

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document, you are recommended to seek your own financial advice from your stockbroker, solicitor, accountant or other independent adviser duly authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

Application will be made for the whole of the issued, and to be issued, ordinary share capital of the Company to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk than that associated with established companies tends to be attached. AIM Securities are not Officially Listed. A prospective investor should be aware of the risks in investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with his or her own independent financial adviser. The rules of AIM are less demanding than those of the Official List. It is emphasised that no application is being made for admission of these securities to the Official List of the United Kingdom Listing Authority. Further, London Stock Exchange plc has not itself examined or approved the contents of this document. It is anticipated that trading in the Ordinary Shares will commence on AIM on 30 April 2001.

The Directors of Stream Group plc, whose names are set out on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All of the Directors accept responsibility accordingly.

A copy of this document, which has been drawn up in accordance with, and which constitutes a prospectus for the purposes of, the Public Offers of Securities Regulations 1995, as amended (the 'Regulations'), has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Regulations.

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# Stream Group plc

*(incorporated and registered in England and Wales under the Companies Act 1985 as amended with registered number 3954744)*

**Placing of 14,328,000 ordinary shares of 5 p each  
at 28p per share  
by Teather & Greenwood Limited**

**and**

**Admission to trading on the Alternative Investment Market  
of the London Stock Exchange**

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## SHARE CAPITAL

The following table shows the authorised and issued share capital of the Company immediately following the Placing and Admission.

<i>Authorised</i>			<i>Issued and fully paid</i>	
£	Number		£	Number
10,000,000	200,000,000	Ordinary Shares of 5 p each	2,834,495.65	56,689,913

The New Ordinary Shares will rank *pari passu* in all respects with the existing Ordinary Shares including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of this document.

The Ordinary Shares, issued and to be issued, will not be registered in the US under the US Securities Act of 1933, as amended, or under the securities laws of Canada, Japan or Australia and may not, subject to certain exceptions, be offered or sold directly or indirectly within the US, Canada or Australia or to any national, citizen or resident of the US, Canada, Japan or Australia.

Teather & Greenwood is the nominated adviser and broker to the Company for the purposes of the AIM Rules. Teather & Greenwood, which is regulated in the United Kingdom in the conduct of investment business by The Securities and Futures Authority Limited, is acting exclusively for the Company and no one else in connection with the matters described herein and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Teather & Greenwood or for advising any other person on the contents of this document or any matter referred to herein. Teather & Greenwood's responsibilities as the nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of their decision to acquire Ordinary Shares in reliance on any part of this document.

Under the AIM Rules, the nominated adviser has certain responsibilities to the London Stock Exchange which are less onerous than the responsibilities of a sponsor of a company applying for its securities to be admitted to the Official List of the United Kingdom Listing Authority. In accordance with the AIM Rules, Teather & Greenwood has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received independent advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that to the best of its knowledge and belief all relevant requirements of the AIM Rules (save for compliance with the general duty of disclosure contained in Regulation 9 of the Regulations, in respect of which the nominated adviser is not required to satisfy itself) have been complied with. In giving its confirmation to the London Stock Exchange, Teather & Greenwood has not made its own enquiries except as to matters which have come to its attention and which it considered as necessary to satisfy itself. Teather & Greenwood has not authorised or accepted responsibility for the contents of any part of this document for the purposes of Regulation 13 (1) (g) of the Regulations or otherwise and no representation or warranty, express or implied, is made by Teather & Greenwood as to any of the contents or the completeness of this document (without limiting the statutory rights of any person to whom this document is issued). No liability whatsoever is accepted by Teather & Greenwood for the accuracy of any information or opinions contained in this document or for the omission of any material information for which the Directors are solely responsible. The whole of the text of this document should be read.

**Investment in Stream Group plc is speculative and involves a degree of risk. Your attention is drawn in particular to the risk factors set out in Part 2 of this document.**

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	William Gordon Robson Michael Anthony Spencer Antony Donovan Redfern Paul Adam Edward Tuson, ACA Hugo Charles Drayton	<i>Chairman and Chief Executive Commercial Director Telecommunications Director Finance Director Non-Executive Director</i>
all of	37 Kingfisher Court Hambridge Road Newbury Berkshire RG14 5SJ	
<b>Company Secretary and Registered Office</b>	Paul Adam Edward Tuson, ACA 37 Kingfisher Court Hambridge Road Newbury Berkshire RG14 5SJ	
<b>Nominated Adviser and Broker</b>	Teather & Greenwood Limited Beaufort House 15 St Botolph Street London EC3A 7QR	
<b>Solicitors to the Company</b>	Lawrence Graham 190 Strand London WC2R 1JN	
<b>Solicitors to the Placing</b>	Macfarlanes 10 Norwich Street London EC4A 1BD	
<b>Reporting Accountants and Auditors to the Company</b>	KPMG Audit Plc Arlington Business Park Theale Reading RG7 4SD	
<b>Registrars</b>	Connaught St Michaels Limited PO Box 30 Cresta House Alma Street Luton LU1 2PU	
<b>Principal Bankers</b>	Barclays Bank PLC 27 Soho Square London W1A4WA	
<b>Company Web Site Addresses</b>	<a href="http://www.streamgroup.co.uk">www.streamgroup.co.uk</a> <a href="http://www.streamtelecom.net">www.streamtelecom.net</a> <a href="http://www.thecircle.com">www.thecircle.com</a> <a href="http://www.thej.net">www.thej.net</a> <a href="http://www.the-junction.com">www.the-junction.com</a>	

## DEFINITIONS

The following words and expressions have the following meanings in this document unless the context requires otherwise:

“Act”	the Companies Act 1985, as amended
“Admission”	the admission of the entire ordinary share capital of the Company, issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules
“AESOP”	the Inland Revenue All Employee Share Ownership Plan, further details of which are set out in paragraph 4.1 of Part 4 of this document
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the AIM Rules published from time to time by the London Stock Exchange
“Board” or “Directors”	the board of directors of the Company, whose names appear on page 3 of this document
“Company” or “Stream”	Stream Group plc
“CREST”	the relevant system (as defined in the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272)) for paperless transfer and settlement of share transfers and the holding of electronic shares in uncertificated form which is administered by CrestCo. Limited
“EIS”	Enterprise Investment Scheme
“EMI”	Enterprise Management Incentive Scheme, further details of which are set out in paragraph 4.4 of Part 4 of this document
“Enlarged Issued Share Capital”	the 56,689,913 Ordinary Shares in issue immediately following Admission
“Executive Share Option Scheme”	the Executive Share Option Scheme with a non-Inland Revenue approved schedule, further details of which are set out in paragraphs 4.2 and 4.3 of Part 4 of this document
“Generate”	Generate Limited, a wholly owned subsidiary of Stream
“Group” or “Stream Group”	the Company and its subsidiaries
“ICSTIS”	the Independent Committee for the Supervision of Standards of Telephone Information Services
“ICTA”	the Income and Corporation Taxes Act 1988
“London Stock Exchange”	London Stock Exchange plc
“Ordinary Shares”	ordinary shares of 5 p each in the capital of the Company
“Placing”	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing Agreement

“Placing Agreement”	the conditional agreement dated 12 April 2001 between the Company (1) the Directors (2) and Teather & Greenwood (3), further details of which are set out in paragraph 7 of Part 4 of this document
“Placing Price”	28p per Placing Share
“Placing Shares”	the new Ordinary Shares to be issued pursuant to the Placing
“Regulations”	the Public Offers of Securities Regulations 1995, as amended
“Share Schemes”	the AESOP, EMI and the Approved Executive Share Option Scheme, further details of which are set out in paragraph 4 of Part 4 of this document
“Shareholders”	holders of Ordinary Shares
“Stream Live Services”	Stream Live Services Limited, previously The Psychic Circle Limited, a wholly owned subsidiary of Stream
“Stream Media”	Stream Media Limited, a wholly owned subsidiary of Stream
“Talk Telecom”	Talk Telecom Limited, a wholly owned subsidiary of Stream
“Teather & Greenwood”	Teather & Greenwood Limited, nominated adviser and broker to the Company
“The Junction”	the business and assets of <a href="http://www.thej.net">www.thej.net</a> and <a href="http://www.the-junction.com">www.the-junction.com</a> acquired by Stream Media on 26 May 2000
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America (including the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction or any subdivision thereof
“VCT”	Venture Capital Trust

## GLOSSARY

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

“audiotex”	pre recorded or live voice based information services accessed by telephone, on premium rate numbers
“chatrooms”	a website or part of a website where different users can communicate with each other by sending messages in text form in a real time environment
“community”	a group of users with a common identified sphere of interest
“convergence”	where two or more distribution channels are brought together to deliver the service
“cookies”	an optional packet of information sent by a server to a World-Wide Web browser and then sent back by the browser each time it accesses that server. Cookies can contain any arbitrary information the server chooses and are typically used to authenticate or identify a registered user of a website without requiring them to sign in again every time they access the site
“digital interactive television” or “iDTV”	digital television where the viewer can interact with the programmes or services being watched
“e-mail”	a global communications network whereby individuals can communicate with one another electronically by means of computers
“e-mail address”	an individual or company’s personal electronic address allowing others to send messages to that address
“interconnect agreement”	an agreement that enables a telecommunications carrier to connect to the networks of other telecommunications carriers and therefore enables calls to be transferred from one carrier to another
“Internet”	a global data and communications network comprising interconnected computer networks using dedicated protocols
“Internet dialler software”	a mechanism to enable customers to view content on the Internet for which a premium charge is levied. This is achieved by the content provider disconnecting the customer’s existing Internet connection and instead connecting him/her to an ISP via a premium rate telephone number, with the premium charge then being added to the customer’s phone bill
“ISP”	an acronym for Internet Service Provider, an organisation that provides connectivity to the Internet
“ISVR licence”	an International Simple Voice Resale Licence, which gives a telecommunications provider the legal authority to carry call traffic
“m-commerce”	the purchase of information or services via a mobile telephone

“number translation services”	telephone services to which no specific geographic location is associated and for which charges, if levied, are not based on distance namely; Freefone, Local Rate, National Rate, Personal Number and Premium Rate Services
“OFTEL”	the UK Office of Telecommunications, a government regulator or ‘watchdog’ for the UK telecoms industry which is independent of ministerial control
“online”	the time spent connected to and actively using the Internet
“page impressions”	a count of the number of pages viewed not including the supporting graphic files within the page
“portal”	an entry point to the Internet which is also a website which can offer a wide variety of resources such as news articles, e-mail and search engines
“psychic”	a person who is perceived to have mental powers that cannot be explained by natural laws
“SMS”	short messaging service, the protocol by which text messages can be sent to and from mobile telephones
“VCMS”	Virtual Call Management System, the system which manages the calls made to Stream’s live telephony services, further details of which are given in section 7 of Part 1 of this document
“website”	a set of web pages linked together enabling the user to jump from page to page or section to section, usually with a central theme or corporate branding. A web page is an individual document, which may contain one or all of text, images, digitised sound or video links within a website. A website usually resides in a unique place on the Internet, which is identified by a web address, known as the URL (Uniform Resource Locator)

## KEY INFORMATION

**The following information is derived from, and should be read in conjunction with, the full text of this document:**

The Stream Group is engaged in the provision of special interest information and entertainment services at a premium charge, via digital distribution channels. Current services are offered via the telephone or Internet, although management intend to develop digital interactive television and m-commerce as additional channels for service delivery.

Stream operates in niche sectors where the Directors believe that there is less competition than in the more mainstream market areas, such as sport and personal finance. Stream provides the content which is generated at a relatively low cost thereby reducing financial risk. Ownership of a telecommunications network service provider further improves margins on Stream generated traffic.

The Group currently comprises three main businesses that cover premium rate live advice telephony services, media content and telecommunications services:

- Stream Live Services – the Group's existing core activity, operating live and pre-recorded advice and information services;
- Stream Media – a business that operates both thecircle.com, Stream's live and pre-recorded online advice and guidance service and the-junction.net, a teenage chat community; and develops the Group's content for m-commerce and iDTV; and
- Talk Telecom – a business engaged in carrying call traffic for both the Group and third parties. Talk Telecom operates under an ISVR licence issued by the Department of Trade and Industry.

The existing and planned services target different niche special interest groups which the Directors believe are willing to pay a premium rate for specialist information and services.

The Directors have wide experience of operating premium rate services, especially telephone based services, and have already created a number of successful businesses in this area. The Directors believe that there is a large market for information services, paid for at a premium rate, which can be delivered through a variety of digital distribution channels.

Current services are offered via the telephone or Internet although the Group intends to develop digital interactive television and m-commerce as additional channels for the delivery of services. While certain services can only be delivered through a single distribution channel, it is the Directors' intention to utilise the benefits of convergence wherever possible. Convergence is where two or more distribution channels are brought together to deliver the service.

Stream Live Services is currently the main trading subsidiary of the Group. This company was founded in December 1997 as a provider of live advice services charged at a premium rate via the telephone. The VCMS enables Stream to operate a virtual call centre where customers call a premium rate telephone number to access consultants who are located at remote locations throughout the United Kingdom, typically at home. The VCMS software has been developed to enhance the provision of live telephony services and to integrate with the Internet services, with the most recent updated version of the VCMS software installed in September 2000.

Stream Live Services concentrates on offering personal lifestyle and advisory services using consultants. The consultants receive no guaranteed payment but instead receive a proportion of the premium rate revenue generated from the call, thereby reducing the financial risk to Stream. Stream's strategy is to promote its services in conjunction with a professional body, where applicable, which gives Stream access to a range of appropriately trained consultants who can then be connected through the VCMS.

In addition to offering live advice services through traditional premium rate telephony, Stream has developed the VCMS so that it can integrate service delivery between the Internet and telephone. A new website, www.thecircle.com, launched in September 2000, provides a range of information about the different advice services Stream offers, the experience of the consultants, their photographs and

skill sets and other useful information. The site includes a list of all the consultants and highlights those who are currently available to take calls. Once the appropriate consultant has been selected through the Internet a two way call is launched by the VCMS which calls the consultant and, once the consultant has picked up their telephone, connects the call to the customer. The Directors believe that there are opportunities to extend the distribution of thecircle.com to digital interactive television in addition to the Internet.

The acquisition of the business and assets of The Junction in May 2000 provided the Group with its first wholly Internet based specialist information service. The Junction is a teenage community site offering a number of chatrooms, as well as information on sport, games and music.

The Directors believe that The Junction, which currently earns only small amounts of revenue from advertising, is commercially underdeveloped. Stream intends to offer content utilising m-commerce to the users of The Junction.

Stream acquired Talk Telecom in July 2000. Talk Telecom is a recently established UK-based telecommunications service provider operating under an ISVR licence issued by the Department of Trade and Industry. It has an interconnect agreement with British Telecommunications plc and currently offers a full range of services on all tariffs, including free, local, national and premium rates. Talk Telecom operates what the Directors refer to as a 'smart build' or virtual network model using spare capacity owned by other network operators, thus reducing the capital investment in telecoms infrastructure.

Generate was established to obtain and provide entertainment content for the Group. This company is actively developing certain entertainment services, particularly in the pop music arena, which will be delivered to the consumer through either Stream Live Services' or Stream Media's websites such as The Junction.

Stream is now extending from its traditional telephone based service provision to new premium charged services to take advantage of the opportunities created by other distribution channels, such as digital interactive television, and by the convergence of these channels. The telephone based service offering has recently been expanded to include www.thecircle.com, a website that offers Stream's information and advice through an integrated combination of the telephone and the Internet.

Stream utilises both direct and indirect marketing channels for distributing services. Contracts exist with a number of UK media groups including Express Newspapers Limited, Interactive Media Services Limited and Voice Media Limited, a company ultimately controlled by Trinity Mirror PLC, to editorially promote Stream's services exclusively on a revenue-sharing basis. Stream has created a user database, in excess of 40,000 names, to which it mails monthly magazines advertising the services it offers. The magazines are designed to stimulate calls to existing brands and to launch and promote new services and merchandise.

The financial trading record of Stream to date is set out below

	<i>Years ended 31 December</i>		
	<i>1998</i>	<i>1999</i>	<i>2000</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	625	2,332	4,356
Gross profit	132	823	1,392
Operating profit/(loss)	(71)	45	(768)

The operating loss for the year ended 31 December 2000 includes £414,000 of exceptional costs.

## PLACING STATISTICS

Placing Price	28p
Number of Placing Shares	14,328,000
Number of Placing Shares as a percentage of the Enlarged Issued Share Capital	25.27%
Number of Ordinary Shares in issue immediately following the Placing and Admission	56,689,913
Market capitalisation of the Company at the Placing Price immediately following the Placing and Admission	£15,873,176
Proceeds of the Placing net of estimated expenses	£3,461,840

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<i>2001</i>
CREST accounts credited, Admission effective and dealings in Ordinary Shares to commence on AIM	30 April
Share certificates in respect of the Placing Shares despatched where applicable	by 4 May

## PART 1

### INFORMATION ON THE GROUP

#### 1. Introduction

The Stream Group is engaged in the provision of special interest information and entertainment services at a premium charge, via digital distribution channels. Current services are offered via the telephone or Internet, although management intends to develop digital interactive television and m-commerce as additional channels for service delivery.

The existing and planned services target different niche special interest groups that the Directors believe are willing to pay a premium rate for specialist information. The Group currently comprises three main businesses that cover live advice telephony services, media content and telecommunications services:

- Stream Live Services – the Group’s existing core activity, operating live and pre-recorded advice and information services;
- Stream Media – a business that operates thecircle.com, Stream’s live and pre-recorded online advice and guidance service and the-junction.net, a teenage chat community; and develops the Group’s content for m-commerce and iDTV; and
- Talk Telecom – a business engaged in carrying call traffic for both the Group and third parties. Talk Telecom operates under an ISVR licence issued by the Department of Trade and Industry.

The Directors have wide experience of operating premium rate services especially telephone based services, and have created a number of successful businesses in this area. Stream operates in niche sectors where the Directors believe that there is less competition than in the more mainstream market areas, such as sport and personal finance. The Directors believe that there is a large market for information services, paid for at a premium rate, which can be delivered through a variety of digital distribution channels.

#### 2. History and Development

Stream Live Services, which is currently the main trading subsidiary of the Group, was founded in December 1997 as a provider of live advice services charged at a premium rate via the telephone. Initially it provided only one live advice service, The Psychic Circle, offering live psychic readings on a personal ‘one-to-one’ basis over the telephone in conjunction with media publications.

To enhance the provision of live telephony services and to integrate its services with the Internet, the Group commissioned the development of its VCMS. The VCMS enables Stream to operate a virtual call centre where customers call a premium rate telephone number to access consultants who are located at remote locations throughout the United Kingdom, typically at home. The most recent updated version of the VCMS software was installed in September 2000 and is capable of interacting between the Internet and the telephone. Further details of the VCMS are set out below.

The Group further developed its Internet based information services with the acquisition of the business and assets of The Junction ([www.thej.net](http://www.thej.net)/[www.the-junction.com](http://www.the-junction.com)) in May 2000. The Junction is a special interest community website for teenagers providing chatrooms as well as offering information on sport, television, films, music and games.

Stream Media was acquired in June 2000 to operate The Junction and develop The Circle and is currently developing the Group’s content for m-commerce and iDTV.

In July 2000 the Group acquired Talk Telecom. Talk Telecom is a telecommunications carrier, operating under an ISVR licence issued by the Department of Trade and Industry. Talk Telecom has an interconnect agreement with British Telecommunications plc and offers a range of number translation services on a full range of tariffs. The company was acquired predominantly to improve the profitability of and control over Stream’s premium rate services and secondly to generate revenues from third parties.

The successful establishment of The Psychic Circle demonstrated that live advice services can be both commercially and technically viable. Subsequently an additional live advice service, Weight Coach, has been developed and was launched in September 2000. Weight Coach offers nutrition, diet and weight control advice.

### **3. Activities, Services and Sources of Revenue**

#### *Telephony services*

Stream's primary source of revenue to date has been live advice telephone services provided through Stream Live Services. The Psychic Circle was launched in February 1998 and is a premium rate service which delivers live 'one-to-one' personal psychic readings from selected psychics via the telephone utilising the VCMS. Stream has contracts with a number of UK media groups to exclusively promote Stream's services using editorials on a revenue sharing basis. Callers respond to editorial coverage and receive predictive consultations which cover their relationships, family, work, health and any other issues they wish to discuss. The Directors believe that editorial promotion produces higher response rates than paid for advertisements, without the fixed cost of advertising.

In September 2000 Stream launched Weight Coach, a service that allows the consumer to obtain live 'one-to-one' advice from individuals who have received training from the National Centre for Eating Disorders, a body recognised by the British Medical Association. Weight Coach offers a confidential and convenient service to people who are concerned about weight control and their diet.

In January 2001, Stream launched a live agony aunt service, using separate, qualified, selected consultants.

Stream Live Services currently utilises the services of approximately 200 consultants who work remotely (typically from home) and are linked to the caller via the VCMS located at Newbury.

Stream Live Services concentrates on offering personal lifestyle and advisory services using consultants. The consultants receive no guaranteed payment but instead receive a proportion of the premium rate revenue generated from the call, thereby reducing the financial risk to Stream. Stream's strategy is to promote its services in conjunction with a professional body, where applicable, which gives Stream access to a range of appropriately trained consultants who can then be connected through the VCMS.

All calls to Stream's consultants may be recorded for quality control purposes subject to the terms of the relevant ICSTIS licence. In addition the customer may request a free copy of the recording of their consultation.

#### *Telephony and Internet convergence*

In addition to offering live advice services through traditional premium rate telephony, Stream has developed the VCMS so that it can integrate service delivery between the Internet and telephone. A website, [www.thecircle.com](http://www.thecircle.com), launched in September 2000 by Stream Media, provides a range of information about the different advice services Stream offers, the experience of the consultants, their photographs, skill sets, and other useful information. Most importantly the website utilises what the Directors view as one of the main strengths of the Internet, its ability to facilitate search and selection. The site includes a list of all the consultants and highlights those who are currently available to take calls. Once the appropriate consultant has been selected through the Internet a two-way call is launched by the VCMS which calls the consultant and, once the consultant has picked up their telephone, connects the call to the customer. The Directors believe that there are opportunities to extend the distribution of [thecircle.com](http://www.thecircle.com) to digital interactive television in addition to the Internet. While certain services can only be delivered through a single distribution channel, it is the Directors' intention to utilise the benefits of convergence wherever possible.

#### *Internet services*

The acquisition of the business and assets of The Junction provided the Group with its first wholly Internet based specialist information service. The Junction is a teenage community site offering a number of chatrooms, as well as information on sport, games and music. It is a popular Internet portal

for the 13-21 year old user, attracting some 115,000 users per month without any significant marketing expenditure, and was ranked in the top ten youth sites by The Telegraph. The users register in excess of 2 million page impressions per month with an average time spent on the site in excess of 27 minutes. The Junction also offers an ISP service with an e-mail address provided by Telinco Limited, a company owned by World Online UK Limited.

The acquisition of The Junction enabled the Group to acquire the services of its founder Alistair Milne. Alistair was involved in website design and creating special interest websites with AOL and Virgin.net before setting up The Junction.

The Directors believe that The Junction, which currently earns only small amounts of revenue from advertising, is commercially underdeveloped. Stream intends to offer content utilising m-commerce to the users of The Junction.

#### *Network services*

The Group acquired Talk Telecom in July 2000. Talk Telecom is a recently established UK-based telecommunications service provider operating under an ISVR licence issued by the Department of Trade and Industry. In addition, it has an interconnect agreement with British Telecommunications plc and currently offers a range of number translation services on a full range of tariffs, including free, local, national and premium rates. Talk Telecom operates what the Directors refer to as a 'smart build' or virtual network model, using spare capacity owned by other network operators, thus reducing the capital investment in telecoms infrastructure.

Talk Telecom is already improving the margin on Stream's telephone and Internet services as it carries some of the Group's call traffic. By integrating the VCMS into Talk Telecom's network operation, Stream will gain additional features and control not otherwise available. In addition, Talk Telecom provides further revenue generating potential by carrying call traffic for third party service providers.

Talk Telecom brings with it the experience of Antony Redfern who joins the Group as Telecommunications Director. Antony is an experienced executive well known to the existing Stream management, having previously worked at Legion Telecommunications Limited.

#### *Content services*

Generate was established to obtain and provide entertainment content for the Group. This company is actively developing certain entertainment services, particularly in the pop music arena, which will be delivered to the consumer through either Stream Live Services' or Stream Media's websites such as The Junction. A proportion of the associated revenue earned by Stream Live Services and Stream Media will be paid to Generate. This is a field in which Gordon Robson has particular experience, having operated similar services with music artists in the late 1980s.

## **4. Routes to Market and Advertising Strategy**

Stream utilises both direct and indirect marketing channels for distributing its services.

#### *Contracts with national UK media groups*

Contracts exist with a number of UK media groups including Express Newspapers Limited, Interactive Media Services Limited and Voice Media Limited, a company ultimately controlled by Trinity Mirror PLC, to exclusively promote Stream's services using editorials on a revenue-sharing basis. The titles in which Stream's services appear include Womans Own, Woman, Best, Chat, The Mirror, The Sunday Mirror, The Daily Express, and Sunday People. These titles promote Stream's services using their own brands. The Directors believe this approach has the following advantages:

- no advertising costs, thus reducing financial risk. All call revenue is shared with the media group on an agreed basis;
- in general, higher response rates and call revenues are generated from a title's own branded and endorsed service than from advertising; and
- generation of more revenue over a longer period for the media groups than would be achieved through advertising.

### *Caller database direct marketing*

Recognising the need to build customer awareness of its expanding range of products, Stream has created a user database of in excess of 40,000 names, to which it mails monthly magazines advertising the services it offers. The magazines are designed to stimulate calls to existing brands, and to launch and promote new services and merchandise. In addition to editorial pieces, the magazines feature reader profiles, testimonials, and feedback sections. The feedback also provides useful research into satisfaction levels and service development opportunities. Experience to date shows that direct marketing has been successful in increasing the number of calls.

## **5. Future Business Development**

Stream aims to maximise the opportunities that are now being presented through the convergence of digital delivery channels, particularly digital interactive television. The Company is currently in negotiations with a number of digital interactive television and media groups. The Directors believe that their business model is well suited to domestic and international expansion and development, and that the Group will become one of the UK's leading providers of content and services to media owners, in particular by:

- increasing the number of live advice services accessible both through the Internet and by telephone;
- expanding the delivery of premium rate services from telephones and the Internet to additional platforms including digital interactive television and m-commerce, and wherever possible utilising the benefits of converging the distribution channels; and
- making strategic acquisitions to enhance the Group's activities and prospects.

## **6. Market, Competition and Barriers to Entry**

Audiotex or premium rate services have been operational in the UK since the mid-1980s. Service providers are free to set the price of the call from a number of tariffs and share the revenue with the originating telecommunications network providers. Due to the ability to charge calls at a premium rate, the opportunity exists for service providers to achieve margins significantly higher than are achievable under the UK rates for standard call traffic. Calls to premium rate services are subject to controls by an industry supervisory body, ICSTIS.

The UK audiotex industry has been growing at a rate of some 30 per cent. per annum for the past three years. The Directors believe that the demand for high quality targeted information for which customers are willing to pay will increase further as digital interactive television, Internet and mobile telephony usage grows. The Directors believe that digital interactive television is a young market which has significant growth potential due to consumers' familiarity with the television. The Directors also believe that the high penetration of mobile phones in the UK and the recent growth in SMS volumes, together with the consumers' apparent willingness to pay for content, are evidence of the significant growth potential in the m-commerce market.

Stream operates in niche sectors where the Directors believe there is less competition than in the more mainstream market areas, such as sport and personal finance. While certain services can be quickly replicated, the Directors believe significant competitive advantages exist due to the following:

- Directors' experience;
- established market status within niche special interest groups;
- media partnerships, typically on an exclusive basis;
- the Group's VCMS; and
- the experience of identifying and administering specialist consultants in niche markets.

## **7. Technology and Infrastructure**

Stream's VCMS platform was built by a third party software house to Stream's detailed specifications and is based upon the Directors' experience of running live advice services. The system has been

adapted to enable Stream to differentiate its service offering through enhanced call handling. The VCMS is perceived by the Directors to have the following benefits:

- the cost of running a virtual call centre is substantially less than housing operators in a dedicated building;
- the absence of geographical limitations enables the Company to identify and secure the services of high-quality consultants both across the UK and potentially abroad. These consultants are able to work remotely, typically from home at convenient times;
- the VCMS provides detailed statistics on both the callers and the consultants. All calls to the VCMS may be recorded to ensure that the quality of service is maintained. In addition, this recording has been combined with an in-house compact disc ("CD") production facility which will enable users to request and receive at no additional charge a CD recording of their consultation. The CD also includes pre-loaded software advertising and demonstrating [www.thecircle.com](http://www.thecircle.com);
- the VCMS enables convergence between the telephone and Internet. Users can use the website to search for their chosen consultant and are then able to check current availability and launch a telephone call to that consultant through the website; and
- there is the ability to add new services quickly and easily.

## **8. Directors and Key Employees**

### *Directors*

The Board comprises four executive Directors and one non-executive Director. The Board is currently in the process of recruiting an additional non-executive director as well as a non-executive Chairman. It is hoped this process will be completed in the next six months.

### ***Gordon Robson, aged 44, Chief Executive and Chairman***

Gordon joined BT in 1984, shortly after BT was privatised, to work on Talkabout. Talkabout was the UK's first premium rate, telephone based entertainment service. Whilst at BT, Gordon developed other innovative telephone based audiotex information and entertainment services. He also developed media based audiotex services that were launched in early 1986 with The Sun newspaper. Gordon went on to develop telephone voting for a number of BBC television programmes such as New Faces, Opportunity Knocks and A Song for Europe.

Gordon left BT in 1987 to form Legion Telecommunications Limited ("Legion"). In the UK, Legion was a provider of audiotex services to media clients such as News International, the BBC, Mirror Group Newspapers and National Magazines and formed joint venture companies with IPC Magazines and Harmsworth Media.

Legion's rapid international development was launched via collaboration with Telstra in 1990 and consolidated with a series of joint ventures in Europe, Australia and South Africa with leading, local media groups including Fairfax, Times Media and Orkla Media. Legion grew to become a global provider of audiotex services to media groups with operations in ten countries. At its peak, Legion companies were handling over 500,000 minutes of audiotex traffic per day.

Following the sale of Legion, and prior to launching Stream, Gordon developed several Internet products and worked with two Australian State Governments on audiotex services and the development of Internet gaming strategies. He also worked with Disney and HM Government Department of Health.

In May 1997 Gordon formed Pipertel Limited ("Pipertel"). Pipertel was created to market and resell Redstone Telecom PLC's network services in which Gordon was an early investor. In the year to March 1999 Pipertel had an audited annual turnover of over £12 million. Pipertel was acquired by PNC Telecom plc in September 1998.

In December 1997 Gordon set up a company, to provide new content, which subsequently became Stream Live Services.

***Michael Spencer, aged 40, Commercial Director***

From December 1998, Michael has run his own consultancy practice specialising in marketing and product development in the pay television areas. Stream has utilised his services from January 1999 and he has now joined Stream on a full time basis. Michael is heading the development of the delivery of Stream's content via digital interactive television. Michael has undertaken projects for a number of customers including BSkyB, Walt Disney Television International, Film Four and Channel 4. During this consultancy Michael contributed towards the development of a new Pay TV concept for Channel 4, developed and implemented a marketing strategy for Sky's £12 million millennium project, extended a marketing initiative to European Disney channels and helped to increase subscribers to Film Four.

Prior to his consultancy Michael worked for over three years for Walt Disney Television International. Michael was a member of the management team appointed to launch the first European Disney Channel in the UK in 1995. They successfully launched the European Disney Channel into 2.8 million cable and satellite homes achieving an opening night audience of 1.3 million. He was then involved in increasing the customer base to some 3.6 million users.

Prior to Walt Disney, Michael was programming and marketing director at the UK start-up of QVC, the television shopping channel. QVC was successfully launched achieving £20 million turnover and a customer base of 300,000 in the first year.

In addition to his experience in television shopping and multi-channel broadcasting, Michael has a strong background in marketing in the retail sector, having previously been both Group Marketing Director at Alexon PLC and head of marketing for Burton Retail Limited.

***Antony Redfern, aged 43, Telecommunications Director***

Antony moved into the audiotex industry in 1988 and joined Legion in 1990. He was responsible for the establishment and development of Legion's South African joint venture company with Times Media, and subsequently that of other international subsidiaries. In 1991 he successfully launched Eurocall, a subsidiary of Legion, which operated in Portugal and Sao Tome.

In July 1996 Antony left Legion to pursue his own business interests, setting up a telecoms consultancy, LTA Limited. During that time he helped establish Telecom Brasil Limited through a contract with the Brazilian telecoms carrier Embratel. The company employed over 100 staff at its call centre in Rio de Janeiro within its first 12 months of operation. Telecom Brasil Limited was sold in August 1999. He also worked to develop Talidan Limited, taking advantage of international outbound audiotex opportunities in Brazil, USA and the Middle East.

In 1997 he provided seed capital to the UK carrier Telecom One Limited, the development of which he assisted. During 1997 he also developed a method of billing for products and services on the Internet via the customer's telephone bill. Antony became involved in creating Coulomb Limited in early 2000 acquiring 24.9 per cent. Coulomb Limited is involved in developing and marketing premium web access technology.

Antony is the founder of Talk Telecom, acquired by Stream in July 2000.

***Paul Tuson, aged 34, Finance Director***

Paul qualified as a Chartered Accountant with KPMG and spent seven years there working mainly with high-technology clients, with significant exposure to technical accounting and group corporate taxation issues. This included a one year secondment to the USA where he worked in an advisory role on a flotation on NASDAQ. He also worked on audit research and development and played a leading role in initiatives aimed at adding a more commercial and risk-based approach to the traditional auditing process.

Since leaving KPMG Paul has held various posts in a number of high-tech companies. He was the finance director at Attachmate Sales UK Limited, where he was responsible for all non-sales activities. More recently Paul ran his own consulting business, his main client being Baan Limited, the global software company, where he was responsible for a global review of enterprise-wide internal systems and processes. In addition, he acted as temporary finance director at Baan UK.

Paul has a strong background in change management, systems and financial controls.

***Hugo Charles Drayton, aged 41, Non-executive director***

Hugo is currently managing director of Hollinger Telegraph New Media Limited (“HTNM”), in charge of developing all of Hollinger Group’s UK and European digital activities. He is also a non-executive director of Whittard of Chelsea PLC, handbag.com Limited, HTNM’s joint venture with Boots plc, and a non-executive director of Newsplayer Group PLC, which floated in April 2000. He was appointed marketing director for the Telegraph Group in 1996, having joined the group in 1994 as marketing manager. He was instrumental in establishing the Electronic Telegraph as the UK’s premier on-line news website. Previously he worked as international director for Reed Telemedia (Reed Elsevier) in Europe and prior to that at Coats Viyella as sales and marketing director in South America and Europe.

*Key Employees*

***Mick Gossage, aged 37, Head of Projects***

Mick has gained significant experience establishing and developing audiotex operations, voice and multimedia applications on an international basis during periods at Marconi plc, Legion Telecommunications Limited, Greenland Interactive Limited and Gothem Limited (latterly as Operations Director). During this time, Mick has worked with a number of blue chip clients including the BBC, Daily Mail and General Trust and Teletext UK. In 1999 Mick assisted in forming Taotalk Limited, a company set up to develop and sell GSM streaming audio software and solutions, and was responsible for project management, product development and technical sales support.

Mick joined Stream in March 2001 with responsibility for the VCMS platform and group projects.

***Wayne Stobbs, aged 37, General Manager***

Wayne joined Stream in December 2000 to look after the general operations of the Stream Group. Wayne has almost 20 years experience working in the telecommunications industry, undertaking assignments in a number of international locations. Wayne is involved in the management of all aspects of the business with his key strength being his in-depth understanding of both the technical and commercial facets of the business.

***Alistair Milne, aged 23, Internet Development Manager***

Alistair is the creator of The Junction and, following its acquisition by Stream, has joined the Group to lead Stream Media. He has been involved in website design and creating special interest websites with AOL and Virgin.net before setting up The Junction. Alistair is involved in the development of Stream’s Internet related activities, in particular The Junction and in the plans for developing www.thecircle.com and other sites.

***Jessica West, aged 45, Manager Stream Live Services***

Jessica is a British Registered Nurse with over 20 years of experience. She joined Stream in 1998 to set up the infrastructure for the teams of live consultants in terms of research, recruitment, quality control, supervision and support management. She is responsible for the management of all Stream Live Services’ content, including the consultants.

## **9. Reasons for the Placing and Admission**

The Placing and Admission is expected to raise the profile of Stream and enable it to raise funds to allow it to take advantage of the business opportunities presented by its recent acquisitions and by the Group’s continued growth. Stream has already been acquisitive as a private company and it is the Board’s intention to pursue further acquisition opportunities both domestically and overseas. It is the Directors’ belief that publicly traded shares will be more attractive to vendors as consideration and will enable Stream to pursue more acquisition targets.

The Directors also believe that the opportunity to motivate its employees through equity participation will enhance the Group’s ability to attract and retain high quality and committed staff.

## 10. Use of the Proceeds of the Placing

The proceeds of the Placing of £3,461,840 (net of expenses) should enable the Company to:

- broaden and grow Stream's existing established live advice services;
- research complementary businesses with a view to making selective acquisitions and possibly provide a cash element to the overall consideration payable for one or more such acquisitions;
- undertake additional direct marketing programmes to increase call numbers and minutes and to support new services;
- develop additional premium rate content and services;
- recruit additional executives and staff, required to support the forecast expansion; and
- expand overseas.

## 11. Details of the Placing

Pursuant to the Placing Agreement, Teather & Greenwood has conditionally agreed to use its reasonable endeavours to procure placees for the Placing Shares at the Placing Price. It is proposed that the Placing Shares will be placed by Teather & Greenwood, acting as the Company's agent, with institutional and certain other investors. For the avoidance of doubt, the Placing is not being underwritten by Teather & Greenwood or any other person. It is expected that the Placing will raise £3,461,840 (net of expenses) for the Company, which it is intended will be used in the manner set out above. The Placing Shares will represent approximately 25.27 per cent of the Enlarged Issued Share Capital.

The Placing Shares will be issued credited as fully paid and will, on issue, rank *pari passu* with the existing Ordinary Shares, including the right to receive all dividends and other distributions thereafter declared, made or paid.

The Placing is conditional upon the Placing Agreement becoming unconditional. Further details of the Placing Agreement are set out in paragraph 7 of Part 4 of this document.

## 12. Admission, Dealings and CREST

Application will be made to the London Stock Exchange for the existing Ordinary Shares and the Placing Shares to be admitted to trading on AIM. It is expected that Admission will take place and that dealings on AIM will commence on 30 April 2001.

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by written instrument. Application has been made for the existing Ordinary Shares and the Placing Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within CREST if a relevant shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive share certificates will be able to do so. Further information is set out in the placing letters issued in connection with the Placing.

It is expected that, subject to the satisfaction of the conditions of the Placing, the Placing Shares will be registered in the names of placees either:

- in certificated form, where the placee so elects, with the relevant share certificate to be despatched by post, at the placee's risk, by 4 May 2001; or
- in CREST, where the placee so elects and only if the placee is a "system member" (as defined in the Uncertificated Securities Regulations 1995) in relation to CREST, with delivery (to the designated CREST account) of the Placing Shares to take place on 30 April 2001.

No temporary documents of title will be issued. Pending the despatch of definitive certificates (as applicable), instruments of transfer will be certified against the register of members. Holders of existing Ordinary Shares will receive new share certificates in respect of the Ordinary Shares held by them on Admission. Should Shareholders wish to hold their Ordinary Shares in CREST, they will need to follow the requisite CREST procedures.

### **13. Share Undertakings**

Immediately following Admission the Directors will be interested, in aggregate, in 23,215,347 Ordinary Shares representing 40.95 per cent. of the Enlarged Issued Share Capital. Under the terms of the Placing Agreement the Directors have undertaken that, save in certain exceptional circumstances, they will not sell or otherwise dispose of, or agree to dispose of, any of their respective interests in the Ordinary Shares held on Admission for a period of one year from Admission. Thereafter, in the two years following the anniversary of Admission they may sell or otherwise dispose of, in an on-market transaction, a maximum of 60 per cent. of their holdings of Ordinary Shares as at Admission (provided that such disposals are made through the Company's broker for the time being and that they may only dispose of a maximum of 30 per cent. of their holdings of Ordinary Shares as at Admission in the first year following the anniversary of Admission). In addition, certain other parties, holding an additional 12,871,833 Ordinary Shares, have given similar undertakings.

### **14. Dividend Policy**

The Company is seeking primarily to achieve capital growth for its Shareholders. It is not the present intention of the Directors to pay a dividend on the Ordinary Shares as, during the current phase of the development of the Company's business, it is the Board's intention to retain profits for use within the business.

The level of any dividend to be paid in the future will be set having regard to the potential for growth of the business and the opportunities open to the Company.

### **15. Corporate Governance**

The Board intends that, so far as it is practical and to the extent appropriate having regard to the size of the Company, it will comply with the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel and which is appended to the Listing Rules of the UK Listing Authority (the "Combined Code"). Audit and Remuneration Committees, comprising of the Chairman (currently an executive Director) and the non-executive Director, to be chaired in each case by the Chairman, have been established. Due to the size of the Company the Directors do not believe it necessary to have a Nominations Committee.

The Audit Committee is responsible for making recommendations to the Board on the appointment of the auditors and the audit fee and will receive and review reports from management and the Company's auditors on the financial accounts and internal control systems in use throughout the Group. It will meet at least twice each year.

The role of the Remuneration Committee will be to review the performance of the executive directors and to set the scale and structure of their remuneration, including bonus arrangements, with due regard to the interests of shareholders. The Remuneration Committee will also administer and establish performance targets for the Company's employee share schemes and determine the allocation of share options to employees. In exercising this role, the terms of reference of the Remuneration Committee will require it to comply with the Code of Best Practice published in the Combined Code. It will meet at least twice a year.

In due course, upon the appointment of a non-executive Chairman and a further non-executive Director, the executive Director will resign from these Committees and will be replaced by such non-executive Directors.

### **16. Tax Reliefs Available to Investors**

The Company has sought and been granted provisional advance assurance by the Inland Revenue of the Company's eligibility for EIS relief and as a qualifying VCT investment.

The advance assurance which, in accordance with customary Inland Revenue practice, relates to the qualifying status of the Company only, has been obtained on the basis of the facts supplied.

Whilst the Company cannot guarantee to conduct its activities in a way designed to allow and preserve EIS relief claimed by investors and to be a qualifying VCT investment, the Directors intend, where strategically appropriate, to do so.

**Investors considering taking advantage of EIS relief or making a qualifying VCT investment should seek individual professional advice in order that they may fully understand whether the relief is available to them.**

Further information in respect of UK taxation is set out in paragraph 8 of Part 4 of this Document.

## PART 2

### RISK FACTORS

**An investment in the Ordinary Shares is subject to a number of risks. Prospective investors should consider carefully all the information set out in this document and the risks attaching to an investment in the Group including, in particular, the risks described below before making any investment decision. If any of the following risks actually occur, Stream's business, financial conditions and/or results could be materially and adversely affected. In such case, the trading price of the shares could decline and an investor might lose all or part of his investment. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently deem immaterial, may also have an adverse affect on Stream's business.**

#### **Limited operating history and operating losses**

The profitability of the Group will be dependent upon the Group's successful expansion. The Group has a short operating history and has had limited revenues to date and has consolidated accumulated net losses to 31 December 2000 of some £830,000. Since the Group intends to continue to invest in developing new services, further losses and negative cash flows may be incurred. Whilst the Directors have confidence in the future potential of the Group, there is no assurance that the Group will subsequently become or remain profitable in the future.

#### **Competition**

The Group's longer-term growth is dependent upon the impact of competition. If competitors develop or expand similar services in the targeted niche markets the revenue and profitability of the Group may be affected, particularly as certain competitors may have greater financial resources.

#### **Availability of appropriate personnel**

The Group is dependent upon certain key personnel for its continued success. Although Stream enters into employment arrangements with each of its key personnel to secure their services, and has taken steps to reduce this risk by providing the key personnel with incentives to remain within the Group, including share option schemes, the retention of their services cannot be guaranteed.

In addition, the live advice services are reliant upon the Group's ability to secure and retain the services of its consultants. Were the consultants to withdraw their services the Group's ability to satisfy the demands of its live advice customers could suffer.

#### **Management of growth**

Stream is currently undergoing a period of significant expansion in terms of its scope of operations, range of products and services, number of employees and infrastructure. The Directors anticipate that further significant expansion will be required for Stream to exploit potential opportunities. This expansion has placed, and the Directors expect it to continue to place, a significant strain on Stream's management and operational resources. Stream's future success is dependent to a certain extent on its ability to manage this growth.

#### **Acquisitions and geographical expansion**

In the future Stream is likely to pursue acquisitions of complementary businesses. Such acquisitions would involve certain risks, namely the difficulty of integrating the businesses acquired, the additional pressures on the management's time, and the potential loss of key employees. Geographical expansion would create additional risks.

### **Reliance on media group contracts**

Stream is reliant on its contracts with key media groups to obtain the exposure necessary to raise public awareness of the Group's business. In particular the contract with Interactive Media Services Limited currently accounts for 16 per cent of the Group's turnover. There is no guarantee that such contracts will continue indefinitely in their present form. Should the Group suffer a loss of some of these contracts there is the possibility that revenues could be adversely affected.

### **Dependence on technology**

The Group is dependent upon certain technology for its success, most notably the VCMS. The Group has made significant investments in its technological systems, and the Directors expect that the Group will continue to need to upgrade its information systems and related software periodically as it continues to grow and develop new services. Any difficulties encountered in the adoption of new information systems or in the maintenance and/or enhancement of existing software and/or systems may have an adverse effect on the Group.

### **New Services**

Stream's growth is dependent upon the successful introduction of new services. No guarantee is given as to the commercial viability of these potential new services. In addition the market for Internet-based premium rate services is still young and cannot be guaranteed to develop in the future.

### **Growth of the Internet**

The success of the Group will depend upon the development and maintenance of an infrastructure that will be able to cope with increased traffic. Both the Internet and the technologies associated with it are subject to rapid change. Unless the Group is able to respond to technological changes in a cost-effective and timely manner the business of the Group may suffer.

### **Growth of m-commerce**

The success of the Group will be linked to the continued growth in the use of the m-commerce. Both m-commerce and the technologies associated with it are subject to rapid change. Unless the Group is able to respond to technological changes in a cost-effective and timely manner the business of the Group may suffer.

### **Growth of iDTV**

The success of the Group will be linked to the continued growth in the use of the iDTV. Both iDTV and the technologies associated with it are subject to rapid change. Unless the Group is able to respond to technological changes in a cost-effective and timely manner the business of the Group may suffer.

### **Legal and regulatory environment**

The telecommunications industry in the UK is regulated by OFTEL. Changes in laws or regulations, or in the terms of the Group's licences or the termination of Talk Telecom's ISVR licence, could have an adverse effect on the Group's ability to carry out its business. In addition Stream's live advice services are subject to ICSTIS's Live Conversation Services Code of Practice. This requires that any operator providing live services has a certificate of permission. The Psychic Circle, Weight Coach and an agony aunt style service known as 'Talk Solutions' are currently the only services to have such a licence. The licence in relation to Talk Solutions is a six month licence and will expire on 12 April 2001, but the Directors believe it is likely to be extended by ICSTIS. If a live service provider does not have a certificate or if it is withdrawn then OFTEL can direct the relevant telecommunications operator to terminate those connections to the service. If the telecommunications operator does not comply, OFTEL can take enforcement action against the operator.

Currently, there are few laws or regulations directly applicable to the Internet or e-commerce. Any new laws or regulations which may be introduced could affect the Group's ability to carry on its business or make it more expensive for it to do so. It should be noted that this applies not only in respect of the

United Kingdom but, due to the global nature of the Internet and the Group's business, to other jurisdictions which may seek to implement laws or regulations which could affect both the manner in which the Group carries on its business and its profitability

### **Data Protection**

Stream must comply with data protection and privacy laws which limit its ability to collect and use personal information relating to its users. Increasing public awareness of such issues in relation to the Internet could lead to further restrictions on the use of such data which could, in turn, affect Stream's performance and, specifically, its ability to generate advertising revenue.

Some personal data which has been obtained without express requests to use it across the Group. This potentially limits the use of such information until consent is obtained from users. Further, the European Union data protection directive and the Data Protection Act which came into force in the UK on 1 March 2000 will affect the activities of all e-commerce businesses that collect personal data in the European Union. Given the global nature of the Internet, it cannot be assured that businesses such as Stream will be able to comply with laws relating to transfers of data outside the European Union (which are prohibited unless the territory maintains adequate privacy standards), use of cookies or local law compliance generally

### **The AIM market**

The market for shares in smaller public companies is less liquid than that for larger public companies. Consequently the Company's share price may be subject to greater fluctuation and the shares may be difficult to buy and sell.

## PART 3

### ACCOUNTANTS' REPORT ON STREAM GROUP PLC



#### KPMG Audit Plc

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The Directors  
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EC3A 7QR

12 April 2001

Dear Sirs

#### STREAM GROUP PLC

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 12 April 2001 of Stream Group plc.

#### **Basis of preparation**

Stream Group plc acquired the group of companies headed by Stream Live Services Limited in September 2000 by way of a share for share exchange. The group reconstruction was accounted for using merger accounting. Accordingly, the financial information set out in pages 26 to 42 is based on the audited consolidated financial statements of Stream Group plc for the year ended 31 December 2000 and the audited consolidated financial statements of Stream Live Services Limited for the two years ended 31 December 1999. The financial statements for the year ended 31 December 1998 were audited by HW Fisher and Company of Acre House, 11-15 William Road, London. The financial statements for the year ended 31 December 1999 were audited by PricewaterhouseCoopers of 9 Greyfriars Road, Reading. The financial statements for the year ended 31 December 2000 were audited by ourselves. The financial statements were prepared on the basis described in note 1 to which no adjustments were considered necessary.

#### **Responsibility**

Such financial statements are the responsibility of the directors of Stream Group plc who have approved their issue.

The directors of Stream Group plc are responsible for the contents of the prospectus dated 12 April 2001 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 recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

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

We consent to the inclusion in the prospectus dated 12 April 2001 of this report and accept responsibility for this report for the purposes of paragraph 45 (1)(b)(iii) of Schedule 1 of the Public Offer of Securities Regulations 1995.

## CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended 31 December					2000 Total £
		1998 £	1999 £	2000 £	2000 Acquisitions £	2000 Exceptional (note 9) £	
<b>Turnover</b>	2	625,450	2,332,086	2,615,550	1,740,500	–	4,356,050
Cost of revenue		(493,781)	(1,509,226)	(1,462,081)	(1,501,713)	–	(2,963,794)
<b>Gross profit</b>		131,669	822,860	1,153,469	238,787	–	1,392,256
Administrative expenses		(202,966)	(778,290)	(1,474,865)	(271,005)	(414,100)	(2,159,970)
<b>Operating (loss)/profit</b>		(71,297)	44,570	(321,396)	(32,218)	(414,100)	(767,714)
Interest receivable	7	–	1,022				–
Interest payable	8	(1,500)	(2,955)				(30,961)
<b>(Loss)/profit on ordinary activities before taxation</b>	3	(72,797)	42,637				(798,675)
Tax on (loss)/profit on ordinary activities	10	–	–				–
<b>(Loss)/profit for the year retained for equity shareholders</b>		(72,797)	42,637				(798,675)
<b>(Loss)/earnings per share</b>	11						
Basic		(0.29p)	0.17p				(2.29p)
Diluted		(0.29p)	0.17p				(2.01p)

All activities relate to continuing operations.

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 December		
	1998 £	1999 £	2000 £
<b>(Loss)/profit for the year</b>	(72,797)	42,637	(798,675)
Movement in provision on investment in own shares	–	–	(24,178)
<b>Total recognised gains and losses for the year</b>	(72,797)	42,637	(822,853)

## CONSOLIDATED BALANCE SHEETS

		31 December		
		1998	1999	2000
	Notes	£	£	£
<b>Fixed assets</b>				
Intangible assets	13	–	–	501,363
Tangible assets	12	47,946	68,597	269,866
		<u>47,946</u>	<u>68,597</u>	<u>771,229</u>
<b>Current assets</b>				
Debtors	15	130,947	353,750	1,468,761
Cash at bank and in hand		49,243	199,116	41,860
		<u>180,190</u>	<u>552,866</u>	<u>1,510,621</u>
<b>Creditors:</b> amounts falling due within one year	16	(195,899)	(651,523)	(2,040,613)
<b>Net current liabilities</b>		<u>(15,709)</u>	<u>(98,657)</u>	<u>(529,992)</u>
<b>Total assets less current liabilities</b>		32,237	(30,060)	241,237
<b>Creditors:</b> amounts falling due after more than one year	17	(104,934)	–	(100,000)
<b>Provisions for liabilities and charges</b>	18	–	–	(50,000)
		<u>(72,697)</u>	<u>(30,060)</u>	<u>91,237</u>
<b>Net (liabilities)/assets</b>				
<b>Capital and reserves</b>				
Called up share capital	19	1,250,000	1,250,000	2,097,597
Share premium account	20	–	–	698
Profit and loss account	21	(72,797)	(30,160)	(828,835)
Merger reserve	20	(1,249,900)	(1,249,900)	(1,154,045)
Other reserve	20	–	–	(24,178)
		<u>(72,697)</u>	<u>(30,060)</u>	<u>91,237</u>
<b>Shareholders' funds</b>		<u>(72,697)</u>	<u>(30,060)</u>	<u>91,237</u>

## CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended 31 December		
		1998 £	1999 £	2000 £
<b>Net cash flow from operating activities</b>	22	(4,363)	211,991	(840,095)
Returns on investments and servicing of finance	22	–	(3,433)	(27,211)
Capital expenditure and financial investment	22	(51,248)	(43,185)	(117,296)
Acquisitions	22	–	–	(24,416)
<b>Net cash flow before financing</b>		(55,291)	165,373	(1,090,018)
Financing	22	105,034	(15,500)	668,693
<b>Increase/(decrease) in cash in the year</b>		49,243	149,873	(340,325)
<b>Reconciliation of net cash flow to movement in net debt</b>				
Increase/(decrease) in cash in the year		49,243	149,873	(340,325)
Cash (outflow)/inflow from loans		(104,934)	15,500	(256,998)
<b>Movement in net debt in the year</b>		(55,691)	165,373	(597,323)
<b>Net (debt)/funds at the start of the year</b>		–	(55,691)	109,682
<b>Net (debt)/funds at the end of the year</b>		(55,691)	109,682	(487,641)

## RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 31 December		
	1998 £	1999 £	2000 £
<b>(Loss)/profit for financial year</b>	(72,797)	42,637	(798,675)
New share capital subscribed for cash	100	–	487,484
Share capital issued as consideration for acquisitions	–	–	505,255
Shares issued to AESOP	–	–	27,200
Share issue costs	–	–	(75,789)
Movement in other reserve	–	–	(24,178)
<b>Net (reduction in)/addition to shareholders' funds</b>	(72,697)	42,637	121,297
Opening shareholders' funds	–	(72,697)	(30,060)
<b>Closing shareholders' funds</b>	(72,697)	(30,060)	91,237

**NOTES (forming part of the financial information)**

**1. Accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information of Stream Group plc and its subsidiaries.

*Basis of preparation*

The company took over the group headed by Stream Live Services Limited in September 2000. This combination is accounted for as a merger and accordingly, current year earnings include the earnings for Stream Live Services Limited and its subsidiaries prior to the merger. Comparative figures are given for Stream Live Services Limited and its subsidiary companies.

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards including Financial Reporting Standard 6.

*Basis of consolidation*

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2000. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

*Fixed assets and depreciation*

The cost of fixed assets is their purchase cost. Depreciation is calculated on all tangible fixed assets at rates so as to write off the cost less estimated residual value of each asset over its expected useful economic life, as follows:

Computer equipment and software	33.3%	Reducing balance
Fixtures and fittings	15%	Reducing balance
Motor vehicles	25%	Reducing balance

*Leasing*

Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

*Goodwill*

Purchased goodwill arising on consolidation is capitalised. Positive goodwill is amortised to nil by equal annual installments over its estimated useful life, being between three and five years. In addition, positive goodwill is subject to annual review for impairment. Any impairment charge is included within operating profits.

*Deferred taxation*

Deferred taxation is provided at appropriate rates on timing differences using the full provision method, to the extent that, in the opinion of the directors, the timing differences are temporary and thus there is a reasonable probability that the resultant liability or asset will crystallise in the foreseeable future.

*Turnover*

Turnover represents the invoiced value of goods and services supplied net of VAT.

### *Pension costs*

The Group does not operate a pension scheme for its employees, however it does make contributions to personal pension plans.

### *Employee share schemes*

In accordance with UITF Abstract 17, "Employee Share Schemes", the difference between exercise price of share options granted under the Group's share option schemes and the fair market value of the underlying Ordinary Shares at the date of grant is charged to the profit and loss account on a straight line basis over the period in which the options vest.

In accordance with UITF Abstract 25, "National Insurance on share option gains", the Group provides for the expected liability over the period of performance.

## **2. Segmental information**

The turnover of the group, and of its subsidiaries, for the periods has been derived solely from its principal activity arising in the United Kingdom.

## **3. (Loss)/profit on ordinary activities before taxation**

	<i>Year ended 31 December</i>		
	<i>1998</i>	<i>1999</i>	<i>2000</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Depreciation on owned tangible fixed assets	3,482	22,534	50,991
Amortisation of goodwill	–	–	82,259
Goodwill impairment provision	–	–	243,311
Operating lease rentals – land and buildings	–	–	34,000
Operating lease rentals – other assets	8,996	41,099	8,431
Auditors' remuneration – audit fees	4,000	8,000	10,000
Auditors' remuneration – non audit fees	–	–	81,500
	<u>          </u>	<u>          </u>	<u>          </u>

## **4. Staff numbers and costs**

The average number of persons, including executive directors, during the period was:

	<i>Year ended 31 December</i>		
	<i>1998</i>	<i>1999</i>	<i>2000</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Administrative staff	<u>          3</u>	<u>          9</u>	<u>         19</u>

The aggregate payroll costs of these persons were as follows:

	<i>£</i>	<i>£</i>	<i>£</i>
Wages and salaries	60,956	212,292	450,088
Social security costs	1,278	14,723	43,819
Pension contributions	–	–	1,875
	<u>        62,234</u>	<u>      227,015</u>	<u>      495,782</u>

## 5. Directors' remuneration

	Year ended 31 December 2000			Total £
	Salary & fees £	Benefits £	Pension contributions £	
WG Robson	82,483	–	–	82,483
MA Spencer	39,518	–	–	39,518
AD Redfern	12,235	2,719	–	14,954
PAE Tuson	52,314	3,000	1,875	57,189
	<u>186,550</u>	<u>5,719</u>	<u>1,875</u>	<u>194,144</u>

WG Robson and MA Spencer were paid through service companies. The directors did not receive any remuneration for their services in 1998 and 1999.

## 6. Employee share schemes

The Group has four employee share schemes – the 2000 All Employee Share Option Plan (AESOP), the 2000 Enterprise Management Incentive Scheme (EMI), the 2000 Approved Executive Share Option Scheme (ASOS), and the 2000 Unapproved Scheme (USOS). To date, the Group has granted options under the AESOP and EMI.

The AESOP holds shares in trust on behalf of employees.

Subject to the satisfaction of any performance condition and the continuous employment of the beneficiary, access to shares (AESOP) and exercising of options (EMI) occur three years from the date of grant. Access to shares (AESOP) and exercising of options (EMI) may occur early in certain circumstances, including a change in control of the Company.

A summary of activity of shares issued through the AESOP is shown below. The AESOP did not exist in either 1998 or 1999.

	Year ended 31 December 2000	
	Shares placed in trust Number	Weighted average exercise price p
<b>Shares outstanding</b>		
At the beginning of the year	–	–
Granted during the year	<u>544,000</u>	<u>5.6</u>
At the end of the year	<u>544,000</u>	<u>5.6</u>

“Free shares” are allocated to each employee up to a value of £3,000 per annum per employee. Each employee may contribute from £10 to £100 per month from pre-tax earnings. Every six months this is used to acquire “partnership shares” at a price equating to lower of the opening and closing fair market value of the Company’s equity in that six month period. For each partnership share acquired, the Company allocates one “matching share”. Any dividends paid on free shares, partnership shares or matching shares will be used to purchase “dividend shares”.

The fair value of the shares at the date of issue is charged to the profit and loss account on a straight line basis over the vesting period of 3 years.

No employee had assumed rights to any shares at the year end.

A summary of the activity of options issued through the EMI is shown below:

	<i>Year ended 31 December 2000</i>	
	<i>Shares placed in trust Number</i>	<i>Weighted average exercise price p</i>
<b>Options outstanding</b>		
At the beginning of the year	–	–
Granted during the year	4,309,217	6.7
At the end of the year	<u>4,309,217</u>	<u>6.7</u>
Range of exercise prices		<u>5.6p to 29.0p</u>

No options were exercisable at the year end.

#### 7. Interest receivable

	<i>Year ended 31 December</i>		
	1998	1999	2000
	£	£	£
Bank interest	–	1,022	–
	<u>–</u>	<u>1,022</u>	<u>–</u>

#### 8. Interest payable

	<i>Year ended 31 December</i>		
	1998	1999	2000
	£	£	£
Shareholders' loans	1,500	2,955	3,750
Early settlement discounts	–	–	16,058
Bank interest and charges	–	–	11,153
	<u>1,500</u>	<u>2,955</u>	<u>30,961</u>

#### 9. Exceptional costs

	<i>Year ended 31 December</i>		
	1998	1999	2000
	£	£	£
Provision against flotation costs	–	–	150,789
Goodwill impairment provision (see note 13)	–	–	243,311
Restructuring	–	–	20,000
	<u>–</u>	<u>–</u>	<u>414,100</u>

Stream Group plc incurred costs to ensure the Company was in a position to list on the Alternative Investment Market; this listing was delayed in October as a result of market conditions. Full provision has been taken against these costs as future listing plans are not guaranteed.

Restructuring costs represent fees for professional services relating to the group reconstruction and the merger and have been written off in accordance with FRS 6.

## 10. Tax on (loss)/profit on ordinary activities

No corporation tax charge arose on Stream Group plc, and its subsidiaries, during the year (1999: £nil; 1998: £nil).

Exceptional items arising in 2000 increased unutilised tax losses by £18,400.

Stream Group plc, and its subsidiaries, had remaining unutilised tax losses of £605,575 at 31 December 2000 (1999: £19,403; 1998: £73,270) available to carry forward against future profits. No deferred tax asset has been recognised in the financial statements.

At 31 December 2000 there was a potential unprovided deferred tax liability of £17,999 (1999: £1,400; 1998: £2,600) in respect of advanced capital allowances which is offset by an unrecognised deferred tax asset in respect of trading losses carried forward.

## 11. (Loss)/earnings per share

	Year ended 31 December		
	1998	1999	2000
	£	£	£
(Loss)/profit attributable to shareholders	<u>(72,797)</u>	<u>42,637</u>	<u>(798,675)</u>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Weighted average number of shares in issue	25,000,000	25,000,000	34,852,775
Dilution effects of share options	–	–	4,309,217
Dilution effects of employee share schemes	–	–	544,000
Diluted weighted average number of shares in issue	<u>25,000,000</u>	<u>25,000,000</u>	<u>39,705,992</u>
Basic (loss)/earnings per share	(0.29p)	0.17p	(2.29p)
Diluted (loss)/earnings per share	<u>(0.29p)</u>	<u>0.17p</u>	<u>(2.01p)</u>

Basic earnings per share is calculated on the results attributable to ordinary shares divided by the weighted average number of shares in issue during the year excluding those held by Stream Trustees Limited which are treated as cancelled.

Diluted earnings per share calculations include additional shares to reflect the dilutive effect of employee share schemes and share option schemes.

## 12. Tangible fixed assets

	<i>Computer equipment</i> £	<i>Fixtures &amp; fittings</i> £	<i>Motor vehicles</i> £	<i>Total</i> £
<b>Cost</b>				
As at 1 January 1998	–	–	–	–
Additions for the year: 1998	37,244	14,184	–	51,428
As at 31 December 1998	37,244	14,184	–	51,428
Additions for the year: 1999	36,957	828	5,400	43,185
As at 31 December 1999	74,201	15,012	5,400	94,613
Additions for the year: 2000	97,546	4,750	–	102,296
Transferred on acquisition: 2000	163,466	15,648	–	179,114
As at 31 December 2000	<u>335,213</u>	<u>35,410</u>	<u>5,400</u>	<u>376,023</u>
<b>Depreciation</b>				
As at 1 January 1998	–	–	–	–
Charge for the year: 1998	2,791	691	–	3,482
As at 31 December 1998	2,791	691	–	3,482
Charge for the year: 1999	19,815	2,116	603	22,534
As at 31 December 1999	22,606	2,807	603	26,016
Charge for the year: 2000	35,992	2,763	1,123	39,878
Transferred on acquisition: 2000	38,783	1,480	–	40,263
As at 31 December 2000	<u>97,381</u>	<u>7,050</u>	<u>1,726</u>	<u>106,157</u>
<b>Net book value</b>				
As at 31 December 1998	<u>34,453</u>	<u>13,493</u>	–	<u>47,946</u>
As at 31 December 1999	<u>51,595</u>	<u>12,205</u>	<u>4,797</u>	<u>68,597</u>
As at 31 December 2000	<u>237,832</u>	<u>28,360</u>	<u>3,674</u>	<u>269,866</u>

### 13. Intangible assets

	<i>Goodwill</i> £
<b>Cost</b>	
As at 31 December 1998 and 1999	–
Additions: 2000	827,263
As at 31 December 2000	<u>827,263</u>
<b>Amortisation</b>	
As at 31 December 1998 and 1999	–
Charge for the year: 2000	82,589
Impairment provision	243,311
As at 31 December 2000	<u>325,900</u>
<b>Net book value</b>	
As at 31 December 1998 and 1999	–
As at 31 December 2000	<u>501,363</u>

The goodwill added in the year ended 31 December 2000 arose as follows:

	<i>Goodwill</i> £
Acquisition of The Junction	93,529
Acquisition of Stream Media Limited (including goodwill acquired)	674,042
Acquisition of 92.5% of Talk Telecom Limited	53,179
Acquisition of 7.5% of Talk Telecom Limited	6,513
	<u>827,263</u>

### 14. Group reconstruction and acquisitions

#### *Group reconstruction*

On 8 September 2000 the Company effected a group reconstruction by purchasing the entire share capital of Stream Live Services Limited by issuing 40,975,785 ordinary shares, being 25 5p ordinary shares for each Stream Live Services Limited 0.01p ordinary share. The group reconstruction was accounted for by using merger accounting as the ultimate shareholders remain the same, and the rights of each shareholder, relative to the others, are unchanged and no minority's interest in net assets of the group is altered by the transfer.

Stream Live Services Limited owns 100 per cent. of the issued share capital of Stream Media Limited, a company involved in developing internet based premium rate services, and 92.5 per cent. of the issued share capital of Talk Telecom Limited, a company engaged in the provision of telecoms services. Stream Group plc owns the remaining 7.5 per cent. of the issued share capital of Talk Telecom Limited.

#### *Group acquisitions*

During the year ended 31 December 2000 Stream Live Services Limited made three acquisitions; the trade and assets of The Junction, 100 per cent. of the share capital of Stream Media Limited and 92.5 per cent. of the share capital of Talk Telecom Limited. During the year ended 31 December 2000 Stream Group plc acquired the remaining 7.5 per cent. of the share capital of Talk Telecom Limited not already owned by Stream Live Services Limited.

### *The Junction*

Stream Live Services Limited acquired the business and assets of The Junction on 26 May 2000 for consideration of £43,418 satisfied by the issue of 31,013 shares at a fair value of £1.40 each, plus costs of acquisition of £50,111. The fair values attributed to the business at the date of acquisition were:

	<i>Book and fair value £</i>
Net assets	–
Goodwill	93,529
Consideration	<u>93,529</u>

The acquired business did not trade prior to acquisition.

Goodwill is being written off on a straight-line business over three years from the date of acquisition, to reflect the estimated useful economic life of the acquired business.

### *Stream Media Limited*

On 19 June 2000 Stream Live Services Limited acquired the entire issued share capital of Stream Media Limited. The consideration of £375,000 was satisfied by the issue of 267,857 shares at a fair value of £1.40 each. Acquisition costs of £4,950 were also incurred. The fair values attributed to the business at the date of acquisition were:

	<i>Book and fair value £</i>
Tangible fixed assets	134,964
Intangible fixed assets (goodwill)	107,453
Creditors	<u>(429,056)</u>
	(186,639)
Goodwill	<u>566,589</u>
Consideration	<u>379,950</u>

The acquired undertaking made a loss of £114,120 from the beginning of its financial year to the date of acquisition.

Goodwill is being written off on a straight-line business over five years from the date of acquisition, to reflect the estimated useful economic life of the acquired company.

### Talk Telecom Limited

On 7 July 2000 Stream Live Services Limited acquired 92.5 per cent. of the issued share capital of Talk Telecom Limited. The consideration of £80,324 was satisfied by the issue of 57,374 shares at a fair value of £1.40 each, plus costs of acquisition of £6,371. The fair values attributed to the business at the date of acquisition were:

	<i>Book and fair value £</i>
Debtors	98,000
Cash	37,016
Creditors	<u>(101,500)</u>
	33,516
Goodwill	<u>53,179</u>
Consideration	<u><u>86,695</u></u>

The acquired undertaking made a profit of £34,309 from the beginning of its financial year to the date of acquisition.

Goodwill is being written off on a straight-line basis over five years from the date of acquisition, to reflect the estimated useful economic life of the acquired company.

On 26 September 2000 Stream Group plc acquired 7.5 per cent. of the issued share capital of Talk Telecom Limited. The consideration of £6,513 was satisfied by the issue of 116,300 shares at a fair value of 5.6p each. The whole of the consideration has been attributed as goodwill, which is being written off on a straight-line basis over five years from the date of acquisition, to reflect the estimated useful economic life of the acquired company.

### 15. Debtors

	<i>As at 31 December</i>		
	1998	1999	2000
	£	£	£
Trade debtors	101,073	156,603	774,653
Other debtors	24,960	189,947	25,758
Prepayments and accrued income	4,914	7,200	668,350
	<u>130,947</u>	<u>353,750</u>	<u>1,468,761</u>

### 16. Creditors: amounts falling due within one year

	<i>As at 31 December</i>		
	1998	1999	2000
	£	£	£
Bank overdraft	–	–	183,069
Trade creditors	181,076	456,987	737,680
Taxation and social security	14,823	58,449	173,202
Accruals and deferred income	–	46,653	600,230
Shareholder loans	–	89,434	346,432
	<u>195,899</u>	<u>651,523</u>	<u>2,040,613</u>

No fixed repayment date exists for repayment of the shareholder loans.

## 17. Creditors: amounts falling due after more than one year

	As at 31 December		
	1998	1999	2000
	£	£	£
Shareholder loans	104,934	–	–
Deferred consideration	–	–	100,000
	<u>104,934</u>	<u>–</u>	<u>100,000</u>

## 18. Provisions for liabilities and charges

	As at 31 December		
	1998	1999	2000
	£	£	£
Dilapidations provision	–	–	50,000
	<u>–</u>	<u>–</u>	<u>50,000</u>

## 19. Share capital

	As at 31 December		
	1998	1999	2000
	£	£	£
<b>Authorised</b>			
200,000,000 ordinary shares of 5p each	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
<b>Allotted, called up and fully paid</b>			
41,951,913 (1999 and 1998: 25,000,000) ordinary shares of 5p each	<u>1,250,000</u>	<u>1,250,000</u>	<u>2,097,597</u>

On 23 March 2000 the Company was incorporated under the name of Shopaholic Limited with an authorised share capital of £100, represented by 100 ordinary shares of £1 each of which two were issued.

By Special Resolution of the Company passed on 30 March 2000 the authorised share capital was increased by £999,900 to £1,000,000 by the creation of an additional 999,900 ordinary shares of £1 each.

By Special Resolution of the Company passed on 31 August 2000 each of the existing ordinary shares of £1 each in the capital of the Company was divided into 20 ordinary shares of 5p each and the authorised capital of the Company was increased by £9,000,000 to £10,000,000 by the creation of an additional 180,000,000 ordinary shares of 5p each.

On 8 September 2000 the company effected a group reconstruction by purchasing the entire share capital of Stream Live Services Limited by issuing 40,975,785 ordinary shares, being 25 5p ordinary shares for each Stream Live Services Limited 0.01p ordinary share. The group reconstruction was accounted for by using merger accounting as the ultimate shareholders remain the same, and the rights of each shareholder, relative to the others, are unchanged and no minority's interest in net assets of the group is altered by the transfer. The comparative figures for the share capital reflect this reorganisation.

On 25 September 2000 the company issued 544,000 5p ordinary shares to Stream Trustees Limited at par.

On 26 September 2000 the company issued 116,300 5p ordinary shares for the purchase of the 7.5 per cent. minority stake of Talk Telecom Limited.

On 28 November 2000 the company issued 315,788 shares at 29p per share.

## 20. Share capital and reserves

	<i>Share capital</i> £	<i>Share Premium account</i> £	<i>Merger reserve</i> £	<i>Other reserve</i> £
As previously reported by Stream Live Services Limited 100 £1 shares (converted to 1,000,000 0.01p shares)	100	–	–	–
Effect of share exchange on merger	1,249,900	–	(1,249,900)	–
At 31 December 1998 and 1999	1,250,000	–	(1,249,900)	–
Issue of share by Stream Live Service Limited on 14 April 2000 (282,789 0.01p shares at £1.40 each)	28	395,876	–	–
Acquisition of The Junction by Stream Live Service Limited on 26 May 2000 (31,013 0.01p shares at £1.40 each)	3	43,415	–	–
Acquisition of Stream Media Limited by Stream Live Services Limited on 19 June 2000 (267,857 0.01p shares at £1.40 each)	27	374,973	–	–
Acquisition of 92.5% of Talk Telecom Limited by Stream Live Services Limited on 7 July 2000 (57,374 0.01p shares at £1.40 each)	6	80,317	–	–
Effect of share exchange on merger	798,726	–	(798,726)	–
Transfer of Stream Live Services Limited share premium account to merger reserve	–	(894,581)	894,581	–
	2,048,790	–	(1,154,045)	–
Issue of shares on incorporation of company on 23 March 2000 (2 shares at £1 each)	2	–	–	–
Allocation of 544,000 5p shares to Stream Trustees Limited on 25 September 2000	27,200	–	–	(27,200)
Acquisition of 7.5% of Talk Telecom Limited on 26 September 2000 (116,300 5p shares at 5.6p each)	5,816	698	–	–
Issue of shares on 28 November 2000 (315,788 5p shares at 29p each)	15,789	75,789	–	–
Costs associated with 28 November 2000 issue	–	(75,789)	–	–
Write off of free issue to profit and loss account over the vesting period of 3 years	–	–	–	3,022
	<u>2,097,597</u>	<u>698</u>	<u>(1,154,045)</u>	<u>(24,178)</u>

## 21. Profit and loss account

	£
At 1 January 1998	–
Loss for the year ended 31 December 1998	(72,797)
At 31 December 1998	(72,797)
Profit for the year ended 31 December 1998	42,637
At 31 December 1999	(30,160)
Loss for the year ended 31 December 2000	(798,675)
At 31 December 2000	(828,835)

## 22. Cash flows

	<i>Year ending 31 December</i>		
	1998	1999	2000
	£	£	£
<b>Net cash flow from operating activities</b>			
Operating (loss)/profit	(71,297)	44,570	(767,714)
Depreciation of tangible fixed assets	3,482	22,534	50,991
Amortisation of goodwill	–	–	82,589
Goodwill impairment provision	–	–	243,311
Write off of investment	–	–	3,022
Increase in debtors	(130,947)	(222,803)	(1,338,614)
Increase in creditors	194,399	367,690	715,623
Increase in exceptional cost liabilities	–	–	170,697
	<u>(4,363)</u>	<u>211,991</u>	<u>(840,095)</u>
<b>Returns on investments and servicing of finance</b>			
Interest received	–	1,022	–
Interest paid	–	(4,455)	(27,211)
	<u>–</u>	<u>(3,433)</u>	<u>(27,211)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	<u>(51,428)</u>	<u>(43,185)</u>	<u>(117,296)</u>
<b>Acquisitions</b>			
Purchase of subsidiary undertakings	–	–	(61,432)
Cash acquired with subsidiary undertakings	–	–	37,016
	<u>–</u>	<u>–</u>	<u>(24,416)</u>
<b>Financing</b>			
Issue of ordinary shares	100	–	487,484
Less costs associated with issue of shares	–	–	(75,789)
Increase/(decrease) in shareholder loans	104,934	(15,500)	256,998
	<u>105,034</u>	<u>(15,500)</u>	<u>668,693</u>

## 23. Analysis of net debt

	<i>Cash at bank and in hand</i> £	<i>Bank overdrafts</i> £	<i>Loans</i> £	<i>Net debt</i> £
At 1 January 1998	–	–	–	–
Cash flow	49,243	–	(104,934)	(55,691)
At 31 December 1998	49,243	–	(104,934)	(55,691)
Cash flow	149,873	–	15,500	165,373
At 31 December 1999	199,116	–	(89,434)	109,682
Cash flow	(157,256)	(183,069)	(256,998)	(597,323)
At 31 December 2000	41,860	(183,069)	(346,432)	(487,641)

## 24. Purchase of subsidiary undertakings

During the year Stream Live Services Limited acquired 100 per cent. of the share capital of Stream Media Limited and 92.5 per cent. of the share capital of Talk Telecom Limited. The remaining 7.5 per cent. of the share capital of Talk Telecom Limited was acquired by Stream Group plc during the year for a consideration of £6,513.

	<i>Stream Media Limited</i> £	<i>Talk Telecom Limited</i> £
Fixed assets	242,417	–
Debtors	–	98,000
Cash	–	37,016
Creditors: due within one year	(429,056)	(101,500)
	(186,639)	33,516
Goodwill	566,589	59,692
	379,950	93,208
<b>Satisfied by:</b>		
Shares allocated	375,000	86,837
Cash	4,950	6,371
	379,950	93,208

## 25. Financial commitments

The Group had annual commitments under non-cancelable operating leases on land and buildings expiring as follows:

	<i>As at 31 December</i>		
	<i>1998</i> £	<i>1999</i> £	<i>2000</i> £
Land and buildings – in two to five years	12,000	34,000	34,000

The Group had a capital commitment of £50,000 as at 31 December 2000 (1999: £nil; 1998: £nil), in respect of software being developed and installed to a bespoke specification.

## **26. Related party transactions**

During the year the following related party transactions occurred:

The Group acquired Stream Media Limited, a company under common control. Consideration of £375,000 was satisfied by the issue of 267,857 shares in the company. The directors consider the acquisition was made at fair market value.

The Group purchased goods with a value of £39,359 (1999: £30,103; 1998: £nil) from Solutions Through Technology Limited, a company under common control. The consideration was considered by the directors to be at fair market value. £nil was outstanding at the year end (1999: £nil; 1998: £nil). The Group was also charged management fees of £96,000 (1999: £96,000; 1998: £6,000) by Solutions Through Technology Limited, of which £16,000 (1999: £8,000; 1998: £nil) was outstanding at the year end.

The Group performed services to the value of £17,000 (1999: £nil; 1998: £nil) for Stream Administrative Services Limited, a company under common control. The consideration was considered by the directors to be at fair market value. The amount remained outstanding at the year end.

The Group was charged £11,548 (1999: £nil; 1998: £nil) in the year by LTA Limited, a company under common control, for the provision of administrative services. A total of £2,000 (1999: £nil) was outstanding at the year end.

The Group was loaned £250,000 by a shareholder, Reef Investments Limited. The whole balance was outstanding at the year end.

Yours faithfully,

KPMG Audit Plc

## PART 4

### ADDITIONAL INFORMATION

#### 1. The Company and its subsidiaries

- (a) The Company was incorporated in England on 23 March 2000 under the name of Shopaholic Limited with registered number 3954744 as a private company with limited liability under the Act. The name of the Company was changed to Stream Telecommunications Limited on 25 April 2000. The Company was re-registered as a public company on 25 September 2000. The name of the Company was changed to Stream Group plc on 30 March 2001.
- (b) The Company's registered office and principal place of business is at 37 Kingfisher Court, Hambridge Road, Newbury RG14 5SJ.
- (c) The principal activity of the Company is as a holding company of a group whose principal activities are providing premium rate telecommunication services. Save as disclosed in Part 1 of this document, there are no exceptional factors which have influenced the Group's activities.
- (d) The Company has the following subsidiary companies, all of which are incorporated in England and Wales and are wholly owned (whether by the Company or by another subsidiary of the Company):

<i>Name</i>	<i>Date of Incorporation</i>	<i>Principal Activities</i>	<i>Issued Share Capital (fully paid)</i>
Stream Media Limited	09/05/97	Provision of digital media and telecoms incorporating Internet, consulting and advisory services	100 ordinary shares of £1 each
Stream Live Services Limited	31/12/97	Provision of digital media and telecoms incorporating Internet, consulting and advisory services	1,639,033 ordinary shares of 0.01p each
Generate Limited	19/02/99	Provision of digital media and telecoms incorporating Internet, consulting and advisory services	2 ordinary shares of £1 each
Talk Telecom Limited	03/06/99	Provision of telephone network services	1,000 ordinary shares of £1 each
Stream Trustees Limited	16/05/00	Trustee to AESOP	2 ordinary shares of £1 each
Flame Dating Limited	02/03/01	Dormant	1,000 ordinary shares of £1 each
Stream Telecommunications Limited	02/03/01	Dormant	2 ordinary shares of £1 each

#### 2. Share capital

- (a) The Company was incorporated with an authorised share capital of £100 represented by 100 ordinary shares of £1 each of which 2 were issued to the subscribers. On 30 March 2000 the 2 subscriber shares were transferred to Justin Byam-Shaw. The following alterations in the issued share capital of the Company have taken place since incorporation:
- (i) By a Special Resolution of the Company passed on 30 March 2000 the authorised share capital was increased by £999,900 to £1,000,000 by the creation of an additional 999,900 ordinary shares of £1 each.
- (ii) By Special Resolution of the Company passed on 31 August 2000:
- (aa) each of the existing ordinary shares of £1 each in the capital of the Company was divided into 20 ordinary shares of 5p each; and
- (bb) the authorised capital of the Company was increased by £9,000,000 to £10,000,000 by the creation of an additional 180,000,000 ordinary shares of 5p each.
- (iii) On 8 September 2000 the Company issued 40,975,785 Ordinary Shares, credited as fully paid, to certain parties as consideration for the acquisition of the entire issued share capital of The Psychic Circle Limited, which subsequently changed its name to Stream Live Services Limited.
- (iv) On 25 September 2000 the Company issued 544,000 Ordinary Shares, at a subscription price of 5.6 pence per share, to Stream Trustees Limited.

- (v) On 26 September 2000 the Company issued 116,300 Ordinary Shares to Antony Redfern in consideration of the transfer by Antony Redfern to the Company of 75 ordinary shares in Talk Telecom Limited.
- (vi) On 28 November 2000 the Company issued 315,788 Ordinary Shares at 29p per share for cash to certain parties.
- (vii) On 28 February 2001 the Company issued 410,000 Ordinary Shares, at a subscription price of 5.6 pence per share to Stream Trustees Limited.

- (b) The authorised and issued share capital of the Company (i) as at the date of this document and (ii) following completion of the Placing (assuming maximum take-up under the Placing) is set out below:

	Authorised			Issued and fully paid	
	£	Number		£	Number
(i)	10,000,000	200,000,000	Ordinary Shares	2,118,096	42,361,913
(ii)	10,000,000	200,000,000	Ordinary Shares	2,834,496	56,689,913

- (c) As at the date of this document, the following share options issued under the Enterprise Management Incentive Scheme are outstanding:

Option Holder	No. of shares	Exercise Price	Earliest Exercise Date	Latest Exercise Date
Gordon Robson	821,844	5.6 pence	15 September 2003	15 September 2010
Michael Spencer	1,232,764	5.6 pence	15 September 2003	15 September 2010
Paul Tuson	616,382	5.6 pence	15 September 2003	15 September 2010
Alistair Milne	410,922	5.6 pence	15 September 2003	15 September 2010
Antony Redfern	821,844	5.6 pence	15 September 2003	15 September 2010
Jessica West	205,461	5.6 pence	15 September 2003	15 September 2010
Wayne Stobbs	200,000	29.0 pence	24 December 2003	24 December 2010
Mick Gossage	200,000	29.0 pence	19 March 2004	19 March 2011

- (d) The Directors have authority to allot Ordinary Shares during the period ending on 31 August 2005 as follows:
- (i) general authority pursuant to Section 80 of the Act to allot all authorised but unissued ordinary shares in the capital of the Company on such terms as the Directors of the Company may think proper; and
  - (ii) Section 89(1) of the Act should not apply to the allotment of Ordinary Shares pursuant to the authority granted in (i) above.

Under the terms of the Placing Agreement the Directors have agreed that, following Admission and prior to the date of the next Annual General Meeting of the Company, they will only exercise the power in (i) above to the extent of such number of Ordinary Shares as equals one third of the issued share capital of the Company on Admission and they will only exercise the power in (ii) above to the extent of such number of Ordinary Shares as equals five per cent. of the issued share capital of the Company on Admission or to the extent necessary to deal with legal or regulatory issues arising on any pre-emptive issues to existing Shareholders. At the next Annual General Meeting of the Company the Directors intend to propose resolutions granting powers in substitution to those set out in (i) and (ii) above to comply with the recommendations of the Association of British Insurers in relation to such powers.

- (e) Save as disclosed in paragraphs (b) and (c) above, no capital of the Company is proposed to be issued or is under option or is agreed to be put under option.

### 3. 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 carry on the business of telecoms, technology, media and related services.

The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:

(a) *Voting rights*

Subject to paragraph (f) below, and to any special terms as to voting upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

(b) *Variation of rights*

Whenever the share capital of the Company is divided into different classes of shares the special rights attached to any class of shares in the Company may be varied or abrogated either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class and may be so varied and abrogated whilst the Company is a group concern or during or in contemplation of a winding up. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

(c) *Alteration of capital*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person.

The Company may, subject to the Act, by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Act, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company.

(d) *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form acceptable to the Directors and (2) in the case of uncertificated shares, in the manner provided for in the rules and procedures of the operator of the relevant system and in accordance and subject to the Uncertificated Securities Regulations 1995 (51 1995 No. 95/1995). The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or behalf of the transferee. Subject to paragraph (f) below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

(e) *Dividends*

(i) Subject to the Act or any other statutes in force, the Company may by ordinary resolution declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.

(ii) Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph (l) below, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

(iii) All dividends unclaimed for a period of 12 years after having been declared shall if the Directors so resolve be forfeited and shall revert to the Company.

(iv) There is no fixed date on which an entitlement to dividend arises.

(f) *Suspension of rights*

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 212 of the Companies Act 1985 and is in default in supplying to the Company within 28 days (or such other period as may be specified in such notice) the information thereby required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

(g) *Return of capital*

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of ordinary shares are entitled to share in any surplus assets pro rata to the amount paid up on their ordinary shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and

any other sanction required by the Companies Acts, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

(h) *Pre-emption rights*

There are no rights of pre-emption under the articles of association of the Company in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's shareholders may 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 by 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 would be set out in the documentation by which such shares would be offered to the Company's shareholders.

(i) *Borrowing powers*

Subject to the Act and any other Statute, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital and, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by them or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from such companies) shall not at any time without the previous sanction of an ordinary resolution of the Company in general meeting exceed £20,000,000 if the Company has not yet had published audited accounts, or if the Company has published audited accounts to a sum equal to the greater of £20,000,000 or a sum equivalent to twice the aggregate of the nominal capital of the company for the time being issued and paid up and the amounts standing to the credit of the share premium account, capital redemption reserve and profit and loss account of the Company and each of its subsidiary companies.

#### **4. Employee Share Schemes**

The Company has formally adopted two employee share schemes: an Inland Revenue all employee share ownership plan ("the AESOP") and an Inland Revenue approved executive share option scheme ("the Executive Share Option Scheme") with a non Inland Revenue approved schedule. The Company has and may in the future grant options under the Enterprise Management Incentive Scheme ("EMI") but it is not necessary to adopt a formal scheme for such options to be granted.

##### **4.1 AESOP**

The main features of the AESOP which was adopted by the company on 31 August 2000 and which was approved by the Inland Revenue on 25 September 2000 are as follows:

- (a) Under the AESOP the Company can give "free shares" and "matching shares" to employees or allow employees to acquire "partnership shares" in the Company in a tax efficient manner. The Directors will determine in any year whether the AESOP will be operated and, if so, on what basis or bases.
- (b) The Company must offer all employees whose remuneration is within Case 1 of Schedule E the opportunity to participate in the AESOP whether they work full or part-time. The Company can require employees to have completed a minimum Qualifying Period of employment before they can participate, but that period must not exceed 18 months in the case of free shares and 18 months in the case of partnership shares and matching shares where there is no accumulation period (or 6 months from the beginning of the accumulation period where one is used).
- (c) Shares will be acquired by the trustee of the AESOP ("the Trustee") from funds contributed to it by the Company or a Participating Company.

##### *Free Shares*

- (d) The Company can give up to £3,000 worth of free shares per annum to each eligible employee.
- (e) The value of free shares allocated to employees may be conditional on performance targets, which will be determined by the Directors, being met.
- (f) Each participant will contract with the Company, or a member of the Group which is party to the Trust ("a Participating Company"), to allow the free shares to be held by the Trustee for 5 years or such shorter period being no less than 3 years, as the Directors determine. If free shares are withdrawn from the Trust before the 5th anniversary of allocation, income tax and national insurance contributions must be paid on the lesser of the market value at the date of withdrawal and the initial value of the

shares on allocation. Free shares may be retained by the Trustee in accordance with the participant's wishes so long as he/she remains employed by a Participating Company.

#### *Partnership Shares*

- (g) If given the opportunity, eligible employees can buy "partnership shares" by deductions from their salary up to a maximum of £1,500 per annum per eligible employee (or, if lower, 10 per cent. of their salary).
- (h) The participant may ask the Trustee to transfer his/her partnership shares to him/her at any time and unlike free shares, there is no minimum holding period requirement. Partnership shares may however be retained by the Trustee in accordance with the participant's wishes so long as he/she remains employed by the Group.
- (i) If the partnership shares are withdrawn from the AESOP within 3 years of purchase (or, in the case of matching shares, allocation) income tax will be payable on the market value of the shares at the time of withdrawal. This amount is also subject to national insurance contributions. If the partnership shares are withdrawn from the AESOP between 3 and 5 years of purchase (or, in the case of matching shares, allocation) income tax is payable on the lesser of the market value at the date of withdrawal and the initial value of the shares (i.e. with partnership shares the amount used to purchase the shares). This amount is also subject to national insurance contributions. If the shares are withdrawn from the AESOP more than 5 years after purchase (or allocation) there is no liability to income tax or national insurance contributions.

#### *Matching Shares*

- (j) If the Directors decide to offer partnership shares they may also offer matching shares to those participants who elected to buy partnership shares. Allocations of matching shares will be made to all participants on exactly the same basis. The company can give participants up to 2 free matching shares for each partnership share acquired by the participant.
- (k) The terms on which matching shares will be allocated are the same as the terms for free shares, save that if the participant withdraws the partnership shares to which the allocation of matching shares apply, the rules may provide that he/she will forfeit the relevant matching shares. The tax treatment of matching shares is the same as the tax treatment of partnership shares.

#### *Dividend Shares*

- (l) Participants will be entitled to dividends paid on their free shares, partnership shares and matching shares while they are held in trust ("Plan Shares"). The directors may direct that:
  - (i) All cash dividends paid in respect of Plan Shares held on behalf of the participants are used to acquire further shares; or
  - (ii) All cash dividends paid in respect of Plan Shares held on behalf of participants are, at the election of participants, used to acquire further shares on their behalf ("dividend shares").
- (m) If dividends are not required to be reinvested in dividend shares they must be paid over to participants. The maximum value of dividend shares that can be reinvested for participants in any tax year is £1,500.
- (n) Dividend shares will be held in the trust for at least 3 years. A participant who leaves the employment of the Group during the 3 year holding period will have his/her dividend shares transferred when employment terminates, subject to payment of income tax and national insurance contributions. This is based on the value of the cash dividend applied to acquire the dividend share on the participant's behalf. There is no liability to income tax or national insurance contributions where dividend shares are withdrawn from the AESOP 3 years after allocation.

#### *Termination of Employment*

- (o) Shares have to be transferred to employees and employees have to take their shares out of the AESOP when they leave the employment of the Group.
- (p) The AESOP can provide for free and matching shares to be forfeited if participants leave within 3 years of the award unless they leave for certain specified reasons such as redundancy or retirement.

#### *Limit on Number of Shares Available for Allocation*

- (q) The number of newly issued Ordinary Shares which may be utilised under all employee share schemes established by the Company shall not exceed 10 per cent. of the Company's issued Ordinary Share capital from time to time.

### *General*

- (r) Benefits under the AESOP are not pensionable.
- (s) In the event of any reconstruction or takeover of the Company participants may instruct the Trustee to receive any form of consideration in respect of Ordinary Shares held under the AESOP. Any shares which are received as consideration will be held in trust on the same terms as the existing free shares, partnership shares, matching shares or dividend shares to which they relate.
- (t) No alteration may be made to the basic principles (including the basis of and limits on participation) of the AESOP to the advantage of participants without prior approval of the shareholders and the Inland Revenue.

#### **4.2 Executive Share Option Scheme**

- (a) The Executive Share Option Scheme was adopted by the Company on 8 September 2000 and was approved by the Inland Revenue on 11 January 2001. The principal provisions of the Executive Share Option Scheme are as follows:
- (b) The Executive Share Option Scheme will be administered by a committee of the Board or, where the options have been granted by the trustees of an employee trust, the trustees ("the Administrator"). The Administrator has the power to amend the Executive Share Option Scheme subject to the approval of the Inland Revenue, but (a) no amendment may be made which would materially affect the existing rights of an option holder unless it has been approved by a majority of option holders and (b) no amendment may be made which is to the advantage of existing or future option holders (other than minor amendments for general administrative, fiscal or regulatory benefit) except with the consent of the Company in general meeting.
- (c) Options to acquire Ordinary Shares of the Company may be granted (at the discretion of the Administrator) to selected employees of the Group (who devote substantially the whole of their working time to the business of the Group) or to selected directors (other than non-executive directors) who are required to devote 25 hours or more a week to their employment with the Group. Options may not be granted to anyone who is within 2 years of his/her retirement date or has (or has had within the preceding 12 months) a material interest in the Company or in any company which had control of the Company.
- (d) Options may normally only be granted within 42 days after the Executive Share Option Scheme is formally approved by the Inland Revenue or within 42 days after the announcement of the Group's preliminary or interim results. However, options may be granted outside this period if the Administrator considers that the circumstances are sufficiently exceptional.
- (e) Options must be granted at an acquisition price per Ordinary Share which is at least the greater of:
  - (i) The market value of an Ordinary Share on the date of grant as determined in accordance with part VIII of the Taxation of Chargeable Gains Act 1992 and agreed with the Board of Inland Revenue or the Inland Revenue Shares Valuation Division and;
  - (ii) The nominal value of an Ordinary Share.
- (f) No consideration is payable for the grant of an option. Options are not transferable or assignable.
- (g) The number of newly issued Ordinary Shares which may be utilised under all employee share schemes operated by the Company (including savings related share option schemes, all employee share ownership plans and profit sharing schemes) shall not exceed 10 per cent. of the issued Ordinary Share capital of the Company within any 10 year period or 3 per cent. in any three year period.
- (h) The number of newly issued Ordinary Shares which may be utilised under the Executive Share Option Scheme and under any other discretionary/executive share schemes operated by the Company shall not normally exceed 5 per cent. of the issued Ordinary Share capital of the Company within any 10 year period or 2.5 per cent. within the 4 year period following the date on which the Executive Share Option Scheme is adopted by the Company.
- (i) The number of Ordinary Shares over which options may be granted to any eligible employee must be limited so that the aggregate acquisition price payable on the exercise of all outstanding options granted to him/her under the Executive Share Option Scheme and any other share scheme approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988 and operated by the Company or an Associated Company (other than a savings related share option scheme) shall not exceed £30,000.
- (j) Surrendered or lapsed options are not included in calculating the overall Executive Share Option Scheme limits in paragraphs (g) and (h) above. Options which have been exercised, lapsed or otherwise become incapable of being exercised do not apply in calculating the limit on each eligible employee's participation under paragraph (i), above.

- (k) The exercise of an option may be made subject to the achievement of specific performance conditions to be determined by the Administrator.
- (l) An option is exercisable (in whole or in part) normally between the 3rd and 10th anniversaries of the date of grant or after the date on which the Option Certificate provides that the option will become exercisable (which is not to be earlier than 3 years after the date of grant). An option may not be exercised during a proscribed period (except where permitted under the Model Code).
- (m) An option will generally lapse if the option holder ceases to be employed by the Group save that the option may be exercised in certain circumstances (for example on death, disability, redundancy, retirement, where the company ceases to be a member of the Group or, where the Administrator agrees).
- (n) In the event of a general offer to acquire the whole of the issued share capital of the Company as a result of which the offeror obtains control of the Company, an option holder may, with the consent of the acquiring company, release each subsisting and unexercised option for a new right which is equivalent to his option but relates to shares in a different company (generally, the offeror).
- (o) The number and/or class of shares and the acquisition price of shares subject to an option may be varied in such manner as the Administrator determines in the event of a Reorganisation of capital, subject to Inland Revenue approval and an opinion of the auditors of the Company that the variations are fair and reasonable.
- (p) The Administrator may terminate the Executive Share Option Scheme or from time to time suspend the grant of Options although in all other respects the Executive Share Option Scheme will remain in force.
- (q) No options may be granted under the Executive Share Option Scheme after the 10th anniversary of its adoption.

#### 4.3 **Non Inland Revenue Approved Schedule**

The Schedule to the Executive Share Option Scheme sets out the rules of the Company's non Inland Revenue-approved executive share option scheme ("the Unapproved Scheme"). The rules are similar to the rules of the Executive Share Option Scheme save that:

- (a) References to Schedule 9 Income and Corporation Taxes Act 1988 and references to the approval by the Inland Revenue have been deleted.
- (b) Eligibility is not dependent on employees and directors working for a minimum number of hours per week, the requirement is that the employee devotes substantially the whole of his working time to the business of the Group.
- (c) The market value of a share shall be determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 by the Administrator acting on the advice of the Auditor.
- (d) There is no equivalent provision to that specified in paragraph (i) above,
- (e) Where, in relation to an option granted under the Unapproved Scheme, the Trustees, the Company or any member of the Group is liable to account for any sum in respect of tax or social security liability of the option holder, the option may not be exercised unless the option holder has beforehand paid to the Trustees, the Company or the member of the Group an amount sufficient to discharge the liability or has entered into some other arrangement by agreement with the Trustees, the Company or the member of the Group to ensure that such amount is available to them or it.

#### 4.4 **EMI**

- (a) Options to acquire Ordinary Shares of the Company granted under the Enterprise Management Incentive scheme may be granted to up to 15 employees of the Company or the Group who work at least 25 hours a week or at least 75 per cent. of their working time if they are not full time employees;
- (b) Options must not normally be granted at an acquisition price per Ordinary Share which is less than the market value of an Ordinary Share on the date of grant as determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 and agreed with the Board of Inland Revenue or the Inland Revenue Shares Valuation Division.
- (c) No consideration is payable for the grant of an option. Options are not transferable or assignable.
- (d) The number of newly issued Ordinary Shares which may be utilised under all employee share schemes operated by the Company (including savings related share option schemes, all employee share ownership plans and profit sharing schemes) shall not exceed 10 per cent. of the issued Ordinary Share Capital of the Company within any 10 year period or 3 per cent. in any three year period.

- (e) The number of newly issued Ordinary Shares which may be utilised under the Enterprise Management Incentive scheme and under any other discretionary/executive share schemes operated by the company shall not normally exceed 5 per cent. of the issued Ordinary Share Capital of the Company within any ten year period or 2.5 per cent. within the four year period following the date on which options are first granted under the Enterprise Management Incentive scheme.
- (f) The number of Ordinary Shares over which options may be granted to an employee must be limited so that the aggregate acquisition price payable on the exercise of options granted to him/her under the Enterprise Management Incentive scheme and any other scheme approved by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988 and operated by the Company or an Associated Company (other than a savings related share option scheme) shall not exceed £100,000.
- (g) Where an employee has been granted options up to the limit set out in (f) above he/she may not be granted any further options under the Enterprise Management Incentive scheme within the three year period following of the date of grant.
- (h) An option is exercisable normally between the 3rd and 10th anniversaries of the date of grant.
- (i) Surrendered or lapsed options are not included in calculating the overall Enterprise Management Incentive scheme limits in paragraphs (d) and (e) above. Options which have been exercised, lapsed or otherwise become incapable of being exercised do not apply in calculating the limit on each eligible employee's participation under paragraph (f) above but do apply in calculating the limit in (g) above.
- (j) The exercise of an option may be made subject to the achievement of specific performance conditions.
- (k) An option will generally lapse if the option holder ceases to be employed by the Group save that the option may be exercised in certain circumstances (for example on death, disability, redundancy, retirement, where the company ceases to be a member of the Group).
- (l) In the event of a general offer to acquire the whole of the issued share capital of the Company as a result of which the offeror obtains control of the Company, an option holder may, with the consent of the acquiring company, release each subsisting and unexercised option for a new right which is equivalent to his option but relates to shares in a different company (generally, the offeror).
- (m) The number and/or class of shares and the acquisition price of shares subject to an option may be varied in the event of a reorganisation of capital, subject to Inland Revenue approval and an opinion of the auditors of the Company that the variations are fair and reasonable.
- (n) The government intends to introduce changes to the Enterprise Management Incentive scheme legislation to the effect that the limit on the number of employees who can be granted options under the Enterprise Management Incentive scheme (currently 15) will be replaced with an overall limit on the value of options that a company can grant of £3 million (based on the market value of the shares placed under option at the date of grant). It will also no longer be necessary to obtain Inland Revenue approval where there is a reorganisation of capital under paragraph (m) above. These changes will take effect from the date of Royal Assent to the Finance Bill 2001.

## 5. Directors' and other interests

- (a) The interests of the Directors (including the interests of their spouses and infant children and the interests of any persons connected with them within the meaning of Section 346 of the Act), all of which are beneficial, in the issued share capital of the Company which have been notified to the Company pursuant to Sections 324 to 328 of the Act, as at the date of publication of this document and as they are expected to be immediately following completion of the Placing are as follows:

	Ordinary Shares as at the date of this document		Ordinary Shares following the Placing	
		%		%
Gordon Robson*	18,656,013	44.04	18,656,013	32.91
Paul Tuson**	243,889	0.58	243,889	0.43
Michael Spencer	1,662,564	3.92	1,662,564	2.93
Antony Redfern	1,833,364	4.33	1,833,364	3.23
Hugo Drayton	819,517	1.93	819,517	1.45

\*the interest in the ordinary Shares of Gordon Robson is held by Reef Investments Limited a company incorporated and resident in the British Virgin Islands. The issued share capital of Reef Investments Limited is held by Landmark Trust, a Jersey based trust, the beneficiaries of which include Gordon Robson and his children.

\*\*10,000 of these shares are owned by Paul Tuson's wife Catherine Tuson.

- (b) Save as disclosed above, none of the Directors has any interests in the share capital or loan capital of the Company or any of its subsidiaries nor does any person connected with the Directors (within the meaning of Section 346 of the Act) have any such interests, whether beneficial or non-beneficial.

- (c) In addition to their directorships in the Group, the Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:
- (i) Hugo Drayton:  
*Current:*  
 Hollinger Telegraph New Media Limited, Hollinger Telegraph New Media Holdings Limited, handbag.com Limited, The best of british.com Limited, Young Telegraph Limited, Gemorigin Limited, Electronic Telegraph Limited, Telegraph (British) Limited, Whittard of Chelsea PLC, Newsplayer Group plc, HTNM Ventures Limited
- Past:*  
 West Ferry Printers Limited, [UK Netyear Limited (dissolved)]
- (ii) Gordon Robson  
*Current:*  
 Solutions Through Technology Limited, InterPlay Multimedia Pty
- Past:*  
 Big Deal Entertainment Limited, Pipertel Communications Limited, Global Info Limited, Big Books Limited, Bluecord Limited (dissolved), CMS (Central) Limited (dissolved), Big Box Limited (dissolved), Barn Investments Limited (dissolved), The Nanny Network Limited (dissolved)
- (iii) Paul Tuson:  
*Current:*  
 Big Five Consulting Limited
- Past:*  
 Attachmate Sales UK Limited, Attachmate UK Limited (dissolved)
- (iii) Michael Spencer:  
*Current:*  
 None
- Past:*  
 None
- (iv) Antony Redfern:  
*Current:*  
 LTA Limited, Ingenious Developments Limited, TV Text Limited, Coulomb Limited, Freecheck Internet Limited, Raynhams Management Company Limited, Quick Media Limited
- Past:*  
 Salt Limited (dissolved), Telecom One Limited
- (e) Gordon Robson resigned as a director of Global Info Limited on 19 September 2000. Global Info Limited was placed into creditors voluntary liquidation on 22 November 1994. The deficit to creditors is £50,000. Global Info Limited was a joint venture between Legion Limited and ICE Communications Limited. Gordon Robson was appointed to the board to represent the interests of Legion Limited.
- (f) Save as disclosed above, no Director:
- (i) has any unspent convictions in relation to indictable offences; or
- (ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such Director; or
- (iii) has been a director of any company which, while he was a director or within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
- (iv) has been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
- (v) has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
- (vi) has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

- (g) Save as disclosed in paragraph 5(a) above, and as set out below, the Directors are not aware of any person, directly or indirectly, jointly or severally, who exercises or could exercise control over the Company or who is interested in 3 per cent. or more of the issued share capital of the Company as at the date of the publication of this document and immediately following completion of the Placing:

	<i>Ordinary Shares as at the date of this document</i>	%	<i>Ordinary Shares following the Placing</i>	%
Reef Investments Limited*	18,656,013	44.04	18,656,013	32.91
Jane Scott	6,172,587	14.57	6,172,587	10.89
Hambros (Guernsey Nominees) Limited	2,678,775	6.32	2,678,775	4.73
Pershing Keen Nominees Limited	2,637,971	6.23	2,637,971	4.65

*\*Reef Investments Limited is a company incorporated and resident in the British Virgin Islands. The issued share capital of Reef Investments Limited is held by Landmark Trust, a Jersey based trust, the beneficiaries of which include Gordon Robson and his children.*

- (h) No loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director are outstanding.
- (i) Save as set out in this Part 4, no Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries and remains in any respect outstanding or unperformed.

## **6. Directors' service agreements**

- (a) Gordon Robson has entered into a service agreement with the Company dated 12 April 2001 subject to termination upon 12 months notice by either party. The agreement provides for an annual salary of £96,000.
- (b) Paul Tuson has entered into a service agreement with the Company dated 12 April 2001 subject to termination upon 12 months notice by either party. The agreement provides for an annual salary of £75,000.
- (c) Michael Spencer has entered into a service agreement with the Company dated 12 April 2001 subject to termination upon 12 months notice by either party. The agreement provides for an annual salary of £90,000.
- (d) Antony Redfern has entered into a service agreement with the Company dated 12 April 2001 subject to termination upon 12 months notice by either party. The agreement provides for an annual salary of £54,000.
- (e) The services of Hugo Drayton as non-executive Director are provided under the terms of an agreement between the Company and Hugo Drayton dated 12 April 2001 for an initial period of one year continuing thereafter subject to termination upon at least 3 months notice, at an initial fee of £15,000 per annum.
- (f) Under the terms of the agreements in (a) to (d) above each of the executive Directors (other than Antony Redfern) is required to devote the whole of his time and attention during normal business hours to the businesses of the Group. Antony Redfern is required to devote 25 working hours a week to the businesses of the Group. Under the terms of these agreements the Company has agreed to provide each of the Directors with a car or cash in lieu of a car, private medical insurance, life insurance and to contribute ten per cent. of base salary to personal pension schemes nominated by each of the Directors. Each of the agreements contains provisions whereby the Director agrees that following termination of his agreement he will not, for a period of 6 months, compete with the businesses of the Group or solicit employees.
- (g) Save as set out in paragraphs (a) to (e) above, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.
- (h) The aggregate remuneration payable and benefits in kind granted to the Directors was £194,000 for the financial year ended 31 December 2000 and is estimated to be £391,000 for the current financial year ending 31 December 2001 under the arrangements in force at the date of this document.

## **7. Material contracts**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group since incorporation and are or may be material:

- (a) an agreement dated 1 June 2000 and made between Interplay Multimedia Pty (“Interplay”) and Stream Media under the terms of which Stream Media acquired from Interplay the business and assets of Lotteryinsider for a consideration expressed to be 10 per cent. of 50 per cent. of the resale value of the business and assets subject to a maximum of £100,000. This consideration is still outstanding and may be satisfied in cash or equity but in any event is ultimately for the benefit of a minority shareholder in Interplay not connected with Gordon Robson. The share capital of Interplay is ultimately controlled by the Landmark Trust, a Jersey resident trust the beneficiaries of which include Gordon Robson and his children. No commercial warranties or indemnities were given by Interplay concerning the business and assets sold;
- (b) an agreement dated 19 June 2000 and made between Reef Investments Limited (“Reef”) and Stream Live Services under the terms of which Reef sold and Stream Live Services purchased the entire issued share capital of Stream Media for a consideration of £375,000 satisfied by the issue to Reef of 267,857 ordinary shares of 0.01p each in Stream Live Services. Reef is a company incorporated and resident in the British Virgin Islands. The issued share capital of Reef is held by Landmark Trust, a Jersey based trust, the beneficiaries of which include Gordon Robson and his children. No commercial warranties or indemnities were given by Reef concerning the business or affairs of Stream Media;
- (c) an agreement dated 7 July 2000 and made between Antony Redfern and Westover Holdings Limited (“Westover”), Stream Live Services and Stream under the terms of which Antony Redfern and Westover sold and Stream Live Services purchased 92.5 per cent. of the issued share capital of Talk Telecom for a consideration of £800,324 satisfied by the issue to Antony Redfern and Westover of a total of 57,374 ordinary shares of 0.01p each in Stream Live Services. Subsequently, on 26 September 2000, Stream acquired the balance of the share capital of Talk Telecom from Antony Redfern for a consideration of £6,513 satisfied by the issue of a further 116,300 Ordinary Shares. This agreement contains commercial warranties and indemnities concerning the business and affairs of Talk Telecom subject to certain limitations;
- (d) an agreement dated 26 May 2000 and made between Stratus Net Limited (“Stratus”), Stream Live Services, Stream and Alistair Milne under the terms of which Stratus sold and Stream Live Services purchased certain of the assets and business carried on by Stratus under the name “The Junction” for a consideration of £43,418 satisfied by the issue to Stratus of 31,013 ordinary shares of 0.01p each in Stream Live Services. This agreement contains commercial warranties and indemnities concerning the business and assets sold subject to certain limitations;
- (e) an agreement dated 27 September 2000 and made between the Company and Jodie Dixon under the terms of which the Company has agreed to pay Jodie Dixon, in each of the three financial years of Generate Limited (“Generate”) ending 30 September 2001, 2002 and 2003 (together the “Total Period”) a sum equal to one third of twice the total turnover of Generate in each of those years and in respect of the Total Period a sum equal to one third of twice the average turnover of Generate during the Total Period. The amounts, if any, payable to Jodie Dixon to be satisfied by the issue, credited as fully paid, of Ordinary Shares to be issued at the prevailing market price at the date of issue;
- (f) an agreement dated 12 April 2001 (the “Placing Agreement”) and made between the Company, Teather & Greenwood and the Directors, pursuant to which Teather & Greenwood has agreed conditionally upon, *inter alia*, Admission taking place no later than 30 April 2001 or such later date as the Company and Teather & Greenwood may agree, not being later than 8 May 2001, and subject to the terms of the Placing Agreement to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Company has agreed, subject to the Placing Agreement becoming unconditional, to pay to Teather & Greenwood a corporate finance fee of £125,000 plus VAT as applicable, a commission of 0.75 per cent. on any monies raised from specified institutions (up to a maximum value of such monies raised of £2,000,000) and a commission of 3 per cent. on any monies raised from any investors in addition to those referred to above.

The Company has also agreed to pay all costs and expenses of and incidental to the Placing and the application for Admission, including the fees and costs of other professional advisors, printing, advertising and distribution charges, the fees of the Registrars, stamp duty and stamp duty reserve tax and the fees payable to the London Stock Exchange.

The Placing Agreement contains certain indemnities and warranties given in favour of Teather & Greenwood by the Company and the Directors as to the accuracy of information contained in this document and other matters relating to the Company and its business. The Company has also given an indemnity in favour of Teather & Greenwood in respect of liabilities incurred by Teather & Greenwood in connection with the Placing. The liability of the Directors and the Company under the Placing Agreement has been limited in certain respects.

Teather & Greenwood is entitled to terminate the Placing Agreement in certain circumstances prior to Admission.

The Directors have agreed certain share dealing restrictions as described in Part 1 of this document under the heading "Share Undertakings"; and

- (g) an agreement dated 12 April 2001 with Teather & Greenwood pursuant to which Teather & Greenwood will provide the services of Nominated Advisor and Broker to the Company in accordance with the AIM Rules. The contract may be terminated by either party by two month's prior notice expiring on or after twelve months from the date of the agreement.

## **8. Taxation**

The following comments are intended as a general guide to the position under current United Kingdom tax legislation and Inland Revenue practice and may not apply to certain classes of people (such as dealers in securities). Shareholders who are in any doubt about their tax position should consult their professional adviser immediately

Under current United Kingdom taxation legislation, no withholding tax will be deducted from dividends paid by the Company.

Individual Shareholders resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received. The amount of this tax credit in respect of dividends paid is currently set at 1/9 of the amount of the dividend. Such an individual Shareholder's liability to United Kingdom income tax is calculated on the aggregate of the dividend and the tax credit which will be regarded as the top slice of the individual's income. The tax credit is therefore currently set at 10 per cent. of the combined amount of the dividend and the tax credit. The tax credit will be available to offset such Shareholder's liability (if any) to income tax on the dividend. The tax credit will discharge the income tax liability of an individual Shareholder who is not liable to income tax at a rate greater than the basic rate. A Shareholder who is liable to income tax at the higher rate (currently 40 per cent) has further income tax to pay at a rate of 22.5 per cent. of the dividend and related tax credit. If the tax credit exceeds the Shareholder's overall liability to income tax, he will be unable to claim payment of the excess in cash from the Inland Revenue.

A holder of Ordinary Shares that is a company resident (for taxation purposes) in the UK and receives a dividend paid by the Company will not normally be subject to tax in respect of the dividend.

Subject to certain exemptions for Commonwealth citizens, residents of the Isle of Man or the Channel Islands, nationals of any state which is party to the European Economic Area agreement and certain others, the right of a holder of Ordinary Shares who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of a relevant double tax convention concluded with the UK. However, following the reduction in the rate of tax credit on all distributions of UK companies, Shareholders are unlikely to be entitled to any payment from the Inland Revenue. Holders who are not resident in the UK should consult their own tax advisers concerning their liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for so doing.

No United Kingdom stamp duty will be payable on the issue by the Company of Ordinary Shares. Transfers of Ordinary Shares for value will give rise to United Kingdom ad valorem stamp duty, or stamp duty reserve tax, at the rate in each case of 50p per £100 of the amount or value of the consideration. Stamp duty is rounded up to the nearest £5. Transfers under the CREST system for paperless transfers of shares will generally be liable to stamp duty reserve tax.

## **9. Premises**

The Company currently occupies the whole of the property at First Floor, Unit 37 Kingfisher Court, Hambridge Road, Newbury pursuant to an underlease between (1) Royal & Sun Alliance Property Services Limited and (2) TP Consolidated Limited dated 28 July 1999 for a term of 5 years from 11 June 1999 at a current rent of £22,000 (exclusive of VAT). Notice to exercise the break option in this underlease has been served by the Company. Pursuant to this notice, provided the payment of £11,000 is made, the underlease will terminate on 10 June 2001.

The Company also occupies the whole of the property at First Floor, Unit 34B Kingfisher Court, Hambridge Road, Newbury pursuant to a lease between (1) Country Estates Limited and (2) TP Consolidated Limited dated 22 October 1998 for a term of 3 years at a current rent of £12,000 per annum (exclusive of VAT).

## **10. Working capital**

In the opinion of the Company, having made due and careful enquiry, the working capital available to the Group will, from the date of Admission, be sufficient for its present requirements that is for the next twelve months.

## 11. Litigation

No legal or arbitration proceedings are active, pending or threatened against, or being brought by, any member of the Group which are having or may have a significant effect on the Company's or the Group's financial position.

## 12. General

- (a) There are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business, except as set out in Part 1 of this document.
- (b) The expenses of the Placing are estimated to be £550,000, excluding VAT and are payable by the Company.
- (c) The minimum amount which, in the opinion of the Directors, must be raised under the Placing to provide the sums required in respect of the matters specified in Schedule 1 of the POS Regulations is £2,750,000, divided as follows:

(i) preliminary expenses and expenses of the Placing:	£550,000
(ii) working capital:	£2,225,000

- (d) Save for fees payable to the professional advisers, whose names are set out on page 3 of this document, the allotments referred to below to Directors, employees and certain other investors and payments to trade suppliers, no person has received any fees, securities in the Company or other benefit to a value of £10,000 or more, whether directly or indirectly, from the Company within the 12 months preceding the application for Admission, or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after Admission. Pursuant to the allotments referred to in paragraph 2(a)(iii) to 2(a)(vii) above the Company issued the following Ordinary Shares to the following parties which, at the Placing Price, have a value in excess of £10,000:

<i>Party</i>	<i>Number of Ordinary Shares</i>
Channing-Williams, David	819,517
Cotton, James	171,627
Dean-Smith, Tim	409,758
Dixon, Jodie	178,575
Drayton, Hugo	819,517
Elphick, Richard	409,758
Gossage, Mick	125,000
Gossage, Suzanne	125,000
Hambros (Guernsey Nominees) Ltd, a/c BU6	267,875
Hambros (Guernsey Nominees) Ltd, a/c BU8	178,575
Hambros (Guernsey Nominees) Ltd, a/c SL2	2,232,325
Iarchy, Marc	178,575
Jaskolka, Anna	89,275
Jefferson, Wilma	142,875
Lamb, Chloe Ann Maudsley	40,000
Maxted, Adam	1,263,875
Milne, Alistair	1,078,950
O'Keefe, Ernie	125,000
Penton, David	53,550
Pershing Keen Nominees Ltd	2,637,971
Pollock, Adam	89,300
Redfern, Antony	1,833,364
Reef Investments Ltd	18,656,013
Robson, Ian	62,500
Scott, Jane	6,172,587
Sound Tech Ltd	125,000
Spencer, Michael	1,662,564
Stream Trustees Ltd	954,000
Tully, Mike	50,000
Tuson, Paul	243,889
Wass, William Aldous	89,300
West, Jessica	89,275
Westover Holdings Ltd	511,725
Williams, Mark	103,448

- (e) Save as disclosed in this document, there has been no material change in the financial or trading position of the Company since 31 December 2000.

- (f) The financial information set out in this document does not constitute statutory accounts within the meaning of section 240 of the Act.
- (g) Richard Elphick, a partner in Lawrence Graham, is the holder of 409,758 Ordinary Shares. Lawrence Graham are solicitors to the Company and will receive fees in connection with the preparation of this document.
- (h) KPMG Audit Plc has given and has not withdrawn its written consent to the issue of this document with the inclusion of its Accountants' Report in Part 3 above, and the references to such report and to its name in the form and context in which they appear.
- (i) Teather & Greenwood has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which such references are included.
- (j) For the reasons set out in Part 1 of this document, the Directors believe the Company's prospects for the current financial year are good.
- (k) The arrangements for paying for the Placing Shares are set out in the specimen placing letter annexed to the Placing Agreement. All monies received from applicants will be held by Teather & Greenwood prior to issue of the shares. If an application is unsuccessful or scaled down, any monies returned will be sent by cheque crossed "A/C Placee" in favour of the first named applicant. Any monies returned will be sent first class post at the risk of the addressee within three days of the completion of the Placing. Share certificates will, where relevant, be sent to successful applicants by first class post at the risk of the applicant within ten days of the completion of the Placing.

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

Copies of the following documents may be inspected at the offices of Lawrence Graham, 190 Strand, London WC2R 1JN during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 14 days following the date of this document:

- (a) the Memorandum of Association and the Articles of Association of the Company;
- (b) the Accountants' Report set out in Part 3 above;
- (c) the published audited consolidated accounts of the Company for the three years ended 31 December 2000;
- (d) the material contracts referred to in paragraph 7 above;
- (e) the service agreements and the non-executive director's letter of appointment referred to in paragraph 6 above;
- (f) the rules of the Executive Share Option Scheme, including the non-Inland Revenue Approved Schedule, and the AESOP referred to in paragraph 4 above; and
- (g) the consent letters referred to in paragraph 12 above.

### **14. Availability of documents**

Copies of this document will be available free of charge to the public at the offices of Teather & Greenwood Limited, Beaufort House, 15 St Botolph Street, London EC3A 7QR during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until close of business on 30 May 2001.

Dated: 12 April 2001