

**PEERLESS TECHNOLOGY
GROUP PLC**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2002



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PEERLESS TECHNOLOGY GROUP PLC

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

Company registration number:	04241478
Registered office:	Nidderdale House Otley Road Beckwith Knowle Harrogate HG3 1SA
Directors:	A Ahmed J M Fenn R M James S C A Harris
Nominated Adviser and Broker:	Numis Securities Limited Cheapside House 138 Cheapside London EC2V 6LH
Secretary:	R M James
Bankers:	Coutts & Co 440 Strand London WC2R 0QS
Solicitors:	Norton Rose Kempson House Camomile Street London EC3A 7AN
Auditors:	Grant Thornton Registered Auditors Chartered Accountants Grant Thornton House Melton Street Euston Square London NW1 2EP

PEERLESS TECHNOLOGY GROUP PLC

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

INDEX	PAGE
Chairman's statement	1
Report of the directors	2 – 5
Report of the independent auditors	6 – 7
Principal accounting policies	8
Profit and loss account	9
Balance sheet	10
Cash flow statement	11
Notes to the financial statements	12 – 15

PEERLESS TECHNOLOGY GROUP PLC

CHAIRMAN'S STATEMENT

I am pleased to report Peerless Technology's first full year as a quoted company, following its admission to AIM on 20 November 2001. For the year ended 31 December 2002, the company had a loss before tax of £70,474 (from 26 June 2001 to 31 December 2002 loss £36,944) and had cash reserves of £2,246,537 (2001: £2,386,990).

Peerless was established to create a leading group in the media and technology sectors through acquisition and organic growth. In the 18 months since the company's listing, the Board have closely considered a number of potential investment opportunities within these sectors. Negotiations with a number of parties have been held, but the Board has not yet identified a suitable business that meets the company's investment criteria.

As stated in, and required by, the prospectus issued at the time of listing, the Board have issued a circular dated 23 May 2003 together with a notice of extraordinary general meeting to consider the direction and future strategy of the company. Included within these proposals is a recommendation from the Board for a widening of the scope of Peerless's strategy to permit acquisitions and investments in sectors other than the media and technology sectors. The circular and notice set out proposals and resolutions, respectively, to be proposed at the extraordinary general meeting which has been convened to follow Peerless's annual general meeting to be held on 20 June 2003.

The Board will continue to be patient in its pursuit of suitable targets and are confident that the difficult market conditions that still prevail will present investment opportunities for the company.

Ajaz Ahmed
Chairman
23 May 2003

PEERLESS TECHNOLOGY GROUP PLC

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2002.

Principal activity

The principal activity of the company is that of an investment vehicle.

Business review and future developments

A review of the year and summary of the future developments are included in the Chairman's Statement.

Dividends

The directors cannot recommend the payment of a dividend for the accounting year.

Impact of the Euro

In the opinion of the directors, the introduction of the single currency for Europe will have no significant impact on the company's trading operations and results.

Charitable and political contributions

There were no charitable or political contributions made by this company during the year.

Creditors payment policy

The company's current policy concerning the payment of its trade creditors is to:

- (a) Settle the terms of payment with suppliers when agreeing the terms of such a transaction.
- (b) Ensure that the suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- (c) Pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for all supplies of goods and services without exception.

The company's average creditor payment period for the year ended 31 December 2002 was 53 days (2001: 28 days) days based on the ratio of average trade creditors throughout the year to the amounts invoiced during the year by trade creditors.

PEERLESS TECHNOLOGY GROUP PLC

REPORT OF THE DIRECTORS

Directors

The directors during the year under review are listed below together with their interests in the company's ordinary shares:

	Ordinary shares of 1p each 31 December		Ordinary shares of 1p each 1 January	
	2002	% holding	2002	% holding
A Ahmed	312,500	2.1	312,500	2.1
J M Fenn	936,000	6.3	750,000	5.0
R M James	811,000	5.4	625,000	4.2
S C A Harris	312,500	2.1	312,500	2.1

There have been no other changes in the directors' interests subsequent to the year end.

Share options

	At 1 January 2002	Granted during the year	At 31 December 2002	Exercise price
J M Fenn	62,500	-	62,500	20 pence
R M James	62,500	-	62,500	20 pence

The share options may be exercised in whole or in part at any time during the period between such date which is determined to fall three months after the completion of the first substantial acquisition, being the acquisition of the issued share capital conferring the majority voting interest or majority entitlement to profits of another company or another company's business, in either case being an acquisition whose value is greater than 100 per cent of the market capitalisation of the company on the business day immediately prior to the completion of such acquisition by the company and the tenth anniversary of their date of grant.

The share options will also lapse on the expiry of the period of 12 months following the death of a holder or the expiry of the period of six months of his ceasing to be a director. Rights of exercise will also arise on a change in control of the company.

No further options have been granted to directors since the year end.

PEERLESS TECHNOLOGY GROUP PLC

REPORT OF THE DIRECTORS

Substantial shareholdings

Other than the directors holdings listed above, the company has been notified of the following shareholdings amounting to 3 per cent or more of the issued share capital of the company as at 6 May 2003;

Shareholder	Number of shares	% holding
Clydesdale Bank Custodian Nominees Limited	1,125,000	7.5
Peter Wilkinson	1,000,000	6.7
Redmayne (Nominees) Limited	759,000	5.1
Rodger Sargent	750,000	5.0
Vidacos Nominees Limited	650,000	4.3
HSBC Global Custody Nominee (UK) Limited	650,000	4.3
Cheapside Nominees Limited	550,000	3.7
HSBC Global Custody Nominee (UK) Limited	500,000	3.3
Nortrust Nominees Limited	500,000	3.3
N.Y. Nominees Limited	490,000	3.3

Nominated Adviser and Broker

Numis Securities Limited are the company's nominated adviser and broker. The shares of the company are traded on the Alternative Investment Market.

Directors' responsibilities for the financial statements

United Kingdom company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

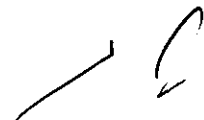
PEERLESS TECHNOLOGY GROUP PLC

REPORT OF THE DIRECTORS

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to be 'J M Fenn', written over the printed name.

J M Fenn
Director
23 May 2003

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PEERLESS TECHNOLOGY GROUP PLC

We have audited the financial statements of Peerless Technology Group plc for the year ended 31 December 2002 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 15. 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 auditors' 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 the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 judgements 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF

PEERLESS TECHNOLOGY GROUP PLC (CONTINUED)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

**LONDON
23 MAY 2003**

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

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

The principal accounting policies of the company have been reviewed in accordance with Financial Reporting Standard 18 "Accounting Policies". These accounting policies have remained unchanged from the prior period and are set out below.

FINANCIAL INSTRUMENTS

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

PEERLESS TECHNOLOGY GROUP PLC

PROFIT AND LOSS ACCOUNT

For the year ended 31 DECEMBER 2002

	Note	Year ended 31 December 2002 £	26 June 2001 to 31 December 2001 £
Turnover		-	-
Administrative expenses		<u>(150,734)</u>	<u>(43,906)</u>
Operating loss		(150,734)	(43,906)
Interest receivable and similar income		<u>80,260</u>	<u>6,962</u>
Loss on ordinary activities before taxation	1	(70,474)	(36,944)
Taxation	2	-	-
Loss retained and transferred from reserves	8	<u>(70,474)</u>	<u>(36,944)</u>
Loss per share			
- basic	4	(0.47)p	(1.01)p

All transactions arose from continuing operations.

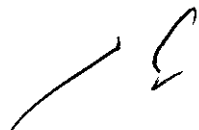
There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

PEERLESS TECHNOLOGY GROUP PLC**BALANCE SHEET AT 31 DECEMBER 2002**

	Note	2002 £	2001 £
Current assets			
Debtors	5	13,791	31,573
Cash at bank and in hand		<u>2,246,537</u>	<u>2,386,990</u>
		2,260,328	2,418,563
Creditors: amounts falling due within one year	6	<u>(24,379)</u>	<u>(112,140)</u>
Total assets less current liabilities		<u>2,235,949</u>	<u>2,306,423</u>
Capital and reserves			
Called up share capital	7	149,625	149,625
Share premium account	8	2,193,742	2,193,742
Profit and loss account	8	<u>(107,418)</u>	<u>(36,944)</u>
Equity shareholders' funds	9	<u>2,235,949</u>	<u>2,306,423</u>

The financial statements were approved by the Board of Directors on 23 May 2003


J M Fenn - Director

The accompanying accounting policies and notes form an integral part of these financial statements.

PEERLESS TECHNOLOGY GROUP PLC**CASH FLOW STATEMENT**

For the year ended 31 DECEMBER 2002

	Note	Year ended 31 December 2002 £	26 June 2001 to 31 December 2001 £
Net cash outflow from operating activities	10	(238,495)	-
Returns on investments and servicing of finance			
Interest received		73,042	389
Management of liquid resources			
Cash withdrawn from/(deposited in) money market account		140,000	(2,381,500)
Financing			
Issue of ordinary share capital		25,000	2,417,500
Expenses paid in connection with share issues		-	(30,899)
Net cash inflow from financing		<u>25,000</u>	<u>2,386,601</u>
(Decrease)/increase in cash	11,12	<u>(453)</u>	<u>5,490</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

PEERLESS TECHNOLOGY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

1 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The operating loss on ordinary activities before taxation is stated after:

	Year ended 31 December 2002	26 June 2001 to 31 December 2001 £
Auditors' remuneration:		
Audit services	<u>10,000</u>	<u>10,000</u>

During the year fees of £nil (2001: £10,000) paid to the company's auditors in respect of non-audit services were written off to the share premium account.

2 TAX ON LOSS ON ORDINARY ACTIVITIES

The tax charge is based on the loss for the year and represents:

	2002 £	2001 £
Corporation tax at 30% (2001: 30%)	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
	2002 £	2001 £
Loss on ordinary activities before tax	<u>(70,474)</u>	<u>(36,944)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% (2001: 30%)	<u>(21,142)</u>	<u>(11,083)</u>
Effect of:		
Increase of trading losses	<u>21,142</u>	<u>11,083</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

Unrelieved tax losses of approximately £107,000 remain available to offset against future income.

A deferred tax asset of £32,225 arising from losses in the company has not been recognised (2001: £11,083). These losses may be offset against future income. Although the directors expect sufficient profits to arise, they believe at this stage that it is prudent not to recognise the deferred tax asset within the financial statements.

PEERLESS TECHNOLOGY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

3 DIRECTORS AND EMPLOYEES

Staff costs, including directors, during the period were as follows:

	Year ended 31 December 2002 £	26 June 2001 to 31 December 2001 £
Wages and salaries	60,000	8,000
Social security costs	7,000	2,000
	<u>67,000</u>	<u>10,000</u>

There were no employees of the company during the period except for the executive directors.

Remuneration in respect of directors was as follows:

	Year ended 31 December 2002 £	26 June 2001 to 31 December 2001 £
Emoluments	<u>60,000</u>	<u>8,000</u>

4 LOSS PER SHARE

The calculation of loss per share is based on the loss for the financial year divided by the weighted average number of ordinary shares in issue during the period as follows:

	2002 Weighted average number of shares	Loss per share amount pence		2001 Weighted average number of shares	Loss per share amount pence
Loss £			Loss £		
Basic loss per share					
Loss attributable to ordinary shareholders	(70,474) 14,962,500	(0.47)	(36,944) 3,655,690		(1.01)

Share options outstanding at the year end were anti-dilutive.

5 DEBTORS

	2002 £	2001 £
Unpaid share capital	-	25,000
Accrued interest	<u>13,791</u>	<u>6,573</u>
	<u>13,791</u>	<u>31,573</u>

PEERLESS TECHNOLOGY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Trade creditors	270	43,906
Other taxation and social security	2,500	2,000
Accruals	11,750	36,780
Other creditors	9,859	29,454
	<u>24,379</u>	<u>112,140</u>

7 SHARE CAPITAL

	2002 £	2001 £
Authorised 50,000,000 ordinary shares of £0.01 each	<u>500,000</u>	<u>500,000</u>
Allotted, called up and fully paid 14,962,500 ordinary shares (2001: 14,337,500) ordinary shares of £0.01 each	149,625	143,375
Allotted, called up but not paid 625,000 ordinary shares of £0.01 each	-	6,250
	<u>149,625</u>	<u>149,625</u>

Share options

There are no outstanding share options at 31 December 2002 except for those granted to directors as disclosed in the Report of Directors on page 3.

8 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £	Profit and loss account £
At 1 January 2002	2,193,742	(36,944)
Loss for the financial year	-	(70,474)
At 31 December 2002	<u>2,193,742</u>	<u>(107,418)</u>

9 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Loss for the financial year	(70,474)	(36,944)
Issue of shares	-	2,343,367
Shareholders' funds at 1 January 2002	<u>2,306,423</u>	-
Shareholders' funds at 31 December 2002	<u>2,235,949</u>	<u>2,306,423</u>

PEERLESS TECHNOLOGY GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2002

10 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating loss	(150,734)	(43,906)
(Decrease)/increase in creditors	(87,761)	43,906
Net cash outflow from operating activities	<u>(238,495)</u>	<u>-</u>

11 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2002 £	2001 £
(Decrease)/increase in cash in the period	(453)	5,490
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(140,000)	2,381,500
Movement in net funds in the period	<u>(140,453)</u>	<u>2,386,990</u>
Net funds at 1 January 2002	2,386,990	-
Net funds at 31 December 2002	<u>2,246,537</u>	<u>2,386,990</u>

12 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2002 £	Cash flow £	At 31 December 2002 £
Cash at bank	5,490	(453)	5,037
Cash in money market account	2,381,500	(140,000)	2,241,500
	<u>2,386,990</u>	<u>(140,453)</u>	<u>2,246,537</u>

13 CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 2002 or 31 December 2001.

14 CONTINGENT ASSETS/LIABILITIES

There were no contingent liabilities at 31 December 2002 or 31 December 2001.

15 FINANCIAL INSTRUMENTS

The company uses financial instruments, other than derivatives, comprising cash and various items such as trade debtors and trade creditors that arise directly from its operations. As part of its cash management policy, the company makes use of money market accounts.

The directors do not believe that there were any risks arising from financial instruments at the year end and will produce policies in respect of them as and when risks arise.

There is no material difference between the book value and fair value of the company's financial investments.