

IOMART LIMITED

Report and Financial Statements

31 March 2003



**Deloitte & Touche
Glasgow**

REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

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

Independent auditors

Deloitte & Touche
Glasgow

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

Principal activity

The principal activity of the company is the provision of network security and web services.

Business review and future developments

The results for the year are shown in the profit and loss account on page 6. 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)

No director had any interest in the shares of the company at 31 March 2003 or at 31 March 2002. 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
4 June 2003

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records 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 year ended 31 March 2003 which comprise the profit and loss account, the reconciliation of movements in shareholders' deficit, the balance sheet and the related notes 1 to 16. 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 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF IOMART LIMITED
(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 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Glasgow

6 June 2003

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
Year ended 31 March 2003

	Note	Year to 31 March 2003 £	15 months to 31 March 2002 £
TURNOVER			
Continuing operations	3	646,263	1,712,103
Discontinued operations		-	3,470,626
		<u>646,263</u>	<u>5,182,729</u>
Cost of sales	3	(21,633)	(3,258,771)
		<u>624,630</u>	<u>1,923,958</u>
GROSS PROFIT	3		
Administrative expenses	3	(2,109,049)	(9,998,621)
Restructuring expenses	3	(466,118)	(2,248,497)
Total administrative expenses		<u>(2,575,167)</u>	<u>(12,247,118)</u>
Other operating income	3		202,502
Write back of inter-company balance	6	13,000,000	-
		<u>10,424,833</u>	<u>(12,044,616)</u>
OPERATING PROFIT/(LOSS)			
Continuing operations		11,049,463	(6,150,425)
Discontinued operations		-	(3,970,233)
Operating profit/(loss)	3 & 5	<u>11,049,463</u>	<u>(10,120,658)</u>
Profit on disposal of discontinued operations		-	3,609,837
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		<u>11,049,463</u>	<u>(6,510,821)</u>
Interest received		450	6,978
Interest payable and similar charges	7	(33,030)	(259,874)
		<u>(32,580)</u>	<u>(252,896)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>11,016,883</u>	<u>(6,763,717)</u>
Tax on loss on ordinary activities	8	334,060	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR/PERIOD		<u>11,350,943</u>	<u>(6,763,717)</u>
Retained loss brought forward		<u>(14,103,150)</u>	<u>(7,339,433)</u>
Retained loss carried forward		<u>(2,752,207)</u>	<u>(14,103,150)</u>

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT
Year ended 31 March 2003

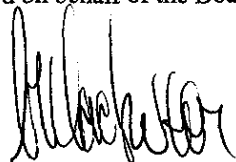
	Year to 31 March 2003 £	15 months to 31 March 2002 £
Opening shareholders' deficit	(12,603,150)	(5,839,433)
Profit for the financial year/period	<u>11,350,943</u>	<u>(6,763,717)</u>
Closing shareholders' deficit	<u><u>(1,252,207)</u></u>	<u><u>(12,603,150)</u></u>

BALANCE SHEET
31 March 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Intangible assets	9	-	258,432
Tangible assets	10	318,157	1,000,701
		<u>318,157</u>	<u>1,259,133</u>
CURRENT ASSETS			
Debtors	11	1,050,517	904,006
Cash at bank and in hand		72,809	7,752
		<u>1,123,326</u>	<u>911,758</u>
CREDITORS: amounts falling due within one year	12	<u>(899,964)</u>	<u>(2,368,729)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>223,362</u>	<u>(1,456,971)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		541,519	(197,838)
CREDITORS: amounts falling due after more than one year	13	<u>(1,793,726)</u>	<u>(12,405,312)</u>
		<u>(1,252,207)</u>	<u>(12,603,150)</u>
CAPITAL AND RESERVES			
Called up share capital	14	1,500,000	1,500,000
Profit and loss account		<u>(2,752,207)</u>	<u>(14,103,150)</u>
TOTAL EQUITY SHAREHOLDERS' DEFICIT		<u>(1,252,207)</u>	<u>(12,603,150)</u>

These financial statements were approved by the Board of Directors on 4 June 2003.

Signed on behalf of the Board of Directors



Angus MacSween
Director

NOTES TO THE ACCOUNTS

Year ended 31 March 2003

1. ACCOUNTING POLICIES

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

The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

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	25% per annum

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.

Cash flow

The Company has taken advantage of the exemptions available under the provisions of Financial Reporting Standard 1 (revised 1996) - "Cash Flow Statements", and a separate cash flow statement has not been prepared.

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 and web services.

NOTES TO THE ACCOUNTS
Year ended 31 March 2003

3. ANALYSES OF CONTINUING AND DISCONTINUED OPERATIONS

	Year ended 31 March 2003	15 months ended 31 March 2002		
	Continuing £	Continuing £	Dis- continued £	Total £
Turnover	646,263	1,712,103	3,470,626	5,182,729
Cost of sales	(21,633)	(555,577)	(2,703,194)	(3,258,771)
Gross profit	624,630	1,156,526	767,432	1,923,958
Administrative expenses	(2,109,049)	(6,243,224)	(3,755,397)	(9,998,621)
Restructuring expenses	(466,118)	(1,211,229)	(1,037,268)	(2,248,497)
Other operating income	-	147,502	55,000	202,502
	(2,575,167)	(7,306,951)	(4,737,665)	(12,044,616)
Operating loss	(1,950,537)	(6,150,425)	(3,970,233)	(10,120,658)

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year to 31 March 2003 £	15 months to 31 March 2002 £
Directors' remuneration		
Aggregate emoluments	304,733	506,708
Pension contributions	20,410	23,770
	325,143	530,478
Highest paid director		
Aggregate emoluments	100,700	132,458
Pension contributions	9,350	-
	110,050	132,458
	No.	No.
Average number of persons employed (including directors)		
Technical	21	24
Customer services	6	56
Sales and marketing	8	28
Administration	9	14
	44	122

NOTES TO THE ACCOUNTS

Year ended 31 March 2003

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

	Year to 31 March 2003 £	15 months to 31 March 2002 £
Staff costs (including directors)		
Wages and salaries	1,343,923	3,544,871
Social security costs	133,486	352,490
Other pension costs	20,410	23,770
	<u>1,497,819</u>	<u>3,921,131</u>

5. OPERATING PROFIT/(LOSS)

	Year to 31 March 2003 £	15 months to 31 March 2002 £
Operating profit/(loss) is after charging/(crediting):		
Amortisation of intangible assets	110,748	232,326
Depreciation		
Owned assets	197,466	359,158
Leased assets	283,160	1,116,629
Impairment write down of tangible fixed assets	229,788	1,150,400
Impairment write down of intangible assets	147,684	144,983
Loss on sale of assets	-	15,200
Rentals under operating leases	222,061	480,223
Revenue grants	-	(55,000)
Amortised deferred grant income	-	(147,502)
Auditors' remuneration	<u>9,000</u>	<u>9,000</u>

The discount rate used in assessing the fixed asset write down is 8.4%.

6. WRITE BACK OF INTER COMPANY BALANCE

At 31 March 2003 the company's parent company, iomart Group plc wrote off an amount of £13,000,000 due by the company. iomart Group plc has confirmed that this amount will not be payable by the company at any time and it has therefore been written back to the profit and loss account.

NOTES TO THE ACCOUNTS
Year ended 31 March 2003

7. INTEREST PAYABLE AND SIMILAR CHARGES

	Year to 31 March 2003 £	15 months to 31 March 2002 £
Bank loans, overdrafts and other loans repayable within five years	589	2,843
Finance leases and hire purchase contracts	32,441	257,031
	<u>33,030</u>	<u>259,874</u>

8. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	Year ended 31 March 2003 £'000	15 Months ended 31 March 2002 £'000
Current year		
Research and development tax credit	158,688	-
Adjustments in respect of prior years		
Research and development tax credit	<u>175,372</u>	<u>-</u>
	<u>334,060</u>	<u>-</u>

There is no tax charge in the period due to the availability of losses. Unrelieved losses of £11 million (2002 - £12 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.

Research and development tax credits have been claimed for the current year and the previous period in respect of expenditure incurred on the development of the company's NetIntelligence software. These credits are at the rate of 16% of the amount of expenditure allowed as a deduction from taxable income, which is 150% of the development expenditure incurred.

NOTES TO THE ACCOUNTS

Year ended 31 March 2003

8 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows.

	Year ended 31 March 2003 £'000	15 months ended 31 March 2002 £'000
Profit/(loss) on ordinary activities before tax	11,016,883	(6,763,717)
Tax charge/(credit) @ 30%	3,305,065	(2,029,115)
Non qualifying depreciation	(62,106)	187,587
Disallowed expenditure	129,669	117,024
Deferred tax movement not provided	291,310	1,595,840
Movement in short term timing differences	18,273	(6,337)
Consolidation adjustments	19,429	135,001
Rate differences	39,672	-
Non taxable release of inter-company balance	(3,900,000)	-
Prior year adjustments	(175,372)	-
	<u>(334,060)</u>	<u>-</u>

9. INTANGIBLE ASSETS

	Goodwill £	Software licences £	Total £
Cost			
At 1 April 2002 and 31 March 2003	271,485	566,797	838,282
Amortisation			
At 1 April 2002	60,328	519,522	579,850
Charge for the year	90,492	20,256	110,748
Impairment write down	120,665	27,019	147,684
At 31 March 2003	271,485	566,797	838,282
Net book value			
At 31 March 2003	-	-	-
At 31 March 2002	211,157	47,275	258,432

NOTES TO THE ACCOUNTS
Year ended 31 March 2003

10. TANGIBLE FIXED ASSETS

	Short-term leasehold improve- ments £	Computer software and equipment £	Office equipment £	Total £
Cost				
At 1 April 2002	283,056	4,976,241	215,943	5,475,240
Disposals	(100,799)	(1,401,812)	(12,069)	(1,514,680)
Additions	-	27,871	-	27,871
At 31 March 2003	182,257	3,602,300	203,874	3,988,431
Depreciation				
At 1 April 2002	177,979	4,170,994	125,566	4,474,539
Disposals	(100,799)	(1,401,812)	(12,069)	(1,514,680)
Charge for the year	45,564	394,135	40,927	480,626
Impairment write down	-	229,788	-	229,788
At 31 March 2003	122,744	3,393,105	154,424	3,670,274
Net book value				
At 31 March 2003	59,513	209,195	49,450	318,157
At 31 March 2002	105,077	805,247	90,377	1,000,701

The net book value of the Company's tangible fixed assets include an amount of £34,063 (2002 - £506,222) in respect of assets held under finance leases and hire purchase contracts.

11. DEBTORS

	2003 £	2002 £
Trade debtors	258,924	571,965
Other debtors	5,063	91,859
Prepayments and accrued income	101,817	240,182
Research and development tax credit	334,060	-
Amounts owed by fellow subsidiaries	350,653	-
	1,050,517	904,006

NOTES TO THE ACCOUNTS
Year ended 31 March 2003

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Trade creditors	171,929	600,333
Obligations under finance leases and hire purchase contracts	249,267	704,206
Other taxes and social security	216,949	49,829
Accruals and deferred income	180,855	805,200
Other creditors	80,964	209,161
	<u>899,964</u>	<u>2,368,729</u>

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

	2003 £	2002 £
Obligations under finance leases and hire purchase contracts	292,154	570,918
Amounts owed to parent company	<u>1,501,572</u>	<u>11,834,394</u>
	<u>1,793,726</u>	<u>12,405,312</u>

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

14. CALLED UP SHARE CAPITAL

	2003 £	2002 £
Authorised		
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
Called up, allotted and fully paid		
1,500,000 ordinary shares of £1 each	<u>1,500,000</u>	<u>1,500,000</u>

15. OPERATING LEASE COMMITMENTS

At 31 March 2003 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and Buildings 2003 £	Other 2003 £	Land and Buildings 2002 £	Other 2002 £
Leases which expire:				
Within one year	50,750	8,879	59,220	-
Within two to five years	-	10,213	-	5,593
After five years	<u>115,000</u>	<u>-</u>	<u>100,725</u>	<u>-</u>
	<u>165,750</u>	<u>19,092</u>	<u>159,945</u>	<u>5,593</u>

NOTES TO THE ACCOUNTS**Year ended 31 March 2003****16. RELATED PARTY TRANSACTIONS**

During the period ended 31 March 2002 the company paid rent, in respect of an agreement which terminated on 30 June 2001, of £15,000 to Adabrock Broadcasting Company, a partnership in which Angus MacSween and Bill Dobbie are partners. There were no outstanding balances at 31 March 2002. There were no transactions with Adabrock Broadcasting Company in the year ended 31 March 2003.

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, who was a director of the company until 26 June 2002, was 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 were no outstanding balances at 31 March 2002. There were no transactions with Highlands and Islands Enterprise in the year ended 31 March 2003.

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

17. ULTIMATE PARENT UNDERTAKING

The ultimate parent company is iomart Group plc, a company registered in Scotland. Copies of the accounts of iomart Group plc are available from the registered office of the company.