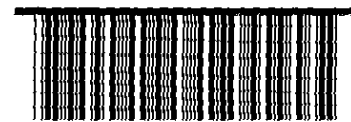


IOMART LIMITED

**Report and Financial Statements
31 March 2002**

**Deloitte & Touche
Glasgow**



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REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Angus MacSween
Bill Dobbie
Sarah Haran

SECRETARY

Stewart Moir

REGISTERED OFFICE

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

BANKERS

Bank of Scotland
235 Sauchiehall Street
Glasgow
G2 3EY

SOLICITORS

McGrigor Donald
Pacific House
70 Wellington Street
Glasgow
G2 6SB

AUDITORS

Deloitte & Touche
Glasgow

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 15 month period ended 31 March 2002.

ACTIVITIES

The principal activity of the company is the provision of IT, internet and software services for business customers.

REVIEW OF DEVELOPMENTS

The results for the period are shown in the profit and loss account on pages 6 and 7. The directors are confident of an improvement in the results in the year ahead.

DIVIDENDS

The directors do not propose a dividend, leaving the loss to be transferred against reserves.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the period were as follows:

Angus MacSween

Bill Dobbie

Sarah Haran

Neil Finlayson (Resigned 26 June 2002)

David Harrison (Resigned 30 November 2001)

No director had any interest in the shares of the company at 31 March 2002 or at 31 December 2000. The interests of the directors in the ultimate parent undertaking, iomart Group plc, are shown in the accounts of that company.

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.

Approved by the Board of Directors
and signed by order of the Board



Stewart Moir
Secretary

28 August 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 as at the end of the financial year 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;
- 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 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IOMART LIMITED

We have audited the financial statements of iomart Limited for the 15 month period ended 31 March 2002 which comprise the profit and loss account, the reconciliation of movements in shareholders' deficit, the balance sheet and the related notes 1 to 20. 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 is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.

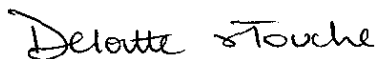
Basis of audit opinion

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 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 of the state of the company's affairs as at 31 March 2002 and of its loss for the 15 month period then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche

Chartered Accountants and Registered Auditors
Glasgow

30 October 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.

PROFIT AND LOSS ACCOUNT
15 months ended 31 March 2002

	Note	15 months to 31 March 2002 £	Year to 31 December 2000 £
TURNOVER	2 & 4		
Continuing operations		1,681,598	1,251,504
Acquisitions		30,505	-
		<u>1,712,103</u>	<u>1,251,504</u>
Discontinued operations		3,470,626	2,191,903
		<u>5,182,729</u>	<u>3,443,407</u>
Cost of sales	4	(3,258,771)	(1,361,838)
GROSS PROFIT	4	<u>1,923,958</u>	<u>2,081,569</u>
Administrative expenses	4	(9,998,621)	(7,003,438)
Restructuring expenses	4	(2,248,497)	-
Total administrative expenses		<u>(12,247,118)</u>	<u>(7,003,438)</u>
Other operating income	4	202,502	219,321
		<u>(12,044,616)</u>	<u>(6,784,117)</u>
OPERATING LOSS	4 & 6		
Continuing operations		(5,594,502)	(3,016,740)
Acquisitions		(555,923)	-
		<u>(6,150,425)</u>	<u>(3,016,740)</u>
Discontinued operations		(3,970,233)	(1,685,808)
Operating loss		<u>(10,120,658)</u>	<u>(4,702,548)</u>
Profit on disposal of discontinued operations	3 & 16	3,609,837	-
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		<u>(6,510,821)</u>	<u>(4,702,548)</u>
Interest received		6,978	7,296
Interest payable and similar charges	7	(259,874)	(480,791)
		<u>(252,896)</u>	<u>(473,495)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(6,763,717)</u>	<u>(5,176,043)</u>
Tax on loss on ordinary activities	8	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD		<u>(6,763,717)</u>	<u>(5,176,043)</u>

PROFIT AND LOSS ACCOUNT (CONTINUED)
15 months ended 31 March 2002

	Note	15 months to 31 March 2002 £	Year to 31 December 2000 £
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD		(6,763,717)	(5,176,043)
Retained loss brought forward		<u>(7,339,433)</u>	<u>(2,163,390)</u>
Retained loss carried forward		<u><u>(14,103,150)</u></u>	<u><u>(7,339,433)</u></u>

There have been no recognised gains and losses attributable to the shareholders other than the loss for the current financial period and preceding financial year and accordingly, no statement of total recognised gains and losses is shown.

The profit and loss account for the comparative period represents 12 months trading.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT
15 months ended 31 March 2002

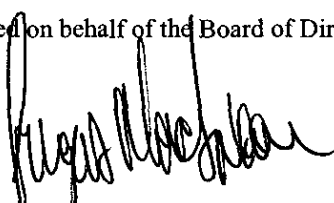
	15 months to 31 March 2002 £	Year to 31 December 2000 £
Opening shareholders' deficit	(5,839,433)	(663,390)
Loss for the financial period	<u>(6,763,717)</u>	<u>(5,176,043)</u>
Closing shareholders' deficit	<u><u>(12,603,150)</u></u>	<u><u>(5,839,433)</u></u>

BALANCE SHEET**31 March 2002**

	Note	31 March 2002 £	31 December 2000 £
FIXED ASSETS			
Intangible assets	9	258,432	547,037
Tangible assets	10	1,000,701	3,843,363
		<u>1,259,133</u>	<u>4,390,400</u>
CURRENT ASSETS			
Debtors	11	904,006	1,659,293
Cash at bank and in hand		7,752	-
		<u>911,758</u>	<u>1,659,293</u>
CREDITORS: amounts falling due within one year	12	<u>(2,368,729)</u>	<u>(3,529,476)</u>
NET CURRENT LIABILITIES		<u>(1,456,971)</u>	<u>(1,870,183)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(197,838)</u>	<u>2,520,217</u>
CREDITORS: amounts falling due after more than one year	13	<u>(12,405,312)</u>	<u>(8,359,650)</u>
		<u>(12,603,150)</u>	<u>(5,839,433)</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,500,000	1,500,000
Profit and loss account		<u>(14,103,150)</u>	<u>(7,339,433)</u>
TOTAL EQUITY SHAREHOLDERS' DEFICIT		<u>(12,603,150)</u>	<u>(5,839,433)</u>

These financial statements were approved by the Board of Directors on 28 August 2002.

Signed on behalf of the Board of Directors


Angus MacSween
Director

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 company 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.

Acquisitions & disposals

On the acquisition of a business fair values are attributed to the company'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 company's balance sheet in the year of acquisition.

The results relating to a business are included in the profit and loss account 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.

Intangible fixed assets

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

Grants

Amounts receivable under capital grants were treated as deferred income, and credited to the profit and loss account by instalments on a basis consistent with the depreciation policy. On 8 January 2002, as part of the agreement for the sale of the company'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 profit and loss account. Revenue grants are credited to the profit and loss account in line with the expenditure to which they relate.

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 recognised 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.

NOTES TO THE ACCOUNTS

15 months ended 31 March 2002

1. ACCOUNTING POLICIES (CONTINUED)

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 income in equal annual amounts over the lease term.

Development expenditure

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

2. TURNOVER

Turnover comprises revenue from network security, web services, dial up access and ADSL.

3. ACQUISITIONS AND DISPOSALS

On 2 July 2001 the company purchased the business and assets of Actis Technology Limited from the provisional liquidator. The amount of goodwill arising as a result of the acquisition is £271,485 (see note 15), which is being amortised over 3 years. The company sold its dial up access business on 10 May 2001 and its ADSL business on 7 January 2002.

4. ANALYSES OF CONTINUING AND DISCONTINUED OPERATIONS

	15 Months ended 31 March 2002			Year ended 31 December 2000		
	Continuing £	Dis- continued £	Total £	Continuing £	Dis- continued £	Total £
Turnover	1,712,103	3,470,626	5,182,729	1,251,504	2,191,903	3,443,407
Cost of sales	(555,577)	(2,703,194)	(3,258,771)	(684,670)	(677,168)	(1,361,838)
Gross profit	1,156,526	767,432	1,923,958	566,834	1,514,735	2,081,569
Administrative expenses	(6,243,224)	(3,755,397)	(9,998,621)	(3,583,574)	(3,419,864)	(7,003,438)
Restructuring expenses	(1,211,229)	(1,037,268)	(2,248,497)	-	-	-
Other operating income	147,502	55,000	202,502	-	219,321	219,321
	(7,306,951)	(4,737,665)	(12,044,616)	(3,583,574)	(3,200,543)	(6,784,117)
Operating loss	(6,150,425)	(3,970,233)	(10,120,658)	(3,016,740)	(1,685,808)	(4,702,548)

The total figures for continuing operations in the 15 months ended 31 March 2002 include the following amounts relating to acquisitions; turnover and gross profit £30,505, administrative expenses £586,428 and operating loss £555,923.

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	15 months to 31 March 2002 £	Year to 31 December 2000 £
Directors' remuneration		
Aggregate emoluments	506,708	330,833
Pension contributions	23,770	1,250
	<u>530,478</u>	<u>332,083</u>

During the period the highest paid director received remuneration amounting to £132,458 (year ended 31 December 2000 - £82,500)

	No	No
Average number of persons employed		
Technical	24	20
Customer services	56	68
Sales and marketing	28	24
Administration	14	15
	<u>122</u>	<u>127</u>

	15 months to 31 March 2002 £	Year to 31 December 2000 £
Staff costs during the period/year (including directors)		
Wages and salaries	3,544,871	2,282,122
Social security costs	352,490	209,649
	<u>3,897,361</u>	<u>2,491,771</u>

NOTES TO THE ACCOUNTS 15 months ended 31 March 2002

6. OPERATING LOSS

	15 months to 31 March 2002 £	Year to 31 December 2000 £
Operating loss is after charging/(crediting):		
Amortisation of intangible assets	232,326	162,142
Depreciation		
Owned assets	359,158	115,987
Leased assets	1,116,629	649,112
Write down of tangible fixed assets	1,150,400	-
Write down of intangible assets	144,983	-
Loss on sale of assets	15,200	-
Rentals under operating leases	480,223	137,900
Revenue grants	(55,000)	(120,000)
Amortised deferred grant income	(147,502)	(89,264)
Auditors' remuneration	9,000	10,000
	<u>2,584,437</u>	<u>1,465,081</u>

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

7. INTEREST PAYABLE AND SIMILAR CHARGES

	15 months to 31 March 2002 £	Year to 31 December 2000 £
Exceptional charge on early redemption of loan	-	333,000
Bank loans, overdrafts and other loans repayable within five years	2,843	28,479
Finance leases and hire purchase contracts	257,031	119,312
	<u>259,874</u>	<u>480,791</u>

8. 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.

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

9. INTANGIBLE ASSETS

	Goodwill £	Software licences £	Total £
Cost			
At 1 January 2001	-	793,110	793,110
Expired licences	-	(282,304)	(282,304)
Additions	271,485	55,991	327,476
At 31 March 2002	271,485	566,797	838,282
Amortisation			
At 1 January 2001	-	246,073	246,073
Expired licences	-	(282,304)	(282,304)
Write down on disposal of businesses	-	238,772	238,772
Write down on restructuring	-	144,983	144,983
Charge for the year	60,328	171,998	232,326
At 31 March 2002	60,328	519,522	579,850
Net book value			
At 31 March 2002	211,157	47,275	258,432
At 31 December 2000	-	547,037	547,037

NOTES TO THE ACCOUNTS 15 months ended 31 March 2002

10. TANGIBLE FIXED ASSETS

	Short-term leasehold improve- ments £	Computer software and equipment £	Motor vehicles £	Office equipment £	Total £
Cost					
At 1 January 2001	246,186	4,482,226	6,000	201,569	4,935,981
Transferred from fellow subsidiary	-	166,694	-	9,595	176,289
Disposals	(69,799)	(247,091)	(6,000)	(50,191)	(373,081)
Additions	106,669	574,412	-	54,970	736,051
At 31 March 2002	283,056	4,976,241	-	215,943	5,475,240
Depreciation					
At 1 January 2001	45,607	1,012,050	2,125	32,836	1,092,618
Transferred from fellow subsidiary	-	53,115	-	2,984	56,099
Disposals	(41,963)	(124,438)	(2,125)	(23,749)	(192,275)
Write down on disposal of businesses	-	891,910	-	-	891,910
Write down on restructuring	88,743	1,019,121	-	42,536	1,150,400
Charge for the year	85,592	1,319,236	-	70,959	1,475,787
At 31 March 2002	177,979	4,170,994	-	125,566	4,474,539
Net book value					
At 31 March 2002	105,077	805,247	-	90,377	1,000,701
At 31 December 2000	200,579	3,470,176	3,875	168,733	3,843,363

The net book value of the Company's tangible fixed assets include an amount of £506,222 (31 December 2000 - £3,172,826) in respect of assets held under finance leases and hire purchase contracts.

11. DEBTORS

	31 March 2002 £	31 December 2000 £
Trade debtors	571,965	469,846
Other debtors	91,859	446,121
Prepayments and accrued income	240,182	743,326
	904,006	1,659,293

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2002 £	31 December 2000 £
Bank overdraft	-	119,691
Trade creditors	600,333	1,142,145
Obligations under finance leases and hire purchase contracts	704,206	1,064,884
Other taxes and social security	49,829	108,942
Accruals and deferred income	805,200	1,093,814
Other creditors	209,161	-
	<u>2,368,729</u>	<u>3,529,476</u>

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

	31 March 2002 £	31 December 2000 £
Deferred income	-	88,767
Obligations under finance leases and hire purchase contracts	570,918	1,514,983
Amounts owed to group companies	11,834,394	6,755,900
	<u>12,405,312</u>	<u>8,359,650</u>

The obligations under finance leases and hire purchase contracts are secured by the related assets, and are all repayable within 5 years.

The amounts owed to group companies have no fixed repayment terms and attract a zero rate of interest.

14. CALLED UP SHARE CAPITAL

	31 March 2002 £	31 December 2000 £
Authorised		
10,000,000 ordinary shares of £1 each	10,000,000	10,000,000
Called up, allotted and fully paid		
1,500,000 ordinary shares of £1 each	<u>1,500,000</u>	<u>1,500,000</u>

NOTES TO THE ACCOUNTS
15 months ended 31 March 2002

15. PURCHASE OF BUSINESS

	15 Months ended 31 March 2002 £	Year ended 31 December 2000 £
Goodwill	271,485	-
Satisfied by:		
Cash	271,485	-

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

The business of Actis Technology Limited was purchased from the liquidators of the company and no financial statements were prepared prior to the liquidation.

16. SALE OF BUSINESSES

	Dial up access £'000	ADSL £'000	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	-

17. CAPITAL COMMITMENTS

	31 March 2002 £	31 December 2000 £
Contracted for but not provided	-	140,050

NOTES TO THE ACCOUNTS

15 months ended 31 March 2002

18. OPERATING LEASE COMMITMENTS

	Land and Buildings 31 March 2002 £	Other 31 March 2002 £	Land and Buildings 31 December 2002 £	Other 31 December 2002 £
Leases which expire:				
Within one year	59,220	-	30,000	-
Within two to five years	-	5,593	225,000	6,640
After five years	100,725	-	267,214	-
	<u>159,945</u>	<u>5,593</u>	<u>522,214</u>	<u>6,640</u>

19. 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, is also a director of Highlands and Islands Enterprise. 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 the above transactions were carried out at arms' length.

20. ULTIMATE PARENT UNDERTAKING

The ultimate parent company is iomart Group plc, a company registered in Scotland. At the period end a balance of £11,834,394 (31 December 2000 - £6,755,900) was due to iomart Group plc. Copies of the accounts of iomart Group plc are available from the registered office of the company.