

Toucan Residential Limited

(formerly IDT Direct Limited)

Directors' report and financial
statements

Registered number 4775696

For the 17 month period ended

31 December 2006

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Directors' report

The directors present their directors report and financial statements for the 17 month period ended 31 December 2006.

Principal activity

The principal activity of the company during the period was the supply of telecommunications services.

Business Review

The results for the 17 month period ended 31 December 2006 and the financial position of the company at that date are set out on pages 6 and 7 of the financial statements.

The Company was acquired by Pipex Communications plc from IDT Dutch Holdings BV on 11 October 2006. Following the acquisition the accounting reference date was changed from 31 July to 31 December. On 8 November 2006 the name of the company was changed from IDT Direct Limited to Toucan Residential Limited.

Risk

Senior management are aware of their responsibility for managing risks within their business units. Each business unit head reports to the board on the status of these risks through management reports. Risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively.

The board's policy is to ensure that the business units are empowered to run their business effectively and appropriately, bearing in mind the requirements for timely decision making and commercial reality. Insurance policies are regularly reviewed to ensure these are adequate and appropriate, in line with the nature, size and complexity of the business. Standard form contracts are provided for commercial use and to assist the commercial function to negotiate within approved parameters. Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

Business Review

The following business review has been provided by the directors in accordance with the Companies Act. The company is disclosing the main trends and factors likely to affect the future development, performance and position of the business.

Key Performance Indicators (KPIs), which are set at group level, have been devised to allow the board and shareholders to monitor the group as a whole, as well as operating businesses within the group.

The company has financial KPIs which it monitors on a regular basis at board level and where relevant at business unit management meetings as follows:

	17 months ended 31 December 2006	Year ended 31 July 2005
Revenue	£60,855,000	£23,238,000
Gross Profit Margin	37.5%	42.2%
EBITDA	£(6,319,000)	£(12,291,000)
Cash at Bank	£2,055,000	£6,415,000
ARPU (Broadband and Voice)	£21.52	-

ARPU was set after the company was acquired by Pipex Communications Plc on 11 October 2006. Therefore, ARPU was not available for the year ended 31 July 2005.

The company has identified in details of various risks it faces. These include:

- the maintenance of a healthy cash balance and debt facilities to allow investment and future development;
- not rationalising cost base effectively resulting in inefficiency/duplication of effort;
- further market pressures on broadband pricing;
- failure to improve the ratio of services sold re customer putting pressure on ARPUs;

Directors' report *(continued)*

- further gross margin erosion from the impact of line rental in revenue mix.

The company perceives and monitors the following major trends, opportunities and risks for the year ending 31 December 2007 and beyond:

- ensuring that the company's objectives of growing revenue and profit in line with market expectations are met, particularly given the challenges of integration,
- which the board needs to ensure are successfully implemented;
- focusing attention on continuing to improve the strength of the Pipex brand;
- improving EBITDA margins;
- maintaining revenue in a fiercely competitive market is a risk to the business. The board will continue to focus on reducing customer churn by improving service quality and increasing the average number of services taken by each customer;
- maintaining our reputation for highest connection quality.

Dividend

The directors do not recommend the payment of a dividend.

Directors and Directors' interests

The directors who held office during the period and since their period end were as follows:

S Benaim	(appointed 31 May 2006; resigned 11 October 2006)
J Blass	(resigned 11 October 2006)
BH Last	(resigned 11 October 2006)
P Dubens	(appointed 11 October 2006)
MD Read	(appointed 11 October 2006)
S C Porter	(appointed 11 October 2006)
MA Bodner	(resigned 31 May 2006)

None of the directors who held office at the end of the period had any disclosable interest in the shares of the company. Directors' interests, in the ordinary shares of the ultimate holding company, Pipex Communications plc, are disclosed in the financial statements of that company. The register of director's interests is available from the address in note 16.

Employees

It is the policy of the company that there should be no unfair discrimination in recruiting and promoting staff, including applicants who are disabled. The directors are committed to maintain and develop communication and consultation processes with employees, who in turn are encouraged to develop an awareness of the issues affecting the company.

Disclosure of Information to Auditors

The directors who held office at the date of approval of this Director's report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

Political and charitable contributions

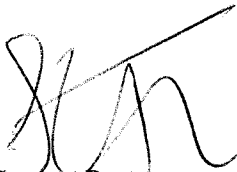
The Company made no political or charitable donations or incurred any political expenditure during the year. (2005: £nil).

Auditors

On 14 November 2006 Ernst and Young resigned as auditors and KPMG Audit Plc were subsequently appointed.

In accordance with section 385 of the Companies Act 1985, a resolution proposing that KPMG Audit Plc be re-appointed as auditors of the company will be put to the Annual General Meeting.

By order of the Board



Stewart Porter
Secretary
1 Triangle Business Park
Stoke Mandeville
Buckinghamshire
HP22 5BL

7 September 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Toucan Residential Limited

We have audited the financial statements of Toucan Residential Limited for the period ended 31 December 2006, which comprise the Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

7 September 2007

Profit and loss account

for the 17 month period ended 31 December 2006

		17 months ended	<i>(Restated note 1)</i>
		31 December	Year ended
	<i>Note</i>	2006	31 July
		£'000	2005
			£000
Turnover	2	60,855	23,238
Cost of sales		(38,051)	(13,441)
		<hr/>	<hr/>
Gross profit		22,804	9,797
Administrative expenses		(29,457)	(22,314)
		<hr/>	<hr/>
Operating loss	4	(6,653)	(12,517)
Other interest receivable and similar income	5	261	120
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(6,392)	(12,397)
Tax on loss on ordinary activities	8	-	2,003
		<hr/>	<hr/>
Loss for the financial period		(6,392)	(10,394)
		<hr/> <hr/>	<hr/> <hr/>

All of the above results relate to continuing operations.

The loss on historic basis is the same as the results reported above.


The accompanying notes on pages 9 to 15 form an integral part of the financial statements.

Balance Sheet
 at 31 December 2006

	<i>Note</i>	31 December 2006 £'000	<i>(Restated note 1)</i> 31 July 2005 £000
Fixed assets			
Tangible assets	9	206	409
Current assets			
Debtors	10	9,594	4,190
Cash at bank and in hand		2,055	6,415
Creditors: amounts falling due within one year	11	11,649 (10,860)	10,605 (9,202)
Net current assets		789	1,403
Total assets less current liabilities		995	1,812
Creditors: amounts falling due after more than one year	12	-	(16,925)
Net assets/(liabilities)		995	(15,113)
Capital and reserves			
Called up share capital	13	22,501	1
Profit and loss account	14	(21,506)	(15,114)
Equity shareholders' funds/(deficit)		995	(15,113)

The accompanying notes on pages 9 to 15 form an integral part of the financial statements.

These financial statements were approved by the board of Directors on 7 Sept 2007 and were signed on its behalf by:


Stewart Porter
 Director

Statement of total recognised gains and losses
for the 17 month period ended 31 December 2006

	17 months ended 31 December 2006 £'000	<i>Restated (note 1)</i> Year ended 31 July 2005 £'000
Loss for the financial period	(6,392)	(10,394)
Total recognised gains relating to the financial period	(6,392)	
Prior year adjustment (as explained in note 1)	460	
Total recognised gains and losses recognised since the last annual report	(5,932)	

Reconciliation of movements in shareholders' funds
for the 17 month period ended 31 December 2006

	17 months ended 31 December 2006 £'000	<i>Restated (note 1)</i> Year ended 31 July 2005 £'000
Loss for the financial year	(6,392)	(10,394)
Issue of new share capital	22,500	-
Net increase in shareholders' funds/(deficit) (originally £10,853,456 k restated for prior year adjustment of £459,892)	16,108	(10,394)
Opening shareholders' deficit	(15,113)	(4,719)
Closing shareholders' funds/(deficit)	995	(15,113)

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Under Financial Reporting Standard 1 (revised): 'Cash Flow Statements', the company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Pipex Communications plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Pipex Communications plc, within which this Company is included, can be obtained from the address given in note 16.

Restatement

A change in accounting policy regarding the treatment of cost of acquisition of customers who are contracted for a year was implemented in the accounts to align the company to group accounting policies. Acquisition costs are now capitalised and amortised over the term of the contract.

This adjustment decreased the operating loss for the year ending 31 July 2005 by £459,892 and increased debtors by the same amount.

Turnover

Turnover comprises the value of telecommunication and related services provided net of value added tax and represents amounts received and receivable from the company's continuing principal activity of the provision of residential telephone and broadband services. Income is recognised in the period in which the service is provided.

Tangible fixed assets and depreciation

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

Leasehold Improvements	Life of the lease
Computer Equipment	3 years
Office furniture and equipment	3 to 5 years

Taxation

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as required by FRS 19.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they fall due.

2 Turnover

All turnover is derived from the UK and is shown gross of customer incentives in respect of customer referrals in the period of £1,260,718 (2005: £641,020) which are treated as marketing costs within administrative expenses.

3 Segmental information

The company had a single class of business during all periods reported on and consequently does not present a segmental analysis. The net assets of the company at the end of the period were all attributable to the United Kingdom. The loss before tax of the company during the period was attributable to the United Kingdom.

4 Operating loss

This is stated after charging/ (crediting):

	17 months ended 31 December 2006 £'000	Year ended 31 July 2005 £'000
Gain on foreign currency translation	(14)	(1)
Depreciation of owned fixed assets	334	226
	_____	_____

5 Other interest receivable and similar income

	17 months ended 31 December 2006 £'000	Year ended 31 July 2005 £'000
Bank interest	261	120
	_____	_____

Notes to the financial statements *(continued)*

6 Directors' emoluments

	17 months ended 31 December 2006 £'000	Year ended 31 July 2005 £'000
Directors' emoluments	312	195
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

The directors emoluments above relate to costs incurred prior to the company being acquired by Pipex Communications plc. All costs relating to directors after the acquisition of the company by Pipex Communications plc were borne by Pipex Internet Limited.

7 Staff costs

	17 months ended 31 December 2006 £'000	Year ended 31 July 2005 £'000
Wages and salaries	7,804	3,685
Social security costs	794	352
Other pension costs	145	41
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	8,743	4,078
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

The average number of employees during the year was as follows:

	17 months ended 31 December 2006 £'000	Year ended 31 July 2005 £'000
Administration and management	204	193
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

8 Tax on loss on ordinary activities

There is no charge to corporation tax due to the utilisation of group losses during the period.

(a) Tax on loss on ordinary activities

	17 months ended 31 December 2006 £'000	Year ended 31 July 2005 £'000
The tax credit is made up as follows:		
<i>Current tax:</i>		
UK corporation tax at 30% (2005: 30%)	-	-
Tax – group relief surrender	-	(2,003)
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Total current tax (note 7(b))	-	(2,003)
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

Notes to the financial statements *(continued)*

8 Tax on loss on ordinary activities *(continued)*

(b) Factors affecting tax credit for the year

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	17 months ended 31 December 2006 £'000	Year ended 31 July 2005 £'000
Loss on ordinary activities before tax	(6,392)	(12,397)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	(1,918)	(3,719)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	10	39
Income not taxable for tax purposes	(1,846)	-
Capital allowances in advance of depreciation	34	5
Other timing differences	22	4
Unrelieved tax losses carried forward	3,436	3,809
Group relief surrendered before payment	261	-
Tax – Group relief surrender	-	(2,003)
Effect of a change in accounting policy	-	(138)
Current tax for the period (note 7(a))	-	(2,003)

(c) Deferred taxation

Deferred taxation not recognised in the financial statements is as follows:

	31 December 2006 £'000	31 July 2005 £'000
Capital allowances in advance of depreciation	78	(2)
Other timing differences	-	4
Tax losses	7,958	4,552
Deferred tax asset	8,036	4,554

The deferred tax asset has not been recognised as it fails to meet the recognition criteria set out in FRS 19 or the company accounting policy.

Notes to the financial statements *(continued)*

9 Tangible fixed assets

	Leasehold improvements £000	Office furniture & equipment £000	Computer equipment £000	Total £000
<i>Cost</i>				
At 1 August 2005	95	310	260	665
Additions	13	26	92	131
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	108	336	352	796
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>				
At 1 August 2005	81	87	88	256
Charge for year	27	156	151	334
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	108	243	239	590
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>				
At 31 December 2006	-	93	113	206
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 August 2005	14	222	173	409
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Debtors

	31 December 2006 £'000	31 July 2005 £'000
Trade debtors	4,223	2,480
Amounts due from fellow group undertaking	2,488	124
Other debtors	78	119
Prepayments and accrued income	2,805	1,467
	<hr/>	<hr/>
	9,594	4,190
	<hr/> <hr/>	<hr/> <hr/>

11 Creditors: amounts falling due within one year

	31 December 2006 £'000	31 July 2005 £'000
Trade creditors	5,804	3,775
Amounts due to fellow group undertaking	1,485	4,294
Other taxes and social security	1,056	270
Other creditors	41	14
Accruals and deferred income	2,474	849
	<hr/>	<hr/>
	10,860	9,202
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements *(continued)*

12 Creditors: amounts falling due after more than one year

	31 December 2006 £'000	31 July 2005 £'000
Amounts due to fellow group undertaking	-	16,925
	<u> </u>	<u> </u>

13 Share capital

	31 December 2006 £'000	31 July 2005 £'000
<i>Authorised:</i> 22,501,000 ordinary shares of £1 each	22,501	1
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid:</i> 22,501,000 ordinary shares of £ 1 each	22,501	1
	<u> </u>	<u> </u>

During the year the Company issued 22,500,000 £1 ordinary shares to Pipex Communications plc for a consideration of £22,500,000. £20,000,000 was settled in cash and £2,500,000 was offset against a balance due to Pipex Communications plc.

14 Reserves

	Profit and loss account £'000
At 31 July 2005	(15,114)
Loss for the period	(6,392)
	<u> </u>
At 31 December 2006	(21,506)
	<u> </u>

15 Post Balance Sheet events

As at the date of approval of the accounts, the parent company, Pipex Communications plc has announced a conditional sale of part of its business; the company is included in the part of the business that relates to the sale.

Notes to the financial statements *(continued)*

16 Immediate and ultimate parent company

The company's immediate and ultimate parent company is Pipex Communications plc, a company incorporated in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that headed by Pipex Communications plc. The consolidated accounts of this group are available to the public and may be obtained from:

Pipex Communications plc
1 Triangle Business Park
Stoke Mandeville
Buckinghamshire
HP22 5BL