

IOMART GROUP PLC

Report and Financial Statements

31 March 2002



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COMPANIES HOUSE 10/10/02

**Deloitte & Touche
Lomond House
9 George Square
Glasgow
G2 1QQ**

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

Directors

Nick Kuenssberg	(Non-executive Chairman)
Angus MacSween	(Chief Executive Officer)
Bill Dobbie	(Business Development Director)
Neil Finlayson	(Technical Director)
Sarah Haran	(Customer Service Director)
Fred Shedden	(Non-executive Director)
David Harrison	(Non-executive Director)

Secretary

Stewart Moir

Registered office

Fleming Pavilion
Todd Campus
West of Scotland Science Park
Glasgow
G20 0XA

Nominated adviser and broker

Peel Hunt plc
62 Threadneedle Street
London
EC2R 8HP

Bankers

Bank of Scotland
235 Sauchiehall Street
Glasgow
G2 3EY

Solicitors

McGrigor Donald
Pacific House
70 Wellington Street
Glasgow
G2 6SB

Auditors

Deloitte & Touche
Lomond House
9 George Square
Glasgow
G2 1QQ

Registrars

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU

REPORT AND FINANCIAL STATEMENTS 2002

CHAIRMAN'S STATEMENT

The period ended 31 March 2002 has seen "the longest year" with a very high level of activity in terms of strategic direction as the various markets in which your company has operated have changed. The actual figures showing sales of £5.4 million and losses of £7.9 million are factually correct but are largely irrelevant to our ongoing business. iomart today is effectively in "start-up" mode as a software company in the enterprise security sector.

We acquired the On.Cue DSL broadband business at a time when this appeared to make sense to create critical mass. We exited from both the retail ISP and the broadband businesses in the course of the period as the valid business case for them was eroded. Our acquisition of CANBOX Technologies GmbH in Germany, originally intended to develop web mail and unified messaging businesses, has not proved a success. The German market has been under pressure and the inability to achieve satisfactory pricing has led to our decision to exit this business. The cost of this is provided in the accounts presented to you along with all known liabilities. There will be no continuing significant costs other than those relevant to our ongoing software and web-hosting business.

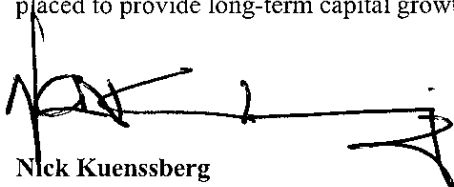
We are now focusing on the NetIntelligence product portfolio in this potentially large but demanding corporate market for enterprise security products.

Your company also has the small web hosting and co-location business based on iomart and NSL activities together with a high capacity infrastructure. In order to exploit this rather than simply abandon it, we have acquired a controlling interest in a new company focused on the SME sector with complementary activities, now re-named iomart Internet. Based in Lancaster and founded by two entrepreneurs who built up Business Serve, this company is supported by the back office in Glasgow. Sales have begun well, currently running at approximately £400k per year and growing with breakeven planned to be achieved by the end of the current fiscal year.

As suggested the figures for the year include significant discontinued operations and do not reflect the business going forward. It is more appropriate to consider that we are now a small software company with a market-leading software product in NetIntelligence and with a controlling interest in a hosting company run by a separate management team. Our cost structure now respects this and, depending on the speed with which the corporate sector takes up NetIntelligence and the rate of growth of our new web-hosting company, we anticipate success within the next two years.

I would like to pay tribute to the substantial contributions made by Neil Finlayson, a founder director, and David Harrison, finance director, both of whom are standing down at the AGM in response to the revised levels of business and our new focus. At the same time it is appropriate to thank those who have dedicated themselves to the company since flotation and to acknowledge the commitment demonstrated by the current team.

The past three years has been an extraordinary interlude in economic terms and your company has ridden an acknowledged roller-coaster. The collective madness in the telecoms and dotcom worlds, the "free" business models, downward pressures on prices and optimistic views of uptake, supported by researchers, commentators, funders and analysts alike, have all combined to create an extremely difficult economic environment. With our new concentration on two markets, a reduced cost base and cash balances of £6.5m at the period end, we are better placed to provide long-term capital growth for our shareholders.



Nick Kuenssberg

Non-executive chairman

21 May 2002

REPORT AND FINANCIAL STATEMENTS 2002

CHIEF EXECUTIVE'S REVIEW

As I reported in my review of 26 February for the 6 months to 31 December 2001, the 15 month period to 31 March 2002 has been one of transformation.

The sale of our ADSL business to Centrica for £2 million cash concluded our withdrawal from the Telco marketplace following the sale of our consumer ISP Madasafish in May 2001 for £3 million cash. The ADSL sale also concluded the transfer of all obligations of our Stornoway call centre to Centrica PLC. This included the lease and all support staff. During April 2002 we also terminated the office lease in Edinburgh.

iomart's German business Canbox which had a significant revenue stream in mail and messaging has suffered from the ongoing collapse of the internet services and portal markets in Germany; we have taken the decision to exit from this operation with effect from the end of June 2002.

It has become clear that the messaging sector we believed would flourish has not emerged as any commentator envisaged.

Given the much stronger interest in our NetIntelligence software it makes sense to redouble our efforts here. NetIntelligence includes a sophisticated mail filter component which we have developed as part of our mail product set, and gives us distinct unique selling points. Our prospect pipeline for NetIntelligence has continued to grow strongly in the final quarter with many blue chip companies, particularly in the finance sector, showing very keen interest. However the corporate sales cycle for this type of product is typically anywhere between six and twelve months.

Although we disposed of our two largest business streams, iomart has retained a web hosting infrastructure and customer base and we have been working to grow and increase the value of this business. We opened a telesales office for web hosting services in the north of England in late March 2002. This is managed by the ex founders of Businessserve PLC, a web hosting company that grew aggressively in the years 1997 – 2000 before being sold privately in March 2000. We are achieving sales success in a market which is consolidating and where competitors are disappearing. Whilst still in its infancy the sales results give us reason to believe that we can build a significant and profitable business in this area using our residual infrastructure and internet skills.

Results

Turnover for the period of £5.40 million is made up of £1.72 million from ongoing operations, network security and web services (co-location, hosting, domain names and mail), £0.21 million from the discontinuing operations in Germany and £3.47 million from our discontinued ADSL and dial up access.

It should be noted that the gross profit margin for the period was 38% overall but 67% from ongoing operations.

Administrative expenses of £11.08 million comprise £5.69 million for ongoing operations, £1.02 million from discontinuing operations and £4.37 million from discontinued operations. In addition, restructuring costs of £3.02 million were incurred. Other operating income of £0.20 million relates primarily to grants received. We have continued to reduce our administrative expenses to reflect our current business.

The total operating loss of £11.84 million is attributable to £6.09 million from ongoing operations, including £0.57 million from acquisitions, £0.89 million from discontinuing operations and £4.86 million from discontinued operations.

The net profit on sale of the group's dial up access business was £1.83 million and of the ADSL business £1.78 million. Bank interest receivable amounted to £0.59 million. Interest payable on finance leases and hire purchase contracts was £0.26 million. The loss for the year was £7.90 million and no tax charge arises in respect of the group's trading.

Cash and borrowings

Cash balances at 31 March 2002 were £6.52 million. Borrowings under finance leases amounted to £1.28 million. The group had no other debt outstanding.

REPORT AND FINANCIAL STATEMENTS 2002

CHIEF EXECUTIVE'S REVIEW (CONTINUED)

Financial instruments

The group's financial instruments comprise cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the group's operations. The main risk to the group is interest rate risk arising from floating rate interest rates. The group has one subsidiary, which operates in Germany, whose revenue and expenses are denominated in Euros. All transactions of the holding company and the UK subsidiaries are in UK sterling and the group does not use derivative instruments.

Financial Position

The group's financial position remains strong with sufficient cash reserves to fund the current business plan and take the group through to profitability.

Prospects

With this set of results we have put behind us the majority of the capital intensive business areas we were operating in and we have reduced our cash cost base to around £275,000 per month, of which £220,000 are variable costs.

We now have two distinct areas of business, with strong management and clear objectives in each area. NetIntelligence provides us with considerable IPR and significant barriers to entry for competitors, targeted at the corporate sector, where although sales cycles are long the rewards for success are potentially substantial.

On the other hand, our web services business, targeted at the SME sector provides immediate growth and cashflow whilst building a valuable long term business.

Iomart now has the ability to flex its cost base as required to either fund growth or conserve cash dependent on demand for our products and services. We remain confident that we can deliver success and profitability in the coming years.



Angus MacSween

Chief Executive Officer

21 May 2002

REPORT AND FINANCIAL STATEMENTS 2002**CORPORATE GOVERNANCE**

While the company is listed on the Alternative Investment Market and is therefore not required to comply with the provisions of the Combined Code, the board is committed to ensuring that proper standards of corporate governance operate and has established governance procedures and policies that are considered appropriate to the nature and size of the group. The board considers that at this stage in the group's development, the expense of full compliance with the Combined Code is not appropriate although it intends, as the group grows, to ensure that it observes the provisions of the Code, so far as is practicable.

Directors and the board

The board directs the group's activities in an effective manner through regular monthly board meetings and monitors performance through timely and relevant reporting procedures. Where it deems it necessary the board requests reports on specific areas outwith the normal reporting regime.

The board comprises four executive and three non-executive directors. The roles of chairman and chief executive are separate appointments and it is board policy that this will continue.

The board has established two committees, the audit committee and the remuneration committee, membership of both being exclusively non-executive. Nick Kuenssberg is chairman of the audit committee and Fred Shedden chairman of the remuneration committee. A separate report on directors' remuneration is set out on pages 8 to 10.

Accountability and audit

The board considers that the annual report presents a balanced and understandable assessment of the group's performance and prospects.

The audit committee has written terms of reference setting out its authority and duties and meets at least twice per annum with the external auditors.

Internal financial control

The group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the group. The key procedures that have been established in respect of internal financial control are as follows:

- Financial reporting; there is in place a comprehensive system of financial reporting based on the annual budget which the board approves. The results for the group as whole and each business sector are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis.
- Investment appraisal; applications for capital expenditure are made in a prescribed format which places emphasis on the commercial and strategic as well as the financial justification. All larger projects require specific board approval.

No system can provide absolute assurance against material misstatement or loss but the group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.

REPORT AND FINANCIAL STATEMENTS 2002

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION

Remuneration Committee

The remuneration committee determines, on behalf of the board, the group's policy for executive remuneration and the individual remuneration packages for executive directors. In setting the group's remuneration policy, the remuneration committee considers a number of factors, including the following:

- salaries and benefits available to executive directors of comparable companies;
- the need to attract and retain executives of an appropriate calibre;
- continued commitment of executives to the group's success through appropriate incentive schemes.

Remuneration of non-executive directors

The fees paid to the non-executive directors, who do not receive any bonus or other benefits, are determined by the board.

Non-executive directors' letters of appointment are on a twelve month rolling basis.

Remuneration of executive directors

The remuneration packages of the executive directors comprise the following elements:

- Base salary
The remuneration committee sets base salaries to reflect responsibilities and the skill, knowledge and experience of the individual.
- Bonus scheme
The executive directors are eligible to receive a bonus of up to 50% of basic salary dependent on individual and group performance at the discretion of the remuneration committee.
- Car allowance and other benefits
The executive directors are entitled to a car allowance. No other benefits were provided.
- Pensions
Pension contributions to individuals' personal pension arrangements are payable by the group at the rate of twice the contribution made by the director subject to a maximum employer contribution of 10% of basic salary.

All the executive directors are engaged under service contracts which require a notice period of 12 months given any time on or after 31 March 2002.

REPORT AND FINANCIAL STATEMENTS 2002

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION
(CONTINUED)

Directors' remuneration

Details of individual directors' emoluments for the 15 month period are as follows:

Name of director	Salary and fees £	Benefits £	Pension contri- butions £	15 months ended 31 March 2002 Total £	Year ended 31 December 2000 Total £
Executive					
Bill Dobbie	112,917	9,000	8,875	130,792	82,500
Neil Finlayson	81,000	9,000	-	90,000	57,583
Sarah Haran	77,150	9,000	3,209	89,359	58,217
Angus MacSween	123,458	9,000	-	132,458	82,500
Non-executive					
Nick Kuenssberg	27,500	-	-	27,500	18,750
Fred Shedden	21,250	-	-	21,250	14,977
David Harrison	74,583	6,600	11,686	92,869	51,283

Annual salaries and/or fees were revised as follows in the light of the changes to the company's business:

Name of director	On flotation or appointment £	As from 1 February 2001 £	As from 1 July 2001 £	Current £
Angus MacSween	90,000	110,000	93,500	93,500
Bill Dobbie	90,000	100,000	85,000	85,000
Neil Finlayson	55,000	70,000	63,000	63,000
Sarah Haran	50,000	65,000	60,000	60,000
David Harrison	75,000	80,000	72,000	15,000
Nick Kuenssberg	25,000	25,000	20,000	20,000
Fred Shedden	20,000	20,000	15,000	15,000

David Harrison served as an executive director until 30 November 2001, on which date he became a non-executive director.

REPORT AND FINANCIAL STATEMENTS 2002

REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION
(CONTINUED)

Directors' interests in shares

The interests of the directors in the shares of the company at 31 March 2002, together with their interests at 1 January 2001 were as follows:

Name of director	Number of ordinary shares	
	31 March 2002	1 January 2001
Bill Dobbie	12,010,000	11,970,000
Neil Finlayson	3,154	-
Sarah Haran	10,555	5,555
David Harrison	60,000	10,000
Nick Kuenssberg	132,777	35,277
Angus MacSween	17,955,000	17,955,000
Fred Shedden	107,222	22,222

Directors' interests in share options

The interests of the directors at 31 March 2002 in options over the ordinary shares of the company were as follows:

Name of director	1 January 2001	Granted in the period	Surrendered	Exercised	Options over ordinary shares of 1p each			
					31 March 2002	Exercise price	Date from which exercisable	Expiry date
Neil Finlayson	159,746	-	-	-	159,746	5p	11/5/00	14/12/08
	159,747	-	-	-	159,747	5p	11/2/01	14/12/08
	159,747	-	-	-	159,747	5p	11/2/02	14/12/08
Sarah Haran	159,746	-	-	-	159,746	5p	11/5/00	14/12/08
	159,747	-	-	-	159,747	5p	11/2/01	14/12/08
	159,747	-	-	-	159,747	5p	11/2/02	14/12/08
	-	100,000	-	-	100,000	9p	27/2/05	27/2/12
David Harrison	300,000	-	300,000	-	-	-	-	-
Nick Kuenssberg	80,701	-	80,701	-	-	-	-	-
Fred Shedden	53,801	-	53,801	-	-	-	-	-

In addition to the options shown, Angus MacSween and Sarah Haran had 13,454 and 8,072 options respectively under the company's savings related share option scheme. These options, granted on 1 July 2000 at a price of 72p, were allowed to lapse during the period. Board members granted options on flotation or following their recruitment surrendered these options during the period.

No other options lapsed during the period. No other directors have been granted share options in the shares of the company or other group companies. The market price of the company's shares at the end of the financial period was 14.5p and the range of prices during the period was between 64.5p and 8.5p.

By order of the board



Stewart Moir
Company Secretary
21 May 2002

REPORT AND FINANCIAL STATEMENTS 2002

DIRECTORS' REPORT (CONTINUED)

The directors present their annual report and the audited financial statements for the 15 month period ended 31 March 2002, which is a change from the previous accounting reference date of 31 December.

Principal activity

The principal activity of the group is the provision of network security, web services and e-mail management. During the period the group's ADSL and dial up access businesses were sold.

Business review and future developments

A review of the results and development of the business for the year and of future developments in the business is contained within the chairman's statement on page 3 and the chief executive's review on pages 4 and 5.

Dividends

No dividends have been paid or proposed for the period ended 31 March 2002 (31 December 2000 – nil).

Directors and their interests

The present membership of the board is set out on page 2. In accordance with the company's articles of association, Fred Shedden and Bill Dobbie are required to resign and offer themselves for re-election at the forthcoming annual general meeting. David Harrison and Neil Finlayson have indicated their intention to resign at the forthcoming annual general meeting. Details of directors' interests in the company's shares are set out in the report of the board to the members on directors remuneration on pages 7 to 9.

Substantial shareholdings

At 9 May 2002 the following interests in three per cent or more of the issued ordinary share capital had been notified to the company:

	Number of ordinary shares
Angus MacSween	17,955,000
Bill Dobbie	12,010,000
Henderson Smaller Companies Investment Trust	4,398,269
The Fleming Mercantile Investment Trust Plc	3,932,730
Axa Sun Life	2,600,000
Schroder UK Growth Fund plc	1,800,000

Employee involvement

An employee forum meets regularly to consult with staff and to provide feedback to management on any issues raised by employees.

A newsletter is sent to all staff every two months, providing information on developments within the group including updates on the group's strategy and details of new products and services provided by the group.

All staff are eligible to receive share options in the company under the group's share option schemes and it is the board's policy to make regular option awards to all levels of staff to encourage staff involvement in and commitment to the group's performance.

Employment of disabled persons

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

REPORT AND FINANCIAL STATEMENTS 2002

DIRECTORS' REPORT (CONTINUED)

Supplier payment policy and practice

The company and its subsidiaries agree the terms of payment when negotiating the terms and conditions for their transactions with their suppliers. Payment is made in compliance of those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. The group's average creditor payment period at 31 March 2002 was 45 days (31 December 2000 – 49 days). The company did not have any transactions with suppliers.

Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

By order of the board



Stewart Moir

Company Secretary

21 May 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 the group as at the end of the financial year and of the profit or loss of the group 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 group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the group's system of internal financial control, for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IOMART GROUP PLC

We have audited the financial statements of Iomart Group Plc for the 15 month period ended 31 March 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 30 together with the reconciliation of net cash flow to movement in net funds. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above period as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 circumstances of the company and the group, 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IOMART GROUP
PLC (CONTINUED)**

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2002 and of the loss of the group for the 15 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors
Lomond House
9 George Square
Glasgow
G2 1QQ

21 May 2002

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions

CONSOLIDATED PROFIT AND LOSS ACCOUNT
15 Months ended 31 March 2002

	Note	£'000	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
TURNOVER				
Acquisitions	3	37		-
Discontinuing operations	3	210		-
Total Acquisitions			247	-
Continuing operations	3		1,682	1,389
Discontinued operations	3		1,929	1,389
Total turnover			5,399	3,581
Cost of sales	3		(3,339)	(1,424)
Gross profit	3		2,060	2,157
Administrative expenses			(11,079)	(7,663)
Restructuring expenses			(3,021)	-
Total administrative expenses			(14,100)	(7,663)
Other operating income			203	219
Net operating expenses	3		(13,897)	(7,444)
OPERATING LOSS				
Acquisitions	3	(574)		-
Discontinuing operations	3	(891)		-
Total Acquisitions			(1,465)	-
Continuing operations	3		(6,402)	(2,942)
Discontinued operations	3		(7,867)	(2,942)
Group operating loss	4		(11,837)	(5,287)
Profit on sale of businesses			3,609	-
Net interest	6		(8,228)	(5,287)
			327	185
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				
Tax on loss on ordinary activities	7		(7,901)	(5,102)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE PERIOD				
Equity minority interests			(7,901)	(5,102)
			5	-
LOSS FOR THE FINANCIAL PERIOD	19		(7,896)	(5,102)

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)
15 Months ended 31 March 2002**Loss per ordinary share (pence)**

Basic	9	(14.7p)	(10.9p)
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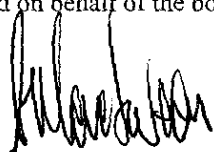
There have been no recognised gains and losses attributable to the shareholders other than the loss for the current financial year and accordingly, no statement of total recognised gains and losses is shown.

CONSOLIDATED BALANCE SHEET
31 March 2002

	Note	31 March 2002 £'000	31 December 2000 £'000
FIXED ASSETS			
Intangible assets	10	279	1,174
Tangible assets	11	1,011	3,960
		<u>1,290</u>	<u>5,134</u>
CURRENT ASSETS			
Debtors	13	927	1,792
Cash at bank and in hand		6,519	12,026
		<u>7,446</u>	<u>13,818</u>
CREDITORS: amounts falling due within one year	14	(2,513)	(3,772)
NET CURRENT ASSETS		<u>4,933</u>	<u>10,046</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,223	15,180
CREDITORS: amounts falling due after more than one year	15	(571)	(1,620)
EQUITY MINORITY INTERESTS	17	12	-
NET ASSETS		<u>5,664</u>	<u>13,560</u>
CAPITAL AND RESERVES			
Called up share capital	18	538	538
Capital redemption reserve	19	1,200	1,200
Share premium account	19	19,087	19,087
Profit and loss account	19	(15,161)	(7,265)
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	<u>5,664</u>	<u>13,560</u>

These financial statements were approved by the board of directors on 21 May 2002.

Signed on behalf of the board of directors



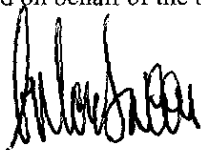
Angus MacSween
Director

COMPANY BALANCE SHEET
31 March 2002

	Note	31 March 2002 £'000	31 December 2000 £'000
FIXED ASSETS			
Investments	12	1,500	1,525
CURRENT ASSETS			
Debtors	13	11,851	6,756
Cash at bank and in hand		6,430	12,118
		18,281	18,874
CREDITORS: amounts falling due within one year		-	-
NET CURRENT ASSETS		18,281	18,874
TOTAL ASSETS LESS CURRENT LIABILITIES		19,781	20,399
CREDITORS: amounts falling due after more than one year		-	-
NET ASSETS		19,781	20,399
CAPITAL AND RESERVES			
Called up share capital	18	538	538
Capital redemption reserve	19	1,200	1,200
Share premium account	19	19,087	19,087
Profit and loss account	19	(1,044)	(426)
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	19,781	20,399

These financial statements were approved by the board of directors on 21 May 2002.

Signed on behalf of the board of directors



Angus MacSween
Director

CONSOLIDATED CASH FLOW STATEMENT
15 Months ended 31 March 2002

	Note	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Net cash outflow from operating activities	21	(7,833)	(4,681)
Returns on investments and servicing of finance	22	327	185
Capital expenditure and financial investment	22	(577)	(1,206)
Acquisitions and disposals	22	4,030	5
Cash outflow before financing		<u>(4,053)</u>	<u>(5,697)</u>
Financing	22	(1,454)	17,248
(Decrease)/increase in cash in the period		<u>(5,507)</u>	<u>11,551</u>
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash in the period		(5,507)	11,551
Cash outflows from debt and lease financing	23	<u>1,454</u>	<u>2,077</u>
Change in net funds from cash flows	23	(4,053)	13,628
New hire purchase and finance leases	23	(101)	(2,723)
Hire purchase and finance leases acquired with subsidiary	23	-	(42)
Opening net funds/(debt)		<u>9,398</u>	<u>(1,465)</u>
Closing net funds	23	<u>5,244</u>	<u>9,398</u>

NOTES TO THE ACCOUNTS

15 months ended 31 March 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards.

The group has applied three new accounting standards, FRS 17, FRS 18 and FRS 19 during the period. The adoption of FRS 17, retirement benefits, FRS 18, accounting policies, and FRS 19, deferred tax, has had no impact on the financial statements in the current period or prior year.

The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all its subsidiaries.

Acquisitions & disposals

On the acquisition of a business fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the group balance sheet in the year of acquisition.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

Goodwill and intangible fixed assets

Purchased goodwill arising on the acquisition of a business is capitalised in the year in which it arises and amortised over 3 years, which is the directors' estimate of its useful life.

Software licences are capitalised as intangible assets and amortised over the period of the licence.

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Short-term leasehold improvements	25% per annum
Computer software and equipment	Between 20% and 50% per annum
Office equipment and vehicles	25% per annum

Investments

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

Grants

Amounts receivable as capital grants are treated as deferred income and credited to the profit and loss account by instalments on a basis consistent with the depreciation policy. On 7 January 2002, as part of the agreement for the sale of the group's ADSL business, all obligations under the grant undertakings were assumed by Centrica Telecommunications Limited and the remaining deferred income in respect of these grants was credited to the profit and loss account. Revenue grants are credited to the profit and loss account in line with the expenditure to which they relate.

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002**1. ACCOUNTING POLICIES (CONTINUED)****Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallize based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognized to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign exchange

Transactions denominated in foreign currencies are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rate ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate are taken direct to reserves.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term.

Development expenditure

Development expenditure is charged to the profit and loss account as incurred.

2. ACQUISITIONS AND DISPOSALS**Acquisitions**

On 15 September 2001, the company acquired the entire issued shareholding of CANBOX Technologies GmbH and on the same date CANBOX Technologies GmbH purchased the business and assets of CANBOX Systems AG and CANBOX Europe GmbH from the receivers. The board have taken a decision to close the business of CANBOX Technologies GmbH. As such the results of this business have been shown as discontinuing activities.

On 4 March 2002 the company acquired 60% of the entire issued share capital of iomart Internet Limited (formerly known as Networks Delivered Limited), with a further 15% being acquired on 28 March 2002. On 2 July 2001 iomart Limited purchased the business and assets of Actis Technology Limited from the provisional liquidator. The amount of goodwill arising as a result of these acquisitions is £293,000 (see notes 24 and 25), which is being amortised over 3 years. The results of these businesses have been shown as acquired activities. All acquisitions have been accounted for using the acquisition method of accounting. The cash effects of the acquisitions are given in notes 24 and 25.

Disposals

iomart Limited sold its dial up access business on 10 May 2001 and its ADSL business on 7 January 2002. The results of these businesses have been shown as discontinued activities. The cash effects of the disposals are given in note 26.

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

3. ANALYSES OF CONTINUING OPERATIONS AND ACQUISITIONS

	Continuing 15 months ended 31 March 2002 £'000	Dis- continued 15 months ended 31 March 2002 £'000	Total 15 months ended 31 March 2002 £'000	Continuing Year ended 31 December 2000 £'000	Dis- continued Year ended 31 December 2000 £'000	Total Year ended 31 December 2000 £'000
Turnover	1,719	3,680	5,399	1,389	2,192	3,581
Cost of sales	(559)	(2,780)	(3,339)	(747)	(677)	(1,424)
Gross profit	1,160	900	2,060	642	1,515	2,157
Administrative expenses	(6,712)	(4,367)	(11,079)	(3,584)	(4,079)	(7,663)
Restructuring expenses	(1,572)	(1,449)	(3,021)	-	-	-
Other operating income	148	55	203	-	219	219
Net operating expenses	(8,136)	(5,761)	(13,897)	(3,584)	(3,860)	(7,444)
Operating loss	(6,976)	(4,861)	(11,837)	(2,942)	(2,345)	(5,287)

The total figures for continuing operations in the 15 months ended 31 March 2002 include the following amounts relating to acquisitions; turnover £37,000, cost of sales £3,000, gross profit £34,000, administrative expenses £608,000 and operating loss £574,000.

Amounts relating to discontinuing operations; turnover £210,000, cost of sales £77,000; gross profit £133,000, administrative expenses £1,024,000 and operating loss £891,000. The discontinuing operations relate to the acquired CANBOX Technologies GmbH business, which cannot be treated as discontinued activities under FRS 3 as it is planned to cease activities at the end of June. The directors believe that this information is relevant to the understanding of the accounts and the business.

Turnover comprises revenue from network security, web services, e-mail management, dial up access and ADSL, excluding VAT.

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

4. OPERATING LOSS

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Operating loss is after charging/(crediting)		
Depreciation of tangible fixed assets:		
Owned assets	432	117
Leased assets	1,117	709
Write down of tangible fixed assets	1,452	-
Amortisation of intangible fixed assets	499	219
Write down of intangible assets	506	-
Loss on sale of assets	15	24
Rentals under operating leases	492	145
Revenue grants	(55)	(120)
Amortised deferred grant income	(148)	(89)
Auditors' remuneration	7	10
- company audit fees	18	26
- group audit fees	56	134
- other services		
	<u> </u>	<u> </u>

The discount rate used in assessing the fixed asset write down is 11.93%.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Directors' emoluments		
Aggregate emoluments	560	365
Pension contributions to money purchase schemes	24	1
Emoluments payable to the highest paid director are as follows:		
Aggregate emoluments	132	83
Pension contributions to money purchase schemes	-	-

The detailed numerical analysis of directors' remuneration and share options is included in the report of the board to the members on directors' remuneration on pages 7 to 9.

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Average number of persons employed by the group:		
Technical	30	23
Customer services	58	70
Sales and marketing	31	25
Administration	18	15
	<u> </u>	<u> </u>
	137	133
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Staff costs during the period in respect of these employees were:		
Wages and salaries	3,599	2,500
Social security costs	358	244
Other pension costs	24	1
	<u>3,981</u>	<u>2,745</u>

There are no company or group pension schemes. However the group makes contributions to directors' personal schemes as disclosed in the report of the remuneration committee on pages 7 to 9.

6. NET INTEREST

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Investment income:		
Bank interest receivable	587	667
Interest payable and similar charges:		
Bank overdraft and other borrowings	(3)	(13)
Finance leases and hire purchase contracts	(257)	(136)
Exceptional charge on early redemption of loan	-	(333)
	<u>(260)</u>	<u>(482)</u>
Net interest	<u>327</u>	<u>185</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no tax charge in the period due to the availability of losses. Unrelieved losses of £12 million (31 December 2000 - £7.5 million) are carried forward. These will be available to reduce the tax liability of suitable future trading profits, subject to agreement with the Inland Revenue.

Deferred tax

A deferred tax asset has not been recognised in respect of losses carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is approximately £4 million. The asset would be recovered if suitable taxable profits were to be generated in the future.

8. LOSS OF PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial period was £618,000 (year ended 31 December 2000 - £426,000).

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

9. LOSS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally and there are no other diluting future share issues, diluted EPS has not been presented.

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Loss for the financial period and basic earnings attributed to ordinary shareholders	(7,896)	(5,102)
	No '000	No '000
Weighted average number of ordinary shares	53,796	46,709
Loss per share	(14.7p)	(10.9p)

10. INTANGIBLE ASSETS

The group

	Goodwill £'000	Software licences £'000	Total £'000
Cost			
At 1 January 2001	684	793	1,477
Expired licences	-	(282)	(282)
Additions in the period	293	56	349
At 31 March 2002	977	567	1,544
Accumulated amortisation			
At 1 January 2001	57	246	303
Expired licences	-	(282)	(282)
Write down on disposal of businesses	-	239	239
Write down on restructuring	361	145	506
Charge for the period	327	172	499
At 31 March 2002	745	520	1,265
Net book value			
At 31 March 2002	232	47	279
At 31 December 2000	627	547	1,174

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

11. TANGIBLE FIXED ASSETS

The group

	Leasehold improve- ments £'000	Computer software and equipment £'000	Office equipment and vehicles £'000	Total £'000
Cost				
At 1 January 2001	246	4,649	218	5,113
Acquired with subsidiaries	-	508	12	520
Foreign exchange translation differences	-	(19)	-	(19)
Additions in the period	107	595	55	757
Disposals	(70)	(379)	(56)	(505)
At 31 March 2002	283	5,354	229	5,866
Accumulated depreciation				
At 1 January 2000	46	1,071	36	1,153
Acquired with subsidiaries	-	-	2	2
Foreign exchange translation differences	-	(1)	-	(1)
Write down on disposal of businesses	-	892	-	892
Write down on restructuring	89	1,321	42	1,452
Charge for the period	86	1,390	73	1,549
Disposals	(42)	(124)	(26)	(192)
At 31 March 2002	179	4,549	127	4,855
Net book value				
At 31 March 2002	104	805	102	1,011
At 31 December 2000	200	3,578	182	3,960

The net book value of the group's tangible fixed assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	Leasehold improve- ments £'000	Computer software and equipment £'000	Office equipment and vehicles £'000	Total £'000
At 31 March 2002	61	373	72	506
At 31 December 2000	95	2,933	145	3,173

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

12. INVESTMENTS HELD AS FIXED ASSETS

The company	Shares in subsidiary undertakings £'000
Cost	
At 1 January 2001	1,525
Additions in period	310
	<hr/>
At 31 March 2002	1,835
Provision	
Provided in period	335
	<hr/>
Net book value	
At 31 March 2002	1,500
	<hr/> <hr/>
At 31 December 2000	1,525
	<hr/> <hr/>

All of the above investments are unlisted.

Included within the additions in the year is £310,013 in respect of CANBOX Technologies GmbH and £120 in respect of iomart Internet Limited (formerly known as Networks Delivered Limited). Full provision has been made against the investments in NSL (Internet) Limited and CANBOX Technologies GmbH. The following subsidiaries have been consolidated in the group accounts:

	Country of registration and operation	Activity	Portion of ordinary shares held %
iomart Limited	Scotland	Network security and web services	100
NSL (Internet) Limited	Scotland	Dormant	100
CANBOX Technologies GmbH	Germany	Messaging	100
iomart Internet Limited (formerly known as Networks Delivered Limited)	England	Web services	75

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

13. DEBTORS

The group	31 March 2002 £'000	31 December 2000 £'000
Trade debtors	581	557
Other debtors	254	520
Prepayments and accrued income	92	715
	<u>927</u>	<u>1,792</u>
The company		
Amounts owed by subsidiary undertakings	<u>11,851</u>	<u>6,756</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

The group	31 March 2002 £'000	31 December 2000 £'000
Obligations under finance leases and hire purchase contracts (note 16)	704	1,097
Trade creditors	831	1,373
Taxation and social security	89	149
Other creditors	32	30
Accruals and deferred income	857	1,123
	<u>2,513</u>	<u>3,772</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

The group	31 March 2002 £'000	31 December 2000 £'000
Obligations under finance leases and hire purchase contracts (note 16)	571	1,531
Deferred income	-	89
	<u>571</u>	<u>1,620</u>

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

16. BORROWINGS

The group	31 March 2002 £'000	31 December 2000 £'000
Obligations under finance leases and hire purchase contracts	1,275	2,628

The obligations under finance leases and hire purchase contracts are secured by the related assets and are repayable as follows:

Due within one year	704	1,097
Due between two and five years	571	1,531
	<u>1,275</u>	<u>2,628</u>

17. MINORITY INTERESTS

The equity minority interests comprise 40 ordinary shares of £1 each, representing 25% of the total issued share capital, in iomart Internet Limited.

18. CALLED UP SHARE CAPITAL

	Number of shares Ordinary shares of 1p
The group and company	
Authorised	
At 31 December 2000 and 31 March 2002	<u>100,000,000</u>
Called up, allotted and fully paid	
At 31 December 2000 and 31 March 2002	<u>53,795,614</u>

The company operates an approved share option scheme, an unapproved share option scheme and a savings related share option scheme.

At 31 March 2002, 58 employees and directors and 78 former employees held share options as follows:

	Number of shares	Exercise price per share	Date from which exercisable	Expiry date
Approved scheme	132,376	90.00p	19/4/2003	19/4/2010
	3,033	90.00p	19/4/2003	31/12/2004
	20,000	78.50p	17/8/2003	17/8/2010
	7,500	78.50p	4/9/2003	4/9/2010
	15,000	75.00p	1/11/2003	1/11/2010
	510,021	44.00p	24/1/2004	24/1/2011
	14,659	44.00p	24/1/2004	7/1/2007
	182,159	44.00p	24/1/2004	31/12/2004
	539,444	13.50p	26/9/2004	26/9/2011
	15,000	13.50p	26/9/2004	31/12/2004
	257,350	11.75p	31/10/2004	31/10/2011
	100,000	11.75p	31/10/2004	7/7/2007
	168,998	11.75p	31/10/2004	31/12/2004
	200,000	9.00p	27/2/2005	27/2/2012

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

18. CALLED UP SHARE CAPITAL (CONTINUED)

	Number of shares	Exercise price per share	Date from which exercisable	Expiry date
Unapproved scheme	40,493	44.00p	24/1/2002	24/1/2011
	40,493	44.00p	24/1/2003	24/1/2011
	40,493	44.00p	24/1/2004	24/1/2011
	15,113	44.00p	24/1/2002	7/7/2007
	15,114	44.00p	24/1/2003	7/7/2007
	15,114	44.00p	24/1/2004	7/7/2007
	3,447	44.00p	24/1/2002	31/12/2004
	3,447	44.00p	24/1/2003	31/12/2004
	3,447	44.00p	24/1/2004	31/12/2004
	149,352	13.50p	26/9/2002	26/9/2011
	149,352	13.50p	26/9/2003	26/9/2011
	149,352	13.50p	26/9/2004	26/9/2011
	200,000	13.50p	26/9/2001	26/9/2011
	360,000	13.50p	31/1/2002	26/9/2011
	360,000	13.50p	30/4/2002	26/9/2011
	360,000	13.50p	31/7/2002	26/9/2011
	360,000	13.50p	30/10/2002	26/9/2011
	360,000	13.50p	31/1/2003	26/9/2011
	125,000	13.50p	26/9/2002	26/9/2011
	125,000	13.50p	26/9/2003	26/9/2011
50,000	11.75p	31/10/2001	31/10/2011	
Other unapproved options	596,377	5.00p	11/5/2000	14/12/2008
	596,378	5.00p	11/2/2001	14/12/2008
	596,378	5.00p	11/2/2002	14/12/2008
Savings related scheme	2,691	72.00p	1/7/2003	1/1/2004
	232,476	19.20p	1/10/2004	1/4/2005

19. STATEMENT OF MOVEMENT ON RESERVES

	Capital redemption reserve £'000	Share premium account £'000	Profit and loss account £'000
The group			
Loss for the financial period	-	-	(7,896)
Opening balance	1,200	19,087	(7,265)
Closing balance	<u>1,200</u>	<u>19,087</u>	<u>(15,161)</u>
The company			
Loss for the financial period	-	-	(618)
Opening balance	1,200	19,087	(426)
Closing balance	<u>1,200</u>	<u>19,087</u>	<u>(1,044)</u>

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

20. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
The group		
Loss for the financial period	(7,896)	(5,102)
Shares issued – net of expenses	-	19,325
Net (reduction)/increase in shareholders' funds	(7,896)	14,223
Opening shareholders' funds	13,560	(663)
Closing shareholders' funds	5,664	13,560
The company		
Opening shareholders' funds	20,399	-
Loss for the financial period	(618)	(426)
New share capital subscribed	-	20,825
Closing shareholders' funds	19,781	20,399

21. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Operating loss	(11,837)	(5,287)
Depreciation	1,549	826
Amortisation of intangible assets	499	219
Write down of tangible fixed assets	1,452	-
Write down of intangible fixed assets	506	-
Loss on sale of assets	15	24
Foreign exchange translation differences	18	-
Decrease/(increase) in debtors	907	(1,283)
(Decrease)/increase in creditors	(942)	820
Net cash outflow from operating activities	(7,833)	(4,681)

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

22. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Returns on investments and servicing of finance		
Other interest receivable	587	667
Bank overdraft and other borrowings	(3)	(13)
Finance leases and hire purchase contracts	(257)	(136)
Charge on early redemption of bank loan	-	(333)
	<u>327</u>	<u>185</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(656)	(695)
Proceeds of disposal of fixed assets	135	-
Payments to acquire intangible fixed assets	(56)	(511)
	<u>(577)</u>	<u>(1,206)</u>
Acquisitions		
Purchase of subsidiary undertakings	(310)	(25)
Purchase of businesses	(907)	-
Net cash acquired with subsidiary	310	30
	<u>(907)</u>	<u>5</u>
Sale of businesses		
Sale of dial up access	2,960	-
Sale of ADSL	1,977	-
	<u>4,937</u>	<u>-</u>
Total acquisitions and disposals	<u>4,030</u>	<u>5</u>
Financing		
Issue of ordinary shares	-	20,073
Expenses of share issue	-	(748)
Repayment of borrowings	-	(1,000)
Capital element of finance lease rental and hire purchase contract payments	(1,454)	(1,077)
	<u>(1,454)</u>	<u>17,248</u>

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

23. ANALYSIS OF CHANGE IN NET FUNDS

	At 31 December 2000 £'000	Cash flow £'000	Other non- cash changes £'000	At 31 March 2002 £'000
Cash at bank and in hand	12,026	(5,507)	-	6,519
Finance leases and hire purchase	(2,628)	1,454	(101)	(1,275)
Net funds	9,398	(4,053)	(101)	5,244

24. PURCHASE OF SUBSIDIARY UNDERTAKINGS

	CANBOX Techno- logies GmbH	Iomart Internet Limited	Total 15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Net assets acquired:				
Tangible fixed assets	-	10	10	101
Debtors	-	-	-	140
Cash at bank and in hand	310	-	310	30
Creditors	-	(38)	(38)	(888)
Hire purchase contracts	-	-	-	(42)
Minority interest	-	7	7	-
	310	(21)	289	(659)
Goodwill	-	21	21	684
	310	-	310	25
Satisfied by:				
Cash	310	-	310	25

The directors are satisfied that the net assets acquired were equivalent to the fair values at the date of acquisition.

CANBOX Technologies GmbH did not trade prior to its acquisition by the company. The summarised profit and loss account of iomart Internet Limited for the period from 12 July 2001, the date of its incorporation, to 3 March 2002 is as follows:

	£'000
Turnover	26
Operating loss	(28)
Loss before and after taxation	(28)

CANBOX Technologies GmbH paid £635,000 for acquisitions during the period and iomart Internet Limited contributed £3,000 to the group's net operating cash flows.

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

25. PURCHASE OF BUSINESSES

	Actis Techno- logy Limited	CANBOX Systems AG	CANBOX Europe GmbH	Total 15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Tangible fixed assets	-	238	270	508	-
Debtors	-	-	127	127	-
	-	238	397	635	-
Goodwill	272	-	-	272	-
	272	238	397	907	-
Satisfied by:					
Cash	272	238	397	907	-

The directors are satisfied that the net assets acquired were equivalent to the fair values at the date of acquisition.

CANBOX Systems AG and CANBOX Europe GmbH were part of a larger group of companies prior to the purchase of part of their business from their trustees. Separate financial statements for the business purchased are not available and the directors do not consider that the results of the group prior to the purchase are relevant to the business purchased. The business of Actis Technology Limited was purchased from the liquidators of the company and no financial statements were prepared prior to the liquidation.

The business acquired from the liquidators of Actis Technology Limited utilised £556,000 of net operating cash flows and paid £10,000 for capital expenditure. The business acquired from the trustees of CANBOX Systems AG and CANBOX Europe GmbH contributed £293,000 to the group's net operating cash flows and generated £111,000 from net capital expenditure.

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

26. SALE OF BUSINESSES

	Dial up access	ADSL	Total 15 Months ended 31 March 2002 £'000	Year ended 31 December 2000 £'000
Tangible fixed assets	-	163	163	-
Debtors	-	85	85	-
Creditors	-	(51)	(51)	-
	-	197	197	-
Write down of tangible fixed assets	892	-	892	-
Write down of intangible assets	239	-	239	-
	1,131	197	1,328	-
Profit on disposal	1,829	1,780	3,609	-
	2,960	1,977	4,937	-
Satisfied by:				
Cash	2,960	1,977	4,937	-

The dial up access business utilised £1,359,000 of net operating cash flows and paid £127,000 for capital expenditure. The ADSL business utilised £2,241,000 of net operating cash flows.

27. CAPITAL COMMITMENTS

The group	31 March 2002 £'000	31 December 2000 £'000
Contracted for but not provided	-	140

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

28. OPERATING LEASE COMMITMENTS

At 31 March 2002 the group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings 31 March 2002 £'000	Other 31 March 2002 £'000	Land and buildings 31 December 2000 £'000	Other 31 December 2000 £'000
Leases which expire:				
Within one year	59	-	30	-
Within two to five years	-	6	284	7
After five years	101	-	267	-
	<u>160</u>	<u>6</u>	<u>581</u>	<u>7</u>

29. RELATED PARTY TRANSACTIONS

During the period the company paid rent, in respect of an agreement, which terminated on 30 June 2001, of £15,000 (year ended 31 December 2000 - £30,000) to Adabrock Broadcasting Company, a partnership in which Angus MacSween and Bill Dobbie are partners. There are no outstanding balances at the period end (31 December 2000 - £40,500 due by Adabrock Broadcasting Company).

On 27 March 1999 the company entered into a ten year property rental agreement with Highlands and Islands Enterprise. The rent was £55,000 per annum with a two year rent free period. Neil Finlayson, a director of the company, was also a director of Highlands and Islands Enterprise for part of the period. On 8 January 2002 the company's interest as tenant under the lease was assigned to Centrica Telecommunications Limited. There are no outstanding balances at the period end (31 December 2000 - £nil).

During the year ended 31 December 2000, the group purchased services of £255,000 from Abovenet Limited in respect of bandwidth usage and recharged them £33,000. Angus MacSween and Bill Dobbie were directors and shareholders in Abovenet Limited for part of that period. At 31 December 2000 there was an amount due to Abovenet Limited of £53,000 and an amount due from Abovenet Limited of £33,000. While there were transactions with Abovenet during the period ended 31 March 2002, these are not disclosed as the related-party relationship did not exist in that period.

All of the above transactions were carried out at arms' length.

30. FINANCIAL INSTRUMENTS

The group's policies as regards financial instruments are set out in the financial review on page 6. The group does not trade in financial instruments. The group has no undrawn committed borrowing facilities (31 December 2000 - nil). Short-term debtors and creditors have been omitted from all disclosures other than the currency profile. The fair value of the group's cash balances is the same as the carrying values as disclosed in the balance sheets on pages 16 and 17. Interest on floating rate bank deposits is based on the Bank of Scotland base rate plus ten percentage points.