportion (as nearly as practicable) to their respective holdings but subject to such exclusions or other agreements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the law of, or requirements of, any recognised regulatory body or any stock exchange in any territory;
- (b) up to an aggregate nominal amount of £5,000 in connection with the Placing; and

- (c) the allotment otherwise than as described in (a) and (b) above of equity securities for cash up to an aggregate nominal amount equal to £2,771.575.
- 2.4 Save as disclosed in this Part V, no share or loan capital of the Company has been issued or is now proposed to be issued, fully or partly paid up, either for cash or a consideration other than cash.
- 2.5 Save as disclosed in this Part V, no fee or founder, management or deferred shares have been issued by the Company.
- 2.6 Save in connection with the Placing, or as otherwise disclosed in this document, no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.
- 2.7 The Company does not have in issue any security not representing share capital and there are no outstanding convertible securities issued by the Company.
- 2.8 The new Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares in the capital of the Company including the right to receive dividends or other distributions hereafter declared, paid or made on the ordinary share capital of the Company.

3. DIRECTORS' AND OTHER INTERESTS

- 3.1 The names of the Directors and their functions are given below:

Kenneth McGeorge	Non-executive Chairman
James Murray	Chief Executive Officer
Edward Spurrier	Chief Financial Officer
James Sewell	Group Sales Director
Benjamin Marnham	Chief Operating Officer
Timothy Holland-Bosworth	Non-executive Director
Anthony Caplin	Non-executive Director

- 3.2 The interests of the Directors and their immediate families (all of which are beneficial unless otherwise stated) and of connected persons within the meaning of section 346 of the Act, in the issued share capital of the Company as at 14 February 2005 (being the latest practicable date prior to publication of this document), and on Admission, which have been notified to the Company pursuant to section 324 of the Act or are required to be entered into the register of directors' interests maintained under the provisions of section 325 of the Act, or could be ascertained by the Directors so far as the Directors are aware having made due and careful enquiry of such persons as are connected with each Director, together with the percentages which such interests represent of the ordinary shares in issue are, and will be, as follows:

<i>Name</i>	<i>At the date of this document</i>		<i>On Admission</i>	
	<i>No. of Ordinary Shares of 0.125 pence each</i>	<i>% of issued Ordinary Shares of 0.125 pence each</i>	<i>No. of Ordinary Shares of 0.125 pence each</i>	<i>% of issued Ordinary Shares of 0.125 pence each</i>
James Murray	20,412,000	50.6%	15,921,360	35.9%
Edward Spurrier and family	3,780,000	9.3%	2,948,400	6.6%
Benjamin Marnham	2,520,000	6.2%	1,965,600	4.4%
James Sewell	2,520,000	6.2%	1,965,600	4.4%
Anthony Caplin	—	—	7,500	0.0%

- 3.3 Under the terms of the Alternative Networks EMI Scheme, a summary of which is set out in paragraph 7.1 below, the following Directors have been granted options to subscribe for Ordinary Shares at market value at the date of grant:

<i>Name</i>	<i>Number of Ordinary Shares of 0.125 pence each under option</i>
Benjamin Marnham	397,600
James Sewell	397,600
Edward Spurrier	397,600

- 3.4 The following Directors have been made Awards of Interests in Shares which are currently held on their respective behalf by the EBT:

<i>Name</i>	<i>Number of Shares of 0.125 pence each subject to the Award</i>
Benjamim Marnham	638,400
James Sewell	638,400
Edward Spurrier	638,400

These shares are held on trust for them absolutely subject to the trustees retaining a lien on the shares in respect of the trustees obligation to settle any loan from the company used to acquire the shares including any premium on repayment. The premium can represent an amount up to the increase in the value of the shares during the initial 2 year period.

- 3.5 As at 14 February 2005 (being the latest practicable date prior to the publication of this document), save as disclosed in paragraph 3.2 above, the Directors are aware of the following persons who, at the date of this document and following Admission, directly or indirectly, are interested in 3 per cent. or more of the capital of the Company, or who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company:

<i>Name</i>	<i>As at the date of this document</i>		<i>On Admission</i>	
	<i>No. of</i>	<i>% of issued</i>	<i>No. of</i>	<i>% of issued</i>
	<i>Ordinary Shares of 0.125 pence each</i>	<i>Ordinary Shares of 0.125 pence each</i>	<i>Ordinary Shares of 0.125 pence each</i>	<i>Ordinary Shares of 0.125 pence each</i>
Chris Wilson	8,442,000	20.9%	6,584,760	14.8%
EBT	1,915,200	4.7%	1,915,200	4.3%

- 3.6 Save as disclosed in this document, no Director (or member of his family) has any interest, beneficial or non-beneficial, in the share capital of the Company.
- 3.7 Save as disclosed in this document, none of the Directors has or has had an interest in any transaction effected by any shareholder of the Company which is or was unusual in its nature or conditions or is or was significant to the business of the Company and which was effected during the current year or any earlier financial year and remains in any respect outstanding or unperformed.
- 3.8 The aggregate remuneration paid and benefits in kind granted to the Directors during the last completed financial year of the Company was £1,284,000. The aggregate of the remuneration granted to the Directors in respect of the Company's current financial year is estimated, under the arrangements in force at the date of this document, to be approximately £1,392,265.
- 3.9 There will be no variation in the total emoluments receivable by the Directors as a result of the Placing.
- 3.10 There are no outstanding loans or guarantees provided by the Company to or for the benefit of any of the Directors or granted by any Director to the Company nor are there any guarantees provided by any Director to the Company.
- 3.11 Save as disclosed in this document, the Directors are not aware of any person who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- 3.12 The services of the Directors are provided to the Company under the following agreements:
- 3.12.1 James Murray entered into a service agreement with the Company dated 14 February 2005 under which he will be paid a salary of £181,440 per annum, together with a car allowance, private health insurance, Company pension contributions and private gym membership. The terms of this agreement include, *inter alia*, that the agreement can be terminated by six months written notice given by either party and certain restrictive covenants which apply for a period of six months following termination, subject to an initial term of 12 months.
- 3.12.2 Edward Spurrier entered into a service agreement with the Company dated 14 February 2005 under which he will be paid a salary of £170,100 per annum, together with a car allowance, private health insurance, Company pension contributions and private gym

membership. The terms of this agreement include, *inter alia*, that the agreement can be terminated by six months written notice given by either party and certain restrictive covenants which apply for a period of six months following termination, subject to an initial term of 12 months.

- 3.12.3 Benjamin Marnham entered into a service agreement with the Company dated 14 February 2005 under which he will be paid a salary of £134,946 per annum, together with a car allowance, private health insurance, Company pension contributions and private gym membership. The terms of this agreement include, *inter alia*, that the agreement can be terminated by six month's written notice given by either party and certain restrictive covenants which apply for a period of six months following termination, subject to an initial term of 12 months.
- 3.12.4 James Sewell entered into a service agreement with the Company dated 14 February 2005 under which he will be paid a salary of £134,946 per annum, together with a car allowance, private health insurance, Company pension contributions and private gym membership. The terms of this agreement include, *inter alia*, that the agreement can be terminated by six month's written notice given by either party and certain restrictive covenants which apply for a period of six months following termination, subject to an initial term of 12 months.
- 3.12.5 Timothy Holland-Bosworth has been appointed as a non-executive Director of the Company pursuant to the terms of a letter of appointment dated 19 January 2005. The appointment is terminable by either party on the giving of three month's written notice. Timothy Holland-Bosworth will receive a fee of £20,000 per annum.
- 3.12.6 Anthony Caplin has been appointed as a non-executive Director of the Company pursuant to the terms of a letter of appointment dated 19 January 2005. The appointment is terminable by either party on the giving of three month's written notice. Anthony Caplin will receive a fee of £20,000 per annum.
- 3.12.7 Kenneth McGeorge has been appointed as a non-executive Chairman of the Company pursuant to the terms of a letter of appointment dated 19 January 2005. The appointment is terminable by either party on the giving of three month's written notice. Kenneth McGeorge will receive a fee of £30,000 per annum.
- 3.13 The Company has approved a discretionary annual bonus scheme for the benefit of the executive Directors and senior employees of the Company, whereby bonuses of typically up to 50 per cent. of salary may be awarded subject to the discretion of the remuneration committee and subject to the achievement of performance targets. Bonus payments could exceed these levels for exceptional performance but are subject to an overall cap of 100 per cent. of salary per annum.
- 3.14 Save as disclosed in paragraph 3.12, there are no service agreements, existing or proposed, between any Director and the Company.
- 3.15 There is no arrangement under which any Director has waived or agreed to waive future emoluments and there has not been any such waiver of emoluments during the financial year immediately preceding the date of this document.
- 3.16 The Directors, in addition to their directorship of the Company, currently hold the following directorships, and have or have held the following directorships within the five years prior to the publication of this document, and are currently partners, or have been partners within the five years prior to the publication of this document, of the following firms or partnerships:

<i>Name</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
James Murray	Alternative Networks TS Limited 0800 Numbers Limited	None
Edward Spurrier	Alternative Networks TS Limited Marston-On-Dove Estates Limited	Adflash Limited Com Plan Technology Sales Limited
James Sewell	None	None
Benjamin Marnham	None	None
Timothy Holland-Bosworth	None	FCCH Limited

<i>Name</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Anthony Caplin	Easynet Group Plc Global Sealing Technologies Ltd Norprint Labelling Systems Limited Irevolution Group Plc Financial Development Corporation Plc Northamber Plc Hand Picked Hotels Limited Durlacher Corporation Plc Webdraw Limited Syncforce Limited Ant Ltd The Family Holiday Association Melh 888 Limited Coppice Alupack Limited River Gardens Amenity Limited Britton Holdings Limited Bibliotech Holding Plc Edengene Limited	Jasmin Plc The Hotgroup Plc The Virtual Orchestra Company Limited IEQ Plc London Pride Group Limited London Pride Sightseeing Limited London Pride Engineering Limited London Pride Bus and Coach Sales Limited London Pride (Bus Sales) Limited Biblio@Tech Ltd Totally Plc Inter-Hopper Limited Era Group Plc London Pride Holdings Limited Law 883 Limited Terra Firma Capital Partners Limited Icollector Plc Marchpole Holdings plc Abingdon Capital plc Newscreen Media Group Plc Venturia plc Redcliffe School Trust Limited Dudley Stationery Limited Totalrock Limited Dudley Office Supplies Limited William Clowes Limited Rockingham Motor Speedway Limited Heritage Image Partnership Ltd Irevolution Limited Ifuel Limited 80-20 Europe Limited Integration Limited 2020Me Limited 2020Me UK Limited 2020Me Holdings Limited Dynamic Commercial Finance Plc Keystone Solutions Group Limited Tadpole Technology Plc
Kenneth McGeorge	Vodafone Business Services Limited T. W. Telecom Limited Ternhill Communications Limited Moo-Cow Digital Media Limited Mobiles 4 Business.com Limited Vodafone Business Solutions Limited Acorn Communications Limited Project Telecom Holdings Limited Spectrum Services Limited PTI Telecom Limited PT Network Services Limited	Vodafone M. C. Mobile Services Limited Vodafone UK Limited The Word (Retail) Limited Mobile Telecom 2 Limited Mobile Distribution Limited Metro-Phones Limited London Radio Phone Limited Mobile Telecom Plc Vodafone Limited Mobile Telecom Group Limited

3.17 Anthony Caplin:

- 3.17.1 was appointed as a director of Computer Monitoring Services Limited in March 1984. On 25 October 1984 a liquidator was appointed to this company which was put into creditors' voluntary liquidation. There was a deficiency to creditors of approximately £128,391 at 31 August 1988. Computer Monitoring Services Limited was dissolved in February 1989.
- 3.17.2 became non-executive director of ERA Group plc on 25 June 1997. Administrative receivers were appointed on 13 March 2001 following a request by the directors of ERA Group plc. The estimated deficiency to creditors at 24 March 2001 was £1,078,000. This company is a holding company for various trading entities, including Beatties of London Limited.
- 3.17.3 was a director of both Dudley Stationery Limited and Dudley Office Supplies Limited which were both put into administration on 28 September 2001 and 7 August 2002, respectively. Mr Caplin was appointed as the Barclays Bank nominee for both companies. The estimated deficiency to creditors at Dudley Stationery Limited at 3 December 2001 was £23,030,000 and the estimated deficiency to creditors at Dudley Office Supplies Limited at 7 August 2002 was £5,543,000.
- 3.17.4 was a director of Newscreen Media Group plc which was granted an administration order by the High Court on 9 January 2002. He resigned as a director of Newscreen Media Group plc on 2 August 2002. A declaration of solvency was filed on 1 June 2004 with an estimated surplus to creditors of £644,863
- 3.17.5 was a director of Icollector plc which was put into creditors' voluntary liquidation on 28 February 2002. Mr Caplin resigned as a director of Icollector plc on 14 September 2001. There was an estimated deficiency to creditors of approximately £2,958,000 at 28 February 2002.
- 3.17.6 is a director of iRevolution Group plc, which was put into liquidation on October 2003. The members of the company passed an extraordinary resolution to wind up the company on 25 October 2003 and a liquidator was appointed on the same day. There was an estimated deficiency to creditors of £41,487 at 20 October 2003.
- 3.17.7 was a director of 2020Me Holdings Limited, which was put into members voluntary liquidation on 27 January 2004. Anthony Caplin resigned as a director of 2020Me Holdings Limited on 3 November 2003. There was an estimated surplus after paying debts in full of £351,441 and a declaration of solvency was filed on 16 January 2004.
- 3.17.8 is a director of Global Sealing Technologies Limited which was put into administration on 21 September 2004. The estimated deficiency to creditors at 24 October 2004 was £6,255,050.

3.18 Save as set out in paragraph 3.17, no Director has:

- i. any unspent convictions in relation to indictable offences;
- ii. had a bankruptcy order made against him or entered into an individual voluntary arrangement
- iii. been a director of a company or a partner in any firm which, at that time or within 12 months after ceasing to be a director or partner (as the case may be), had a receiver appointed, or went into compulsory liquidation, or creditors voluntary liquidation or went into administration, or entered into any company or partnership voluntary arrangements or made any composition or arrangement with its creditors generally or any class of creditors;
- iv. been a partner in any partnership which has been placed in liquidation, administration or been the subject of a voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- v. been the owner of any asset or a partner in any partnership which had an asset placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be partner in that partnership;
- vi. had any public criticism against him by any statutory or regulatory authority (including recognised professional bodies); or

- vii. been disqualified by a court from acting as a director or acting in the management or conduct of the affairs of any company.

4. SUBSIDIARIES

- 4.1 The Company's wholly owned subsidiaries, both with registered office at Chatfield Court, 56 Chatfield Road, London SW11 3UL, are as follows:
 - 4.1.1 Alternative Networks TS Limited, registered number 4932571, incorporated on 15 October 2003; and
 - 4.1.2 0800 Numbers Limited, registered number 3169920, incorporated on 8 March 1996.
- 4.2 Both subsidiaries are dormant.

5. MATERIAL CONTRACTS

The following contracts (not being a contract entered into in the ordinary course of business) have been entered into by the Company within the two years immediately preceding the date of the Document and are, or may be, material:

- 5.1 A Placing Agreement dated 15 February 2005 between the Company (1) the Directors (2) the Selling Shareholders (3) and Investec (4) pursuant to which conditional upon, *inter alia*, Admission taking place on or before 8.00 a.m. on 18 February 2005 (or such later time and or date as the Company and Investec may agree being not later than 28 February 2005), Investec has agreed to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price failing which it will itself subscribe for such Placing Shares.

The Placing Agreement contains indemnities and warranties from the Company and the Directors and the Selling Shareholders in favour of Investec, together with provisions which enable Investec to terminate the Placing Agreement in certain circumstances prior to Admission, including circumstances where any warranties are not found to be true or accurate in any material respect.

The liability of the Company, the Directors and the Selling Shareholders for breach of warranty and under the indemnities is limited in certain respects. Under the Placing Agreement, the Company has agreed to pay Investec commissions equating to an aggregate of 3.5 per cent. of the Placing Price multiplied by the number of Placing Shares subscribed for on behalf of the Company. Like commissions are payable by each Selling Shareholder in respect of those Sale Shares placed on his behalf. The Company will pay certain other costs and expenses, together with a corporate finance fee of £150,000 to Investec.

The Directors and the Selling Shareholders have undertaken that they will not other than in certain limited circumstances, dispose of Ordinary Shares held by them on Admission for a period of 12 months after Admission. The exceptions to the lock-up include a transfer pursuant to a court order; in circumstances of pressing financial need; acceptance of a takeover; and transfers to family members.

- 5.2 A Nominated Adviser and Broker Agreement dated 15 February 2005 between Investec (1) and the Company (2) pursuant to which the Company has appointed Investec to act as Nominated Adviser and Broker to the Company for the purposes of the Admission. The agreement contains certain undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement is for a term of 12 months and thereafter subject to termination on the giving of 3 months' notice by either party.
- 5.3 An agreement dated 2 November 2004 between Christopher Wilson (1) and the Company (2) pursuant to which the Company acquired 855 ordinary shares of £0.25 pence each in the share capital of the Company from Christopher Wilson for an aggregate consideration of £4,404,823.
- 5.4 A £3,000,000 loan facility (the "Facility") made available by Barclays Bank plc (Technology and Telecoms Team) ("Barclays") to the Company on Barclays' standard terms and conditions as set out in a facility letter dated 30 November 2004 and duly accepted by the Company on 7 December 2004 (the "Facility Letter"). The Facility may be utilised by way of either a Sterling Money Market Loan or a Sterling Overdraft (the latter at no time more than £1,000,000). The Sterling Money Market Loan is available for three years from 7 December 2004. The Sterling Overdraft is repayable on demand and any undrawn portion may be cancelled at any time. The following further conditions apply:

- 5.4.1 all monies owing to Barclays are secured by way of (i) a first legal charge over the freehold property known as Chatfield Court, 56 Chatfield Road, London, SW11 3UL and (ii) a debenture, both on Barclays' standard form. Barclays may require that any of the Company's subsidiaries enter into a cross guarantee and debenture with respect to the Company's indebtedness to Barclays.
- 5.4.2 the Company undertakes to Barclays, in a series of financial covenants contained in the Facility Letter, that the ratio of Gross Borrowings to EBITDA shall not, in respect of any Relevant Period (as defined in the Facility Letter), exceed 1.75 to one.
- 5.4.3 it is an event of default, in accordance with the Facility Letter, that if control of the Company passes, whether by virtue of any agreement, offer, scheme or otherwise, to any person or persons (including institutions or companies), either acting individually or in concert, without the prior written consent of Barclays, ("control" having the meaning ascribed to it in relation to a body corporate by Section 840 of the Income and Corporation Taxes Act 1988), then all moneys owing under the Sterling Money Market Loan shall be repayable on demand and no further utilisations of that facility may be made. Barclays has consented to the Placing and Admission and confirmed that this will not give rise to such an event of default.
- 5.4.4 the Company may not assign or transfer any of its rights or obligations under or in respect of the Facility Letter.
- 5.4.5 the Company indemnifies Barclays for any expense, loss or liability incurred by Barclays as a result of (for example and without limitation) the occurrence or continuance of any event of default and all or part of the Facility being prepaid or repaid for any reason otherwise than on maturity.
- 5.5 The following charges are outstanding against the Company, as follows:
- 5.5.1 a legal charge over leasehold property known as Chatfield Court, Riverside Plaza, Chatfield Road, Battersea, London in favour of Barclays Bank plc dated 31 January 2001;
- 5.5.2 a charge over rights and interests arising from the Subscriber Base (as defined therein) in favour of Vodafone Limited dated 29 May 2002;
- 5.5.3 a charge over rights and interests arising from the Subscriber Base (as defined therein) in favour of O2 (UK) Limited dated 27 May 2002;
- 5.5.4 a debenture over the assets and undertakings of the Company in favour of Barclays Bank plc dated 19 December 2002; and
- 5.5.5 four rent deposits in favour of Cinnamon Limited dated 9 May 2003 and a further rent deposit in favour of Cinnamon Limited dated 14 April 2004.
- 5.6 A loan facility of £850,000 made by the Company to the EBT. The loan is repayable on 28 January 2010 and is interest free.

6. MEMORANDUM AND ARTICLES OF ASSOCIATION

The principal objects of the Company, which are set out in Clause 4 of its Memorandum of Association, are to act as a general commercial company and to purchase, acquire or take options over any property whatever and any rights or privileges over or in respect of any property and includes acting as a holding company. The Articles of the Company, which were adopted subject to and conditional upon Admission by special resolution in writing of the Company dated 14 February 2005 contain, *inter alia*, provisions to the following effect:

Voting rights

- 6.1 Subject to disenfranchisement in the event of non-compliance with a statutory notice requiring disclosures as to beneficial ownership or to any other provisions of the Articles, every holder of Ordinary Shares who (being an individual) is present in person or (being a corporation) is present by a representative shall, on a show of hands, have one vote and every holder of Ordinary Shares present in person or by proxy shall, on a poll, have one vote for every Ordinary Share held by him.

Variation of rights and alteration of capital

- 6.2 If at any time the capital of the Company is divided into different classes of shares, all or any of the rights and privileges attached to any class of share may, subject to the Act, be varied with the consent in writing of the holders of three quarters of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting the provisions of the Articles relating to general meeting shall apply, *mutatis mutandis*, but the necessary quorum shall be at least two persons holding or representing by proxy at least one third in nominal value of the issued shares of that class and at any adjourned meeting one person holding shares of the class in question or his proxy.
- 6.3 The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its shares into shares of a larger amount and sub-divide all or any of its shares into shares of a smaller amount.
- 6.4 The Company may, subject to the provisions of the Act, by special resolution reduce its share capital, any capital redemption reserve or any share premium account.
- 6.5 The Company may, by ordinary resolution, cancel any shares not taken or agreed to be taken by any person.

Transfer of shares

- 6.6 The instrument of transfer of any share in the Company shall be in the usual form or such other form as shall be approved by the Directors. The Directors may in their absolute discretion and without assigning any reason therefore refuse to register any transfer of shares which are not fully paid or if the instrument of transfer is in favour of more than four persons jointly.

Pre-emption

- 6.7 There are no rights of pre-emption under the articles of association of the Company, either in respect of transfers of issued Ordinary Shares, or in respect of the allotment of new shares in the Company.

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

Directors

- 6.8 A Director shall not be disqualified by his office from contracting with the Company, nor is any Director so contracting liable to account to the Company for any profit realised thereby but the nature of his interest must be declared by him in accordance with the Act.
- 6.9 Save as provided in paragraph 6.10 below, a Director shall not vote (nor be counted in the quorum) in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities or otherwise in or through the Company.
- 6.10 Subject to the provisions of the Act, a Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolutions concerning any of the following matters, namely:
- 6.10.1 the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- 6.10.2 the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

- 6.10.3 any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- 6.10.4 any contract, arrangement, transaction or other proposal concerning any other body corporate in which he or any person connected with him (within the meaning of Section 346 of the Statutes) is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever, provided that he and any persons so connected with him do not to his knowledge hold an interest (within the meaning of Sections 198-211 of the Statutes) in one *per cent.* or more of any class of the equity share capital of such body corporate (calculated exclusive of any shares of that class in that company held as treasury shares) or of the voting rights available to members of the relevant body corporate;
- 6.10.5 any contract, arrangement, transaction or other proposal for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom the scheme relates; and
- 6.10.6 any proposal concerning any insurance which the Company is to purchase and/or maintain for or for the benefit of any Directors or for the benefit of persons who include Directors.
- 6.11 Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or places of profit with the Company or any other company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such case each of the Directors concerned (if not debarred from voting under sub-paragraph 6.10.4 above) shall be entitled to vote (and to be counted in the quorum) in respect of each resolution except that concerning his own appointment.
- 6.12 The ordinary remuneration of the non-executive Directors (excluding amounts payable under any provision of the Articles) shall not be more than £300,000 in aggregate (or such other sum as may from time to time be determined by an ordinary resolution of the Company) and shall (unless such resolution otherwise provides) be divided among the Directors in such manner as the Directors may agree or, failing agreement, equally. The Directors shall be entitled to be repaid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors including any expenses incurred in attending meetings of the board of Directors or of committees of the board of Directors or general meetings.
- 6.13 The salary or remuneration of any Director who holds an executive office, or who serves on a committee, or who devotes special attention to the business of the Company, or who goes and resides abroad, or who otherwise performs services which in the opinion of the Directors or any committee authorised by the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, percentage of profits or otherwise as the Directors or such committee determine.
- 6.14 The salary or remuneration of any Executive Director of the Company shall, subject as provided in any contract, be such as the Directors may from time to time determine, and may either be a fixed sum of money, or may altogether or in part be governed by the business done or profits made, and may include the making of provisions for the payment to him, his widow or other dependants, of a pension on retirement from the office or employment to which he is appointed and for the participation in pension and life assurance and other benefits, or may be upon such other terms as the Directors determine.
- 6.15 The Directors may give or award pensions, annuities, gratuities and superannuation or other allowances for the benefit of or for any person who are or have been Directors of or who are or have been employed by the Company or any of its subsidiaries and the families and dependants of any such persons.
- 6.16 A Director shall not be required to retire by reason of his having attained the age of 70.
- 6.17 A Director shall not be required to hold any shares of the Company by way of qualification.

Borrowing powers

6.18 The Directors shall restrict the borrowings of the Company and exercise all the powers of the Company to borrow money and to mortgage or charge all or any of its undertaking, property and uncalled capital and, subject to the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company and exercise all voting rights and other rights or power of control exercisable by the Company in relation to its subsidiaries so as to secure (as regards subsidiaries so far as by such exercise they can secure) that the aggregate principal amount at any one time, without the previous sanction of an ordinary resolution of the Company, does not exceed the greater of a sum equal to three times the aggregate of the adjusted share capital of the Company for the time being issued and paid up or credited as paid up and the amounts standing to the credit of the reserves of the Company and its subsidiaries including the share premium account, capital redemption funds and plus or minus (as the case may be) the credit or debit balance on profit and loss.

Untraced shareholders

6.19 Subject to various requirements, the Company may sell any shares in the Company of a member who is untraceable if, during a period of twelve years, at least three cash dividends in respect of the shares in question have been payable and all cheques or warrants for all amounts payable to the member in respect of his shares have remained uncashed and the Company has not received any communication from such member.

Dividends

6.20 The Company may from time to time in general meeting declare dividends but no dividend shall exceed the amount recommended by the Directors. Subject to the provisions of the Act, the Directors may declare and pay such interim dividends (including any dividend payable at a fixed rate) as they think fit. If the Directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer in consequence of the payment of an interim dividend on any shares having non-preferred or deferred rights. Subject to the rights of persons, if any, holding shares with special dividend rights, the ordinary shares carry the right to participate *pro rata* in all distributions of profits or otherwise made by the Company. All dividends unclaimed for a period of one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and all dividends unclaimed after a period of twelve years from having been declared shall be forfeited and shall revert to the Company. There are no specified dates on which entitlements to dividends or interest payable by the Company arise. See Section 11 of Part I of this document for the Company's current dividend policy.

Distribution of assets on a winding-up

- 6.21 The holders of the Ordinary Shares will be entitled to participate in any surplus assets on a winding up in proportion to their shareholdings.
- 6.22 On a winding up of the Company, the liquidator may, with the authority of an extraordinary resolution, divide the assets of the Company among the members and determine the division as between members or, if any, different classes of members. The Ordinary Shares carry no right of redemption.

7. ALTERNATIVE NETWORKS EMI SCHEME AND AWARDS OF INTERESTS IN SHARES

Alternative Networks EMI Scheme

7.1 The Alternative Networks EMI Scheme was adopted by Alternative on 22 December 2004. Under the Alternative Networks EMI Scheme, options which are qualifying options under the Enterprise Management Incentive regime and also unapproved options may be granted. As at the date of Admission, options were outstanding over a total of 2,167,200 Ordinary Shares at an exercise price of the higher of £0.25 per share and the market value at the date of grant (adjusted to take account of the reorganisation described in paragraphs 2.2.10 and 2.2.13 of this Part V).

7.1.1 Eligibility

All employees of the Company are eligible to participate in the Alternative Networks EMI Scheme. Where options are to be EMI qualifying options individuals need to work for the Company for on average 25 hours per week or if less at least 75% of their working time.

7.1.2 Grant of options

Options may be granted by the remuneration committee of the Company (“Committee”) or the trustees of any employee benefit trust established by the Company. Following Admission options may only be granted, save in exceptional circumstances, in the period of 42 days following announcement of the Company’s interim or final results.

7.1.3 Option price

The price payable for each Ordinary Share subject to an option shall be determined at the date of grant by the Company’s remuneration committee and shall not be less than the market value of an Ordinary Share at the date of grant.

7.1.4 Limits

- (i) The number of Ordinary Shares which may be placed under option under the Alternative Networks EMI Scheme and any other employee share scheme of the Company other than the Awards of Interests in Shares in any 10 year period may not exceed 10 per cent. of the Company’s issued ordinary share capital.
- (ii) Following Admission an individual employee may only be granted options with an aggregate market value not exceeding 100 per cent. of his annual remuneration in the preceding 12 months.
- (iii) No individual may hold EMI qualifying options with an aggregate market value exceeding £99,999 and the total aggregate market value of all EMI qualifying options may not exceed £3 million (or such limit as may be specified in the EMI legislation from time to time).

7.1.5 Performance Targets

Options may be granted subject to a performance target which must normally be met before the options may be exercised. To date options have been granted in respect of up to 2,167,200 Ordinary Shares. Such options can be exercised from 31 December 2006 once performance targets have been met, defined as Alternative’s total profit before tax in the two years to 30 September 2006 being at least 270% of profit before tax for the year ended 30 September 2004 and total earnings per share in the two years to 30 September 2006 being at least 220% of that in the year ended 30 September 2004, as adjusted for any increase in RPI over that period. If the total profit before tax in the two years to 30 September 2006 is at least 247% (but is less than 270%) of profit before tax for the year ended 30 September 2004 and total earnings per share in the two years to 30 September 2006 is at least 200% (but is less than 220%) of that in the year ended 30 September 2004, as adjusted for any increase in RPI over that period, 50% of the shares subject to the options can be exercised.

7.1.6 Exercise of Options

Options will normally be exercisable in whole or in part at any time between the dates specified at the time of grant and the tenth anniversary of the date on which the option was granted and will otherwise lapse. If an option holder ceases to be employed by the Company, in certain circumstances, including injury, disability, injury, retirement, redundancy or ill-health, he may exercise options in the six months (or such other period determined by the Committee) after termination of his employment or, in the case of his death, twelve months thereafter. If the option holder ceases to be employed within the Company in any other circumstances, any options granted to him lapse, subject to a discretion of the Committee to allow 40 days for exercise.

7.1.7 Change of control

On a person obtaining control of the Company option holders may exercise their options provided any performance targets attaching to the options have been met. Additionally if the acquiring company so permits, option holders may release their old options for new equivalent options over shares in the acquiring company.

7.1.8 Variation of Alternative Networks EMI Scheme

Following Admission, the Committee may amend the rules of the Alternative Networks EMI Scheme at any time provided that the prior approval of the Company in general meeting is obtained for amendments which relate to eligibility, the extent of participation,

the exercise price, limits of the Alternative Networks EMI Scheme or the adjustment of options on a variation of share capital, except for minor amendments to benefit the administration of the Alternative Networks EMI Scheme, to take into account a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participants in the Alternative Networks EMI Scheme or the Company.

7.1.9 Adjustment of options

In the event of a variation in the share capital of the Company by way of capitalisation, rights issue, consolidation, sub-division, reduction or otherwise, options may be adjusted in such manner as the Committee or the trustees of the EBT determine to be appropriate.

7.1.10 Tax

Optionholders must indemnify the Company in respect of any PAYE and employees' national insurance arising on exercise. As regards secondary class 1 liabilities, the directors will be responsible for those liabilities on options granted to each of them prior to Admission if and to the extent that such liability exceeds £45,667.

Awards of Interests in Shares

7.2 Certain Awards of Interests in Shares have been made by the EBT as detailed in paragraph 3.4 and subject to the terms set out therein. No further Awards of Interests in Shares will be made.

8. LITIGATION

Neither the Company nor any of its subsidiaries is or has been engaged in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Company's financial position nor are any such proceedings pending or threatened.

9. UNITED KINGDOM TAXATION

9.1 Introduction

The information in this section is based on the Directors' understanding of current tax law and Inland Revenue practice. The following should be regarded as a summary and should not be construed as constituting advice. Prospective shareholders are strongly advised to take their own independent tax advice but certain potential tax benefits are summarised below in respect of an individual resident in the UK for tax purposes.

On Admission, the Placing Shares will not be treated as either "listed" or "quoted" securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognised stock exchange (which for these purposes does not include AIM), the Placing Shares should continue to be treated as unquoted securities.

The following information is based upon the laws and practice currently in force in the UK and may not apply to persons who do not hold their Ordinary Shares as investments.

9.2 Disposals

9.2.1 Capital Gains Tax ("CGT") on Disposals by Individuals and Trustees

9.2.1.1 Rules for Order of Disposals

Changes were made to the rules relating to the holdings of shares from 6 April 1998 so that the "pooling" of shares (i.e. treating them as one asset) no longer applies. Any disposal of shares is usually treated on a last in, first out basis for the purposes of calculating gains that are chargeable to tax.

9.2.1.2 Taper Relief

For disposals after 5 April 1998, "taper relief" was introduced which applies to individual investors and trustees (but not to corporate investors). Taper relief reduces the chargeable gain assessable to CGT in relation to the period the investment is held and the scales of relief depend upon whether the investment is a "business" or "non-business" asset. The scale of relief is enhanced for those assets that qualify as "business" assets. Business assets currently include shares in qualifying unquoted trading companies. For these purposes, companies admitted to trading on AIM are regarded as unquoted.

During the period for which the shares are held the classification may change so that for part of the holding period, shares in the Company will be deemed to be non-business assets with the associated reduced scales of taper relief applicable. If this is the case, the taper relief would be calculated by apportioning any gain assessed on shares in the Company between the non-business and business periods with each part of the gain then attracting taper relief at the appropriate rate, for the whole of the qualifying holding period.

9.2.1.3 CGT Gift Relief

If shares in an AIM company, which is a trading company, or the parent company of a trading group, are transferred to a third party, other than at arm's length, the deemed capital gain can be "held over", i.e. the CGT liability is postponed until a subsequent arm's length disposal by the transferee, who effectively inherits the transferor's base cost. The relief must be claimed by both the transferor and the transferee within five years and ten months of the end of the relevant tax year in which the gift was made and the transferee must be resident or ordinarily resident in the UK and remain so for six years. If CGT gift relief is claimed, the effect of the claim is that the ownership for taper relief purposes starts again, with no taper relief in respect of the previous period of ownership being applicable.

Gift relief is no longer available on gifts to a Trust where the donor can receive any benefit from the Trust.

9.2.1.4 CGT on disposals by Companies

Corporate shareholders within the charge of UK corporation tax may be liable to corporation tax on chargeable gains. Such shareholders will however benefit from indexation allowance (rather than taper relief) which may reduce their tax liability.

9.2.2 *Inheritance Tax ("IHT")*

Shares in qualifying AIM trading companies can attract 100 per cent. business property relief from IHT provided that the shares are held for at least two years before the chargeable transfer for IHT purposes takes place.

9.2.3 *Loss Relief*

If a loss arises to a company on the disposal of shares in an unquoted trading company, such shares being originally acquired on a subscription for new shares, the loss may be relieved against income of that accounting period or the previous accounting period (with priority for relief in the current year where income of both years is utilised). Any loss remaining after claiming relief against income, may be available for relief against capital gains in either the current or subsequent accounting periods.

9.2.4 *Qualifying Investment Relief*

A gift to a charity of a "qualifying investment" will qualify for income tax relief under section 587B ICTA. Shares in an AIM company are currently treated as "qualifying investments". Therefore, if an individual disposes of shares in a company on AIM to a charity (of which an individual may be the settler or a trustee), the gift qualifies for income tax relief. The amount of relief is calculated based on the market value of the "qualifying investment" at the date of the gift and the incidental costs of making the disposal.

9.3 *Income Tax and Corporation Tax on Dividend Income*

9.3.1.1 Under current UK tax legislation, no tax is now withheld from dividends paid by the Company. Advance Corporation Tax ("ACT") has been abolished since 6 April 1999.

9.3.1.2 UK resident individual shareholders are treated as having received income of an amount equal to the sum of the dividend and its associated tax credit, the tax credit for dividends paid from 6 April 1999 being 10 per cent. of the combined amount of the dividend and the tax credit (i.e. the tax credit will be one ninth of the dividend). The tax credit will effectively satisfy a UK resident individual shareholder's lower and basic rate (but not higher rate) income tax liability in respect of the dividend. UK resident individual shareholders who are subject to tax at the higher rate (currently 40 per cent.) will have to account for additional tax. The special rate of tax set for

higher rate taxpayers who receive dividends is 32.5 per cent. After taking account of the 10 per cent. tax credit, such a taxpayer would have to account for additional tax of 25 per cent. of the net cash dividend. In determining what tax rates apply to a UK resident individual shareholder, dividend income is treated as his top slice of income.

- 9.3.1.3 Individual shareholders whose income tax liability is less than the tax credit are not entitled to a repayment of all or part of it: the credit may only be set against a liability in respect of a taxable distribution.
- 9.3.1.4 A UK resident (for tax purposes) corporate shareholder will generally not be liable to UK corporation tax on any dividend received and will be entitled for tax purposes to treat any such dividend and the related tax credit as franked investment income.
- 9.3.1.5 Shareholders not resident in the UK are generally not taxed in the UK on dividends received by them (unless, exceptionally, the investment is managed by a UK investment manager acting, broadly, on non-arm's length terms). By virtue of double taxation agreements between the UK and other countries, some overseas shareholders are able to claim entitlement to all or part of the tax credits carried by the dividends they received from UK companies; however due to the reduction in the level of the tax credit the benefit is now minimal in most cases. Persons who are not resident in the UK should consult their own tax advisers on the possible applicability of such provisions, the procedure for claiming repayment and what relief or credit may be claimed in respect of such tax credit in the jurisdiction in which they are resident.

9.4 *Stamp Duty and Stamp Duty Reserve Tax*

Transfers or sales of Ordinary Shares will be subject to *ad valorem* stamp duty (payable by the purchaser and generally at the rate of 50p per £100 or part thereof rounded up to the nearest £5) and an unconditional agreement to transfer such shares, if not completed by a duly stamped stock transfer form within two months of the day on which such agreement is made or becomes unconditional, will be subject to stamp duty reserve tax ("SDRT") (payable by the purchaser and generally at the same rate as stamp duty). However, if 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 SDRT will be cancelled or repaid.

The above is a summary of certain aspects of current law and practice in the UK. A shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

10. WORKING CAPITAL

The Directors are of the opinion that, having made due and careful enquiry and after taking into account the net proceeds of the Placing available to the Company, the working capital available to the Company will, from Admission, be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

11. GENERAL

- 11.1 The total amount being raised by the Company through the Placing is £4.0 million. The total costs and expenses in connection with, or incidental to, the Placing and Admission, including registration and London Stock Exchange fees, printing, advertising and distribution costs, commissions as described in paragraph 5.1 above, legal and accounting fees and expenses, all of which are payable by the Company, are estimated to be approximately £0.7 million (exclusive of value added tax). The expected net proceeds of the Placing, after deduction of such costs and expenses, is £3.3 million. No expenses of the Placing are being specifically charged to subscribers or purchasers under the Placing.
- 11.2 Except as stated in this document, there are no significant investments in progress by the Company.
- 11.3 The Directors are not aware of any exceptional factors that have influenced the Company's activities.
- 11.4 Except as stated in this document, the Directors are not aware of any patents or other intellectual property rights, licences or particular contracts, which are or may be of fundamental importance to the Company's business.

- 11.5 PricewaterhouseCoopers LLP has given and not withdrawn its consent to the issue of this prospectus with the inclusion in it of its report and letter and references to their name in the form and context in which they respectively appear.
- 11.6 Investec Bank (UK) Limited has given and not withdrawn its written consent to the issue of this prospectus with the inclusion in it of its name and references to its name in the form and context in which it appears.
- 11.7 Except as disclosed in this document, there has been no significant change in the financial or trading position of the Company since 30 September 2004, the date to which the latest audited financial statements were drawn up.
- 11.8 The minimum amount which, in the opinion of the Directors, must be realised and receivable by the Company pursuant to the Placing to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the POS Regulations is £4.0 million which will be applied as follows:
- (a) the purchase of any property purchased or to be purchased – £nil
 - (b) the payment of preliminary expenses payable by the Company and commissions payable in relation to the Placing – £0.7 million excluding VAT
 - (c) the repayment of money borrowed by the Company in respect of (a) or (b) above – £nil
 - (d) working capital – £3.3 million
- There are no amounts to be provided otherwise than from the proceeds of the Placing in respect of the matters specified in Paragraphs 21(a)(i) to (iv) of Schedule 1 to the POS Regulations.
- 11.9 It is expected that definitive share certificates will be despatched by hand or first class post by 4 March 2005. In respect of shares in uncertificated form it is expected that CREST stock accounts will be credited on 18 February 2005.
- 11.10 The Placing Price of 100 pence per Placing Share is at a premium of 99.875 pence for each Placing Share above the nominal value of each Placing Share.
- 11.11 The financial information relating to the Company contained in this prospectus does not comprise statutory accounts for the purposes of Section 240 of the Act.
- 11.12 No person directly or indirectly (other than the Company's professional advisers and trade suppliers or save as disclosed in this document) has in the last 12 months received or is contractually entitled to receive, directly or indirectly, from the Company on or after admission of the Ordinary Shares, any payment or benefit from the Company to the value of £10,000 or more or securities in the Company to such value (calculated by reference to the Placing Price) or entered into contractual arrangements to receive the same from the Company at the date of Admission save for the printers of the document, Imprima de Bussy Limited and the Company's financial public relations advisers, College Hill, each of whose fees are included within the sum set out in paragraph 11.8(b) above.
- 11.13 The company operates a stakeholder pension scheme in accordance with its statutory obligations. The Company also contributes to the personal pension plans of certain Directors and employees.
- 11.14 There is no Director or member of a Director's family who has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.
- 11.15 Other than the proposed current application for Admission, the Ordinary Shares have not been admitted to dealings on any recognised investment exchange nor has any application for admission been made nor are there intended to be any other arrangements for there to be dealings in the Ordinary Shares.
- 11.16 The Placing has been underwritten by Investec.
- 11.17 The following details are (if applicable) set out in the placing letters to be sent to prospective investors by Investec with this document:
- the period during which the offer constituted by the Placing is open; the arrangements for payment of the Placing Shares; the arrangements during the period prior to Admission for the return of monies received from such investors where their applications are not accepted; and the timetable for the return of such monies.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of Bird & Bird Solicitors, 90 Fetter Lane, London EC4A 1JP for a period of 14 days from the date of this document:

- (i) Memorandum of Association altered on 2 February 2005 and Articles of Association of the Company adopted on 14 February 2005, conditional on Admission;
- (ii) the Accountants' Report included in Part III of this document;
- (iii) the material contracts referred to in Part V paragraph 5 above;
- (iv) the service agreements and letters of appointment of the Directors referred to in Part V paragraph 3.12 above;
- (v) the rules of the Alternative Networks EMI Scheme referred to in Part V paragraph 7 above;
- (vi) the trust deed constituting the EBT and the deeds of appointment relating to the Awards of Interests in Shares; and
- (vii) letters consenting to the issue of this document referred to in Part V paragraph 11 above.

13. AVAILABILITY OF THIS DOCUMENT

Copies of this document will be available from the date of this document free of charge to the public on any week day (Saturdays, Sundays and public holidays excepted) at the offices of Investec Bank (UK) Limited, 2 Gresham Street, London EC2V 7QP and at the offices of Bird & Bird Solicitors, 90 Fetter Lane, London EC4A 1JP for at least one month from Admission.

Dated: 15 February 2005