



iomart Group plc.
Report and Financial Statements. 31 March 2004

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OFFICERS AND PROFESSIONAL ADVISERS

Directors

Nick Kuenssberg	Non executive chairman
Angus MacSween	Chief executive officer
Sarah Haran	Operations director
Fred Shedden	Non executive director
Bill Dobbie	Non executive director

Secretary

Stewart Moir

Registered office

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

Nominated adviser and broker

KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1HP

Bankers

Bank of Scotland
235 Sauchiehall Street
Glasgow
G2 3EY

Solicitors

McGrigors
Pacific House
70 Wellington Street
Glasgow
G2 6SB

Independent Auditors

Deloitte & Touche LLP
Glasgow

Registrars

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

CHAIRMANS STATEMENT

Financial highlights

- turnover at £7.36m, up 236% on previous year, with annualised revenues now c. £12m
- loss after tax and minority interest reduced to £0.66m (1.1p per share v 3.5p per share for 2002/03)
- net cash outflow restricted to £1.02m after acquisitions and placing of 5.4m shares
- cash balances of £3.02m on hand

Operational highlights

- new version (V 4) of NetIntelligence launched in an increasingly aware market
- organic web-services business growth continues enhanced by acquisitions
- successful acquisition and integration of both NicNames and Internetters
- 38,000 webservices customers growing at c.1,000 per month (7,000 at 31.3.03)

Prospects

- NetIntelligence positioning endorsed by market though long corporate sales cycle
- webservices business profitability now established
- planned reduction of share premium account to facilitate future dividend payments

The business year 2003/04 has been demanding but rewarding. The results with break-even achieved during the second-half and monthly profitability established by the end of the year demonstrate the effectiveness of the team and the robustness of the twin-track business model.

The NetIntelligence suite of enterprise security and content management products has been enhanced and we are in discussion with a number of large corporates for extensive deployment. We remain convinced that the product suite based on individual devices rather than ring-fenced servers is increasingly relevant but the sales cycle within such organisations is long.

The webservices business has performed well. The two small acquisitions of NicNames in August 2003 and Internetters in January 2004 have both been well managed and have exceeded expectations. We currently have some 38,000 customers with monthly additions in excess of 1,000 with further potential through both organic growth and further acquisitions.

The fundraising in July 2003 through a placing of 5.4 million shares at 15p was well received and it has been gratifying to see both existing and new institutional shareholders' continued support. We believe that this confidence can be maintained.

As we indicated at the time of our interim results we intend to seek shareholder approval at our Annual General Meeting in June to reduce the share premium account under Section 135 of the Companies Act 1985. This reduction will offset accumulated losses and thus allow the company to commence the payment of dividends as and when appropriate.

Nick Kuenssberg
Non-executive chairman
18 May 2004

CHIEF EXECUTIVE OFFICERS REPORT

2004 was iomart's first full year of trading without significant structural changes going on within the business. This has allowed management to focus solely on trading activities and the resultant organic growth in revenues reflects the lack of distractions and the hard work put in by all the staff within the group.

With revenues up from £2.2m to £7.4m and losses reduced from £1.9m to £0.7m, we are confident that we have a sound and scalable business model with high margin leading edge products in growing markets.

Our webservices business, selling website and search engine products to the small and micro business community continues to grow strongly with more than 1,000 net new customers per month.

We acquired two webservices companies during the year, Web Genie Internet Limited (NicNames) in July and Internetters Limited in January. Both are performing ahead of forecast at both revenue and contribution level. This gives us a total of 38,000 customers at year end against 7,000 last year.

NetIntelligence, our security software product continues to attract more and more attention in the marketplace, from competitors, analysts, commentators and potential customers alike. We have just launched version 4 of the software which adds new functionality around personal firewall and antivirus, further improving our total solution for end point security in the large and increasingly mobile non-fixed networks arising today. We continue to make progress in penetrating the corporate market, although sales cycles are still longer than we would like. Customer wins in the year include Companies House, Scottish Water, Orange, Axa Investment Managers and Bovis Lendlease.

We have developed a modular approach to selling components of the product which allows more flexible selling and alignment with existing budgets within large organisations. This also allows us to address the SME market, and we plan to establish a new office and launch a direct telesales operation selling email filter, webfilter and antivirus into this market, exploiting our proven telesales record.

Results

Turnover for the year of £7.36 million is made up of £6.59 million from ongoing operations, network security and webservices (co-location, hosting, domain names and mail), and £0.77 million from acquisitions. This represents over 200% growth in revenues on a like for like basis, the bulk of which has come from our direct sales operation in webservices.

Gross margin at 78% overall is consistent with our forecasts.

Administrative expenses (excluding restructuring expenses) were £6.56m against £3.81m last year with the increase primarily made up of the costs of more direct sales staff. In addition, restructuring costs of £0.04 million (2003 - £0.47 million) were incurred, all of which relates to the transfer of the business of NicNames from their previous base in Aldershot to Glasgow. During the year our web hosting telesales operation in Barrow moved to larger premises and we opened a new telesales office at our existing premises in Glasgow.

A total of £0.44 million of capital expenditure was incurred during the year, mainly in respect of the new telesales operations, replacement of older more expensive equipment and additional servers to support the increased levels of business during the year.

The group operating loss was £0.83 million compared with a total of £2.40 million for the previous year.

Bank interest receivable amounted to £0.11 million. Interest payable on finance leases, net of provisions, was £0.01 million.

The loss for the year before taxation was £0.72 million. There is no liability to corporation tax on the results for the year and research and development tax credits totalling £0.12 million are due to be refunded to the group, resulting in a loss after taxation for the year of £0.60 million (2003 - £1.89 million).

Minority interests in the profit of iomart Internet Limited amounted to £0.06 million (2003 - Credit of £0.02 million), giving a loss for the financial year of £0.66 million.

The loss per share for the year was 1.1p compared to 3.5p for the year ended 31 March 2003.

Cash and borrowings

Cash balances at 31 March 2004 were £3.02 million. Borrowings under finance leases amounted to £0.29 million. The group had no other debt outstanding.

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. 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

Webservices continues to grow strongly and we believe the direct sales model gives us a significant advantage against our competitors who have to drive potential customers to their websites. There is still a very large population of the small business community who are uncomfortable going on-line to purchase web services.

The recurring revenue element within the model is a powerful driver of growth going forward.

We will continue to look at potential acquisitions as they arise, if valuations are sensible, and have proven we can integrate successfully to maximise value from them.

With the launch of version 4 of NetIntelligence we now believe we have taken a further lead in functionality around end point security. With our abilities in telesales and the growing requirements of small business in this area we are confident we can capture market share at the low end. The corporate world is beginning to wake up to the challenges addressed by NetIntelligence and we expect the groundwork done over the last 18 months to begin to pay off in the coming year.

We look forward to another year of strong growth, building on last year's second half performance.

Angus MacSween
Chief executive officer
18 May 2004

CORPORATE GOVERNANCE

While the company is listed on the Alternative Investment Market it is not required to comply with the provisions of the Combined Code. However 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 and with the further provisions of the Revised Combined Code is not appropriate although it intends to ensure that it observes the provisions of the revised Code as the group grows, 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 two executive and three non-executive directors, this being of a size appropriate to the current dimensions of the group. 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 of the remuneration committee. A separate report on directors' remuneration is set out on pages 7 to 9.

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 three times a year 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 a 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 significant 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 OF THE BOARD TO THE MEMBERS ON DIRECTORS REMUNERATION

The committee has given consideration to the Combined Code issued by the London Stock Exchange in framing its remuneration policy. While the company is listed on the Alternative Investment Market, it is not required to comply with the provisions of Schedule 7a of the Companies Act. The following disclosures are voluntary as is the resolution (1.5) to approve this report at the annual general meeting.

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; and
- the continued commitment of executives to the group's success through appropriate incentive schemes.

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. The executive directors do not receive directors' fees.

- Bonus scheme

The executive directors are eligible to receive a bonus on top 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 are 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 2004.

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 six month rolling basis, reduced from twelve months.

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

Directors' remuneration

Details of individual directors' emoluments for the year are as follows:

Name of director	Salary or fees £	Bonus £	Benefits £	Pension contributions £	Year ended 31 March 2004 Total £	Year ended 31 March 2003 Total £
Executive						
Angus MacSween	100,375	40,000	7,200	10,037	157,612	110,050
Sarah Haran	65,000	38,909	7,200	2,754	113,863	71,844
Non-executive						
Nick Kuenssberg	22,083	-	-	-	22,083	20,000
Fred Shedden	17,083	-	-	-	17,083	15,000
Bill Dobbie (executive until 24 June 2003)	34,583	-	1,800	-	36,383	100,700

Directors' interests in shares

The interests of the directors in the shares of the company at 31 March 2004, together with their interests at 1 April 2003 were as follows:

Name of director	Number of ordinary shares	
	31 March 2004	1 April 2003
Angus MacSween	17,955,000	17,955,000
Bill Dobbie	9,521,111	14,410,000
Sarah Haran	237,455	218,855
Nick Kuenssberg	835,777	585,777
Fred Shedden	557,222	457,222

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

Directors' interests in share options

The interests of the directors at 31 March 2004 in options over the ordinary shares of the company were as follows:

Options over ordinary shares of 1p each

Name of director	1 April 2003	Granted in the period	Surrendered	Exercised	31 March 2004	Exercise price	Date from which exercisable	Expiry date
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
	50,000	-	-	-	50,000	6.25p	26/7/02	26/7/12
	50,000	-	-	-	50,000	6.25p	26/7/03	26/7/12
	50,000	-	-	-	50,000	6.25p	26/7/04	26/7/12
	-	133,333	-	-	133,333	6.25p	2/7/04	2/7/13
	-	133,333	-	-	133,333	6.25p	2/7/05	2/7/13
	-	133,334	-	-	133,334	6.25p	2/7/06	2/7/13

No 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 66.5p and the range of prices during the period was between 5.0p and 71.5p.

By order of the board

Fred Shedden
Chairman, remuneration committee
18 May 2004

DIRECTORS REPORT

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 31 March 2004.

Principal activity

The principal activity of the group is the provision of network security software and webservice.

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 year ended 31 March 2004 (year ended 31 March 2003 – nil).

Directors and their interests

The present membership of the board is set out on page 2. Bill Dobbie resigned as an executive director on 24 June 2003 and was appointed as a non-executive director on that date. In accordance with the company's articles of association, Angus MacSween and Bill Dobbie will resign and offer themselves for re-election 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 10 May 2004 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	Percentage held
Angus MacSween	17,955,000	30.1%
Bill Dobbie	9,521,111	15.9%
Fleming Mercantile Investment Trust	3,976,166	6.6%
Merrill Lynch Pensions Nominees	2,175,000	3.6%
Noble Grossart Investments Limited	1,825,000	3.1%

Employee involvement

An employee forum meets informally to consult with staff and to provide feedback to management on any issues raised by employees. A newsletter is sent to all staff 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.

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 with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. Trade creditor days of the group at 31 March 2004, calculated in accordance with the requirements of the Companies Act 1985, were 30.6 days, and of the company were 50.9 days. This represents the ratio, expressed in days, between the amounts invoiced to the company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

Auditors

On 1 August 2003 Deloitte & Touche transferred its business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. Deloitte & Touche LLP 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

18 May 2004

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; and
- 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.

BOARD OF DIRECTORS

Angus MacSween

47, appointed 2000; after a short service commission in the Royal Navy, Angus started his first business selling telephone systems in 1984. Since selling this first business he has established, grown and sold 5 profitable businesses in the telephony and internet sector. Following the sale of Teledata, the UK's leading telephone information services company to Scottish Power Telecommunications, Angus spent two years on the Executive of Scottish Telecom where he was responsible for the development of the Company's Internet division. In December 1998, Angus founded iomart in conjunction with Bill Dobbie.

Sarah Haran

38, appointed 2000; Sarah has spent her career implementing and managing operations centres for large corporations such as Microsoft Inc, Compaq Inc, Scottish Power and Prestel Limited. She joined iomart in 1998, from Scottish Telecom, and has been responsible for developing the day-to-day business processes and technical operations to support iomart's customer base.

Nick Kuenssberg

61, appointed 2000; currently chairman of GAP Group Ltd and Canmore Partnership Ltd and director of Chamberlin & Hill plc, RingProp plc and Amino Holdings Ltd and previously chairman of Stoddard International plc, Dynacast International Ltd and David A Hall Ltd and other companies and director of Coats Viyella plc, Dawson International plc, ScottishPower plc, Standard Life Assurance Company and other companies. Chairman of Glasgow School of Art and Scottish Networks International, deputy chairman of Scottish Environment Protection Agency and previously chairman of IoD, Scotland and ScotlandIS and visiting professor at Strathclyde Business School.

Fred Shedden

59, appointed 2000; chairman of Halladale Group plc, Martin Currie Japan Investment Trust plc, Wisdom IT Holdings Limited and Good Practice Limited; director of Murray International Trust plc, Equitable Life Assurance Society and other companies; member of The Scottish Further Education Funding Council and of the management committee of Glasgow Housing Association; formerly managing partner and senior partner of McGrigor Donald.

Bill Dobbie

45, appointed 2000; Bill spent 9 years with Unisys in a number of technical, sales and marketing roles in the UK and Australasia, prior to joining Angus MacSween at Teledata in 1989. In 1996 joined Scottish Telecom as a Director, responsible for the company's support centre and internet divisions. In March 1998, Bill was appointed non-executive director for Demon Internet Limited following its acquisition by Scottish Telecom. In December 1998, Bill founded iomart in conjunction with Angus MacSween. Previously director of several companies acquired by Scottish Telecom. Bill is currently managing director of The DVD Biz Limited an internet based DVD rental business and is also a director of two other IT service businesses.

SENIOR MANAGEMENT

Angus MacSween	Chief executive officer
Stuart Forrest	Technical sales director, webservices
Mark Hallam	Sales director, webservices
Sarah Haran	Operations director
Stewart Moir CA	Financial controller and company secretary
Jim Mooney	Director of sales
Phil Worms	Director of marketing
Bill Strain	Chief technology officer

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF IOMART GROUP PLC

We have audited the financial statements of iomart Group Plc for the year ended 31 March 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement and the related notes 1 to 27. 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 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 year 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.

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 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Glasgow
18 May 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March 2004

	Note	Year ended 31 March 2004 £'000	31 March 2003 £'000
TURNOVER			
Acquisitions	3	771	-
Continuing operations	3	6,592	2,174
		<hr/>	<hr/>
Discontinued operations	3	7,363	2,174
		-	18
		<hr/>	<hr/>
Total turnover		7,363	2,192
Cost of sales	3	(1,589)	(312)
		<hr/>	<hr/>
Gross profit	3	5,774	1,880
Administrative expenses		(6,560)	(3,809)
Restructuring expenses		(43)	(466)
		<hr/>	<hr/>
Total administrative expenses	3	(6,603)	(4,275)
		<hr/>	<hr/>
OPERATING PROFIT/(LOSS)			
Acquisitions	3	109	-
Continuing operations	3	(938)	(2,395)
		<hr/>	<hr/>
Discontinued operations	3	(829)	(2,395)
		-	-
		<hr/>	<hr/>
Operating loss	4	(829)	(2,395)
Net interest	6	109	171
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(720)	(2,224)
Tax credit on loss on ordinary activities	7	123	334
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR		(597)	(1,890)
Equity minority interests	17	(59)	18
		<hr/>	<hr/>
LOSS FOR THE FINANCIAL YEAR	19	(656)	(1,872)
		<hr/>	<hr/>
Loss per ordinary share (pence)			
Basic and diluted	9	(1.1p)	(3.5p)

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

CONSOLIDATED BALANCE SHEET

31 March 2004

	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Intangible assets	10	748	13
Tangible assets	11	517	376
		<u>1,265</u>	<u>389</u>
CURRENT ASSETS			
Debtors	13	2,145	793
Cash at bank and in hand		3,025	4,042
		<u>5,170</u>	<u>4,835</u>
CREDITORS: amounts falling due within one year	14	<u>(2,070)</u>	<u>(1,170)</u>
NET CURRENT ASSETS		<u>3,100</u>	<u>3,665</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,365	4,054
CREDITORS: amounts falling due after more than one year	15	(220)	(292)
EQUITY MINORITY INTERESTS	17	(129)	30
NET ASSETS		<u>4,016</u>	<u>3,792</u>
CAPITAL AND RESERVES			
Called up share capital	18	598	538
Capital redemption reserve	19	1,200	1,200
Share premium account	19	19,907	19,087
Profit and loss account	19	(17,689)	(17,033)
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	<u>4,016</u>	<u>3,792</u>

These financial statements were approved by the board of directors on 18 May 2004.
Signed on behalf of the board of directors

Angus MacSween
Director

COMPANY BALANCE SHEET

31 March 2004

	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Investments	12	1,800	1,500
CURRENT ASSETS			
Debtors	13	4,177	1,522
Cash at bank and in hand		2,248	3,828
		6,425	5,350
CREDITORS: amounts falling due within one year	14	(552)	(7)
NET CURRENT ASSETS		5,873	5,343
NET ASSETS		7,673	6,843
CAPITAL AND RESERVES			
Called up share capital	18	598	538
Capital redemption reserve	19	1,200	1,200
Share premium account	19	19,907	19,087
Profit and loss account	19	(14,032)	(13,982)
TOTAL EQUITY SHAREHOLDERS' FUNDS	20	7,673	6,843

These financial statements were approved by the board of directors on 18 May 2004.
Signed on behalf of the board of directors

Angus MacSween
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March 2004

	Note	Year ended 31 March 2004 £'000	31 March 2003 £'000
Net cash outflow from operating activities	21	(1,311)	(1,822)
Returns on investments and servicing of finance	22	75	171
Taxation	22	334	-
Capital expenditure and financial investment	22	(442)	(92)
Acquisitions and disposals	22	(403)	-
Cash outflow before financing		(1,747)	(1,743)
Financing	22	730	(734)
Decrease in cash in the year		<u>(1,017)</u>	<u>(2,477)</u>
Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the year		(1,017)	(2,477)
Cash outflows from debt and lease financing	23	<u>250</u>	<u>734</u>
Change in net funds from cash flows	23	(767)	(1,743)
Opening net funds		<u>3,501</u>	<u>5,244</u>
Closing net funds	23	<u>2,734</u>	<u>3,501</u>

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.

Basis of consolidation

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

Acquisitions and 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 the directors' estimate of its useful life, which is between 3 and 7 years.

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 installments 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

Investments

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

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 crystallise 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 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 FINANCIAL STATEMENTS

Year ended 31 March 2004

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 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

iomart Internet Limited acquired the entire issued shareholding of Web Genie Internet Limited on 24 July 2003 and the entire issued shareholding of Internetters Limited on 30 January 2004. Further details are included in Note 24.

3. ANALYSES OF OPERATIONS

	Continuing year ended 31 March 2004 £'000	Acquisitions year ended 31 March 2004 £'000	Total year ended 31 March 2004 £'000	Continuing year ended 31 March 2003 £'000	Discontinued year ended 31 March 2003 £'000	Total year ended 31 March 2003 £'000
Turnover	6,592	771	7,363	2,174	18	2,192
Cost of sales	(1,398)	(191)	(1,589)	(303)	(9)	(312)
Gross profit	<u>5,194</u>	<u>580</u>	<u>5,774</u>	<u>1,871</u>	<u>9</u>	<u>1,880</u>
Administrative expenses	(6,132)	(428)	(6,560)	(3,800)	(9)	(3,809)
Restructuring expenses	-	(43)	(43)	(466)	-	(466)
Total administrative expenses	<u>(6,132)</u>	<u>(471)</u>	<u>(6,603)</u>	<u>(4,266)</u>	<u>(9)</u>	<u>(4,275)</u>
Operating profit/(loss)	<u>(938)</u>	<u>109</u>	<u>(829)</u>	<u>(2,395)</u>	<u>-</u>	<u>(2,395)</u>

Turnover from continuing operations comprises revenue from network security and webservices, excluding VAT.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

4. OPERATING LOSS

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Operating loss is after charging/(crediting)		
Depreciation of tangible fixed assets:		
Owned assets	293	214
Leased assets	27	283
Impairment write down of tangible fixed assets	-	230
Amortisation of intangible fixed assets	59	118
Impairment write down of intangible assets	-	148
Rentals under operating leases	293	261
Amortised deferred grant income	(5)	-
Auditors' remuneration	11	10
- company audit fees	19	26
- group audit fees	24	34
- other services		
	<hr/>	<hr/>

The discount rate used in assessing the fixed asset write down in 2003 was 8.4%.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Directors' emoluments		
Aggregate emoluments	334	343
Pension contributions to money purchase schemes	13	20
	<hr/>	<hr/>
Emoluments payable to the highest paid director are as follows:		
Aggregate emoluments	148	101
Pension contributions to money purchase schemes	10	9
	<hr/>	<hr/>

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.

	Year ended 31 March 2004 No.	Year ended 31 March 2003 No.
Average number of persons employed by the group (including directors):		
Technical	25	21
Customer services	34	10
Sales and marketing	152	58
Administration	21	18
	<hr/>	<hr/>
	232	107
	<hr/>	<hr/>
Number of persons employed by the group at the year end (including directors):		
Technical	27	22
Customer services	47	7
Sales and marketing	178	83
Administration	26	16
	<hr/>	<hr/>
	278	128
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (CONTINUED)

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Staff costs during the year in respect of these employees and directors were:		
Wages and salaries	4,800	2,406
Social security costs	436	220
Other pension costs	13	20
	<u>5,249</u>	<u>2,646</u>

There are no company or group pension schemes. However the group makes contributions to directors' personal schemes. The group operates a stakeholder pension scheme for the benefit of employees who wish to participate.

6. NET INTEREST

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Investment income:		
Bank interest receivable	112	204
Interest payable and similar charges:		
Bank overdraft and other borrowings	-	(1)
Finance leases and hire purchase contracts	(3)	(32)
	<u>(3)</u>	<u>(33)</u>
Net interest	<u>109</u>	<u>171</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Research and development tax credit	123	334
	<u>123</u>	<u>334</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

7. TAX ON 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 2004 £'000	Year ended 31 March 2003 £'000
Loss on ordinary activities before tax	(720)	(2,224)
Tax credit @ 30%	(216)	(667)
Non qualifying depreciation	24	47
Disallowed expenditure	4	84
Deferred tax movement not provided	108	382
Movement in short term timing differences	(2)	(47)
Consolidation adjustments	(18)	2
Rate differences	31	40
Prior year adjustments	-	(175)
Capital allowances in excess of depreciation	10	-
Statutory deductions on exercise of share options	(64)	-
	(123)	(334)

There is no tax charge in the year due to the availability of losses. Unrelieved losses of £13.8 million (31 March 2003 - £13.0 million) are carried forward and are available to reduce the tax liability in respect of suitable future trading profits.

Research and development tax credits have been claimed in respect of expenditure incurred on the development of the group'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.

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 £4.5 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 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £50,000 (year ended 31 March 2003 – loss £12,938,000).

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

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 year.

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.

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Loss for the financial period and basic earnings attributed to ordinary shareholders	(656)	(1,872)
	No '000	No '000
Weighted average number of ordinary shares	57,649	53,796
Loss per share	(1.1p)	(3.5p)

10. INTANGIBLE ASSETS

The group

Cost

At 1 April 2003
 Additions in the year (Note 24)

 At 31 March 2004

**Goodwill
£'000**

977
794

1,771

Accumulated amortisation

At 1 April 2003
 Charge for the year

964
59

At 31 March 2004

1,023

Net book value

At 31 March 2004

748

At 31 March 2003

13

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

11. TANGIBLE FIXED ASSETS

The group	Leasehold improvements £'000	Computer software and equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2003	193	3,642	230	4,065
Acquired with subsidiaries	-	88	25	113
Additions in the year	4	357	83	444
Disposals	-	(1,348)	(4)	(1,352)
At 31 March 2004	197	2,739	334	3,270
Accumulated depreciation				
At 1 April 2003	125	3,400	164	3,689
Acquired with subsidiaries	-	74	20	94
Disposals	-	(1,348)	(2)	(1,350)
Charge for the year	49	200	71	320
At 31 March 2004	174	2,326	253	2,753
Net book value				
At 31 March 2004	23	413	81	517
At 31 March 2003	68	242	66	376

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 improvements £'000	Computer software and equipment £'000	Office equipment and vehicles £'000	Total £'000
At 31 March 2004	-	-	7	7
At 31 March 2003	-	-	34	34

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

12. INVESTMENTS HELD AS FIXED ASSETS

The company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2003	1,525
New shares subscribed	300
	<hr/>
At 31 March 2004	1,825
	<hr/>
Provision	
At 1 April 2003 and 31 March 2004	25
	<hr/>
Net book value	
At 31 March 2004	1,800
	<hr/>
At 31 March 2003	1,500
	<hr/>

All of the above investments are unlisted.

During the year iomart Internet Limited issued an additional 399,840 ordinary shares of £1 each at par and the company took up its 75% allotment of 299,880 shares in full. Full provision has been made against the investment in NSL (Internet) Limited.

The following subsidiaries have been consolidated in the group financial statements:

	Country of registration and operation	Activity	Ordinary share capital	
			Owned by the company %	Owned by subsidiary undertakings %
iomart Limited	Scotland	Network security	100	
NSL (Internet) Limited	Scotland	Dormant	100	
iomart Internet Limited	England	Webservices	75	
Web Genie Internet Limited	England	Webservices		100
Internetters Limited	England	Webservices		100
NicNames Limited	England	Dormant		100

The investments held by subsidiary undertakings are all owned by iomart Internet Limited and the group interest in these companies is therefore 75%.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

13. DEBTORS

	2004 £'000	2003 £'000
The group		
Trade debtors	1,631	259
Other debtors	89	76
Prepayments and accrued income	302	124
Research and development tax credit	123	334
	<hr/>	<hr/>
	2,145	793
	<hr/>	<hr/>
The company		
Prepayments and accrued income	30	2
VAT	-	2
Amounts owed by subsidiary undertakings	4,147	1,518
	<hr/>	<hr/>
	4,177	1,522
	<hr/>	<hr/>

The company's debtors include an amount of £750,000 owed by a subsidiary, which is repayable after more than one year.

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
The group		
Obligations under finance leases and hire purchase contracts (note 16)	189	249
Trade creditors	457	211
Taxation and social security	472	300
Other creditors	60	185
Deferred consideration	124	-
Deferred grants	60	-
Accruals and deferred income	708	225
	<hr/>	<hr/>
	2,070	1,170
	<hr/>	<hr/>
The company		
Trade creditors	14	2
Taxation and social security	290	1
Other creditors	60	2
Accruals and deferred income	-	2
Amounts owed by subsidiary undertakings	188	-
	<hr/>	<hr/>
	552	7
	<hr/>	<hr/>

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

	2004 £'000	2003 £'000
The group		
Obligations under finance leases and hire purchase contracts (note 16)	103	292
Deferred consideration	27	-
Deferred grants	90	-
	<hr/>	<hr/>
	220	292
	<hr/>	<hr/>

16. BORROWINGS

	2004 £'000	2003 £'000
The group		
Obligations under finance leases and hire purchase contracts	291	541
The obligations under finance leases and hire purchase contracts are secured by the related assets and are repayable as follows:		
Due within one year	188	249
Due between two and five years	103	292
	<u>291</u>	<u>541</u>

17. MINORITY INTERESTS

The equity minority interests comprise 100,000 ordinary shares of £1 each, representing 25% of the total issued share capital, in iomart Internet Limited.

18. CALLED UP SHARE CAPITAL

The group and company	Ordinary shares of 1p each	
	Number of shares	£'000
Authorised		
At 31 March 2003 and 31 March 2004	100,000,000	1,000
Called up, allotted and fully paid		
At 31 March 2003	53,795,614	538
Share placing	5,379,500	54
Exercise of options	609,240	6
At 31 March 2004	<u>59,784,354</u>	<u>598</u>

On 24 July 2003 the company issued an additional 5,379,500 ordinary shares of 1p each by means of a placing, for which a net total of £778,000 was received.

During the year the company issued an additional 609,240 ordinary shares of 1p each in respect of the exercise of options, for which a total of £102,000 was received.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

18. CALLED UP SHARE CAPITAL (CONTINUED)

At 31 March 2004, 33 employees, 1 director and 81 former employees held share options as follows:

	Number of shares	Exercise price per share	Date from which exercisable	Expiry date	
Approved scheme	3,033	90.00p	19/4/2003	31/12/2004	
	25,000	75.00p	1/11/2003	1/11/2010	
	401,181	44.00p	24/1/2004	24/1/2011	
	14,659	44.00p	24/1/2004	7/1/2007	
	159,659	44.00p	24/1/2004	31/12/2004	
	152,500	13.50p	26/9/2004	26/9/2011	
	15,000	13.50p	26/9/2004	31/12/2004	
	166,109	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	
Enterprise management incentive scheme	357,999	6.25p	26/7/2002	26/7/2012	
	349,999	6.25p	26/7/2003	26/7/2012	
	350,002	6.25p	26/7/2004	26/7/2012	
	561,666	6.25p	2/7/2004	2/7/2013	
	561,667	6.25p	2/7/2005	2/7/2013	
	561,667	6.25p	2/7/2006	2/7/2013	
Unapproved scheme	30,606	44.00p	24/1/2002	24/1/2011	
	30,606	44.00p	24/1/2003	24/1/2011	
	30,607	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	
	200,000	13.50p	26/9/2001	26/9/2011	
	23,333	13.50p	31/1/2002	26/9/2011	
	26,667	13.50p	31/1/2003	26/9/2011	
	50,000	11.75p	31/10/2001	31/10/2011	
	33,333	6.25p	27/6/2002	27/6/2007	
	33,333	6.25p	27/6/2003	27/6/2007	
	33,334	6.25p	27/6/2004	27/6/2007	
	50,000	15.00p	24/7/2004	24/7/2007	
	50,000	15.00p	24/7/2005	24/7/2007	
	Other unapproved options	489,797	5.00p	11/5/2000	14/12/2008
		489,797	5.00p	11/2/2001	14/12/2008
489,799		5.00p	11/2/2002	14/12/2008	
Savings related scheme	56,509	19.20p	1/10/2004	1/4/2005	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

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	-	-	(656)
Shares issued	-	820	-
Opening balance	1,200	19,087	(17,033)
Closing balance	<u>1,200</u>	<u>19,907</u>	<u>(17,689)</u>
The company			
Loss for the financial period	-	-	(50)
Shares issued	-	820	-
Opening balance	1,200	19,087	(13,982)
Closing balance	<u>1,200</u>	<u>19,907</u>	<u>(14,032)</u>

20. MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
The group		
Loss for the financial period	(656)	(1,872)
Share capital issued	880	-
Opening shareholders' funds	224	(1,872)
Closing shareholders' funds	<u>3,792</u>	<u>5,664</u>
The company		
Loss for the financial period	(50)	(12,938)
Share capital issued	880	-
Opening shareholders' funds	830	(12,938)
Closing shareholders' funds	<u>6,843</u>	<u>19,781</u>
	<u>7,673</u>	<u>6,843</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

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

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Operating loss	(829)	(2,395)
Depreciation	320	497
Amortisation of intangible assets	59	118
Write down of tangible fixed assets	-	230
Write down of intangible fixed assets	-	148
(Increase)/decrease in debtors	(1,429)	468
Increase/(decrease) in creditors	568	(888)
Net cash outflow from operating activities	(1,311)	(1,822)

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

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Returns on investments and servicing of finance		
Other interest receivable	112	204
Bank overdraft and other borrowings	-	(1)
Finance leases and hire purchase contracts	(37)	(32)
	75	171
Taxation		
Research and development tax credits received	334	-
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(444)	(92)
Proceeds of disposal of fixed assets	2	-
	(442)	(92)
Acquisitions		
Purchase of subsidiary undertakings	(576)	-
Net cash acquired with subsidiaries	173	-
	(403)	-
Financing		
Issue of ordinary shares	880	-
Issue of shares to minority interest	100	-
Capital element of finance lease rentals and hire purchase contract payments	(250)	(734)
	730	(734)

23. ANALYSIS OF CHANGE IN NET FUNDS

	At 31 March 2003 £'000	Cash flow £'000	At 31 March 2004 £'000
Cash at bank and in hand	4,042	(1,017)	3,025
Finance leases and hire purchase	(541)	250	(291)
Net funds	<u>3,501</u>	<u>(767)</u>	<u>2,734</u>

24. PURCHASE OF SUBSIDIARY UNDERTAKINGS

	Web Genie Internet Limited			Internettters Limited			Total	
	Net book value £'000	Fair value adjustments £'000	Fair value £'000	Net book value £'000	Fair value adjustments £'000	Fair value £'000	Fair value £'000	Fair value £'000
Net assets acquired:								
Tangible fixed assets	49	(32)	17	2	-	2	19	19
Debtors	46	(6)	40	99	(11)	88	128	128
Cash at bank and in hand	169	-	169	4	-	4	173	173
Creditors	(246)	-	(246)	(32)	(106)	(138)	(384)	(384)
	<u>18</u>	<u>(38)</u>	<u>(20)</u>	<u>73</u>	<u>(117)</u>	<u>(44)</u>	<u>(64)</u>	<u>(64)</u>
Goodwill			477			317	794	794
			<u>457</u>			<u>273</u>	<u>730</u>	<u>730</u>
Satisfied by:								
Cash			346			230	576	576
Deferred consideration			111			43	154	154
			<u>457</u>			<u>273</u>	<u>730</u>	<u>730</u>

Web Genie Internet Limited

The fair value of the net assets acquired has been revised from £18,000 to net liabilities of £20,000. This is principally due to the write down of fixed assets.

The deferred consideration is unconditional and is payable in equal monthly instalments with the final payment due in July 2005.

Internettters Limited

The fair value of the net assets acquired has been revised from £73,000 to net liabilities of £44,000. This is due to additional provisions against debtors, provisions for expenses and a provision for deferred revenue in accordance with the group's accounting policy.

The deferred consideration includes an element which was conditional on the performance of the company from the date of acquisition to 30 April 2004. This conditional element has now been agreed and the revised total payable is included in the amount shown above. The total deferred consideration was paid during April and May 2004.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2004

24. PURCHASE OF SUBSIDIARY UNDERTAKINGS (CONTINUED)

Summarised profit and loss accounts for each of the companies acquired for the period prior to acquisition and the previous accounting period are set out below:

	Web Genie Internet Limited		Internetters Limited	
	Year ended 31 May 2003 £'000	Period from 1 June 2003 to 24 July 2003 £'000	Year ended 30 June 2003 £'000	Period from 1 July 2003 to 30 January 2004 £'000
Turnover	856	106	771	363
Operating profit/(loss)	(26)	17	6	7
Net interest	2	-	-	-
Profit/(loss) for the financial period	(24)	17	6	7

There were no recognised gains and losses other than the profit/(loss) for the financial period.

During the year Web Genie Internet Limited utilised £36,000 of the group's operating cash flows and contributed £1,000 in respect of returns on investments and servicing of finance, and Internetters Limited contributed £53,000 towards the group's operating cash flows and £1,000 in respect of returns on investments and servicing of finance.

25. OPERATING LEASE COMMITMENTS

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

	Land and buildings		Land and buildings	
	2004 £'000	Other 2004 £'000	2003 £'000	Other 2003 £'000
Leases which expire:				
Within one year	19	129	51	9
Within two to five years	53	10	28	10
After five years	139	-	115	-
	211	139	194	19

26. RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the current or the previous year.

27. FINANCIAL INSTRUMENTS

The group does not trade in financial instruments. The group has no undrawn committed borrowing facilities (31 March 2003 – nil). The fair value of the group's cash balances is the same as the carrying values as disclosed in the balance sheets on pages 15 and 16. Interest on floating rate bank deposits is based on the Bank of Scotland base rate plus ten basis points.

NOTICE OF 2004 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2004 annual general meeting of iomart Group plc will be held at Fleming Pavilion, Todd Campus, West of Scotland Science Park, Glasgow G20 0XA on 24 June 2004 at 12 noon, for the purpose of considering and, if thought fit, transacting the following business:-

1 Ordinary Business

- 1.1 to receive and adopt the financial statements of the company and the directors' and auditors' reports thereon for the year ended 31 March 2004;
- 1.2 to reappoint Angus MacSween as a director of the company;
- 1.3 to reappoint Bill Dobbie as a director of the company;
- 1.4 to reappoint Deloitte & Touche LLP, Chartered Accountants, as auditors of the company and to authorise the directors to fix their remuneration;
- 1.5 to approve the report of the board to the members on directors' remuneration for the year ended 31 March 2004.

2 Special Business

to consider and, if thought fit, pass the following resolution as an ordinary resolution:-

that the directors be and they are hereby empowered generally and unconditionally authorised to exercise all of the powers of the company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985) subject always to the provisions of the articles of association of the company provided that:-

- (a) the maximum nominal amount of relevant securities to be allotted in pursuance of such authority shall be £263,805; and
- (b) this power shall expire, unless sooner revoked or varied by the company, on the conclusion of the next annual general meeting of the company or the expiry of the period of fifteen months from the date of the passing of this resolution whichever is the earlier, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

to consider and, if thought fit, pass the following resolution as a special resolution:-

- 3** that the directors be and are hereby empowered pursuant to section 95(1) of the Companies Act 1985 (the "**Act**") to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by resolution 2 above as if Section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to:-
 - (a) an offer and allotment of equity securities by way of rights in favour of holders of ordinary shares where the equity securities respectively attributable to the interest of all such holders are proportionate (as nearly as may be) to the respective number of ordinary shares held, or deemed to be held, by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and

NOTICE OF 2004 ANNUAL GENERAL MEETING (CONTINUED)

- (b) the allotment (otherwise than pursuant to (a) above) of equity securities up to an aggregate nominal amount of £59,784;

provided that this authority shall expire, unless sooner revoked or varied by the company, on the conclusion of the next annual general meeting of the company or the expiry of the period of fifteen months from the date of the passing of this resolution whichever is the earlier, unless sooner revoked or varied by the company in general meeting and save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

And

to consider and, if thought fit, pass the following resolution as a special resolution:-

- 4 that the amount standing to the credit of the share premium account of the company be and is hereby cancelled.

By order of the board

Stewart Moir
Company Secretary
18 May 2004

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

Notes

1. The register of directors' interests in the share capital of the company and copies of directors' service contracts or letters of appointment with the company will be available for inspection at the registered office of the company during usual business hours on any weekday (public holidays excluded) from the date of this notice until the date of the meeting.
2. A member of the company entitled to attend and vote at the above meeting may appoint one or more proxies (whether a member or not) to attend, and on a poll, vote instead of him. A form of proxy is enclosed. To be effective this form of proxy must be deposited, together with the power of attorney or other authority under which it is executed or a notarially certified copy of such power or authority, at the office of the company's registrars, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time of the meeting or any adjournment thereof. Completion of a form of proxy will not preclude a member from attending and voting in person.
3. For the purposes of determining who is entitled to attend and vote (whether on a show of hands or on a poll) at the meeting a person must be entered on the register of members not later than 48 hours before the time of the meeting, or any adjournment thereof.

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