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Chairman's statement

The past year has seen the continued recovery of the telecommunications, media and technology (TMT) sector, since its rapid decline some 3-4 years ago. Whilst some companies have either failed or gone into administration, others have enjoyed their first operating profits, primarily through a focus on cost saving, creating value add services and achieving economies of scale through sector consolidation. This recovery has created a renewed interest amongst investors, both Institutional and Retail, and confidence in the sector is returning. Our successful placing at the beginning of May, raising £3.1m before expenses, is testament to this sector's recovery and investor interest.

I am delighted to report that Virtue has managed not only to attract significant new investment over the past year, but has also succeeded in transforming the business into possibly the leading Webcasting business in Europe. This has positioned the company for further aggressive penetration into the high growth, high margin IP based corporate communications sector.

As announced in June, we divested our UK Media Services division to Interoute Communications Limited for a gross consideration of approximately £800,000. This decision was taken to allow us to concentrate resources on the Corporate Communications market, where we have significant competencies and a solid history of service delivery, which is reflected in our high quality blue chip customer base.

We have also successfully consolidated our operations function into one discrete unit and, as such, Europe is now served from one primary centre. Most importantly this has provided us with a scalable platform, which delivers enhanced IP based services to our customers. In summary, we now have one R&D team, one operational centre and one scalable platform, which allows us to increase our customer base without a corresponding increase in overheads of the enlarged group. This will enhance the bottom line of the business through increasing margins and reducing costs of sales. This centralised strategy for our core operational unit has already delivered significant benefits to the enlarged group as a whole and we will continue to leverage our asset base in order to extract increasing value for the Group. The Board believes that there are significant opportunities to extend the current products and services offering by vertically integrating professional service offerings as part of an ongoing unique service proposition (USP). This should enhance margins, and create real barriers to entry for competitors.

Our ultimate goal however is to be a key player in the provision of IP based corporate communications, which encompasses a number of differing strands, all of which are highly synergistic, and margin enhancing. With our extended footprint across Europe resulting from the acquisitions of Unit.Net in June of last year and Kamera in January 2004 we now have the base foundation in terms of infrastructure and customers from which to deliver these exciting IP based services. The latest acquisition, of Foroso Communications in Germany, will accelerate the deployment of IP based Web conferencing to our customer base, and will allow us to leverage the business to deliver greater value to our shareholders.

The acquisition of Foroso represents the successful start of the second stage of the Board's strategy to build Europe's leading online corporate communications company. The Board shares the view of many leading analysts that the market is moving toward a single, converged, IP based voice-video-data network, with research showing that the worldwide Web conferencing market segment is set to grow by 73% per annum to USD1.1 billion by 2006 [source: The Radicati Group, Inc. October 2003].

It is primarily due to the high quality of the people at Virtue, that these acquisitions have been promptly and efficiently transacted and integrated into the Group allowing us to extract enhanced value from our corporate activity.

Costs have been a continued focus for us during the period under review, as a result our overall operating cost base for the second half of 2003 was £1.7 million versus a combined £3.2 million of the Group and Unit.Net AG in the first half of 2003. Our revenues from continuing operations during the term have increased by 194% to £2.1 million, a clear indication of the speed at which the business is developing and the reshaping of the business in order to take advantage of the significant opportunities within the IP sector.

We have had some excellent customer wins during the period that clearly demonstrate our continued ability to offer and deliver broader solutions to multi-regional blue chip companies. These customers include Bertlesmann, PC World, Novartis, Swisscom and many others.

We are now a leading operator in what is a consolidating sector with a growing number of high quality customers both in the UK and across Europe. Some of these companies are major multi-nationals, such as UBS, Deutsche Bank, ABB, Deutsche Post, Holcim and ABN Amro. We are now in a position to increase our focus on customer needs across a variety of geographical territories, which we believe will yield major cross-selling opportunities for the Group. Our strategy is one of retaining and attracting quality customers, which are able to deliver higher margins to the business.

The Board anticipates further improvements in operating performance from both existing business and the newly acquired acquisitions, with respect to revenue and margin. I expect this to be achieved as we extract the value and cost savings benfits from our newly centralised operations and economies of scale..

I believe the Company now has the right focus, market position, technology offerings and team to deliver our objectives of building the business into a leading global provider of IP based corporate communications. We believe the long-term prospects for the business are excellent and we will continue to create more sustainable and higher margin revenue streams from our products. This is an exciting time for the Company and the IP based corporate communications sector and I look forward to updating you on our progress in due course.

Mike Neville,

Chairman

Financial review

Summary of results

Financial highlights

£ thousand	2003	2002	%
Operating results before exceptional items and goodwill amortisation			
Turnover from continuing operations	**2,070**	705	▲194%
Operating loss from continuing operations	**(1,417)**	(1,330)	▲6%
Group results			
Turnover	**2,697**	2,213	▲22%
Operating loss	**(1,709)**	(7,818)	▼(78)%
Loss per share	**(1.0)p**	(9.1)p	▼(89)%
Loss per share - adjusted	**(1.3)p**	(5.3)p	▼(75)%

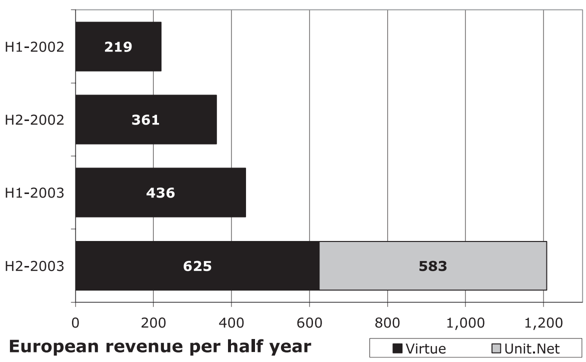
Highlights

- Turnover from continuing operations increased by 194% to £2.1 million
- Operating loss reduced by 78% to £1.7 million.
- Adjusted loss per share reduced by 75% to 1.3 pence.

Corporate Services Europe

£ thousand	2003	2002	%
Turnover	**1,644**	580	▲183%
Operating expenditure before exceptional items and goodwill amortisation	**(2,237)**	(1,051)	▲113%
Operating loss before exceptional items and goodwill amortisation	**(593)**	(471)	▲26%
Exceptional items - operating	**–**	(1,111)	
Amortisation	**15**	(150)	
Operating loss	**(578)**	(1,732)	▼67%

Turnover was up by 183% on last year at £1.6 million reflecting a compound rate of organic growth of 42% per half year since the first half of 2002 and a contribution of £583,000 from the acquisition of Unit.Net, demonstrated in the chart below.

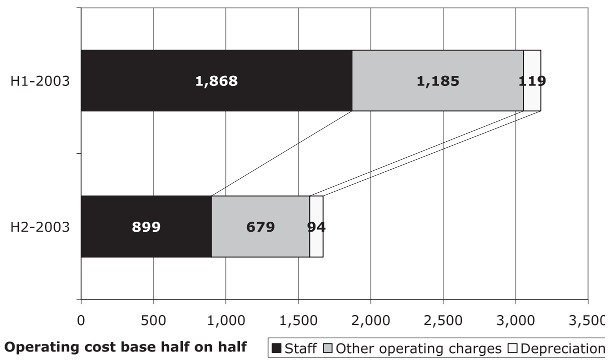


The organic growth in turnover experienced during the year was a result of a strong focus on customer account management, expanding our reseller network, and product development, which led to an increase in market share.

The performance of the Unit.Net businesses acquired was in line with expectations following its acquisition out of liquidation. The third quarter was a difficult period of trading as management initiated a programme of restoring customer confidence in the Unit.Net operation at the same time as implementing the post acquisition restructuring programme. We are pleased that the vast majority of Unit.Net customers have now re-signed contracts with the Group and the Board anticipates a strong recovery in the Unit.Net revenues in 2004.

Operating expenditure, before goodwill and exceptional items from continuing operations, increased by 113% to £2.2 million (2002: £1.1 million). The additional costs comprise: an increase in the average headcount to 39 from 23, of which 9 were due to the acquisition of Unit.Net; £0.4 million of operating charges reflecting the cost of operating offices in Madrid, Frankfurt and Zurich together with additional direct costs of £0.3 million incurred in respect of service delivery.

The nature of the asset purchase of Unit.Net enabled the Group to implement a significant saving on acquisition in the operating expense base of the combined entities, as management were selective in which employees and supplier contracts were taken over. To illustrate this the chart below shows the combined cost base of both Unit.Net AG and the Group in the first half of 2003 was £3.2 million, which compared to that recorded in the second half, £1.7 million, represents an annualised saving of £3.0 million.



Following the consolidation of Unit.Net, the enlarged group recorded an operating loss before goodwill and exceptional items of £0.6 million; however, operating margins improved significantly to -36% compared to -81% in 2002.

Corporate Services Australia

£ thousand	2003	2002	%
Turnover	**426**	125	▲241%
Operating expenditure before goodwill amortisation	**(514)**	(271)	▲90%
Operating loss before goodwill amortisation	**(88)**	(146)	▼40%
Amortisation	**(48)**	(23)	
Operating loss	**(136)**	(169)	▼20%

Turnover from Corporate Services for the Australian segment was up by 241% on last year at £426,000. Performance was strong with focus on product improvements and higher service levels. Operating loss before goodwill amortisation was reduced by 40% to £88,000, a margin of -21% compared to -117% in 2002 . The operating margin reflected some local

Financial Review
(continued)

price pressure; however, this was more than compensated by an increased number of clients and volume of services delivered. During 2003 the business provided services to 21 of the S&P 200 (2002: 6).

Central expenses

Central expenses, principally the cost of operating the head office function of the Group, have remained at around 2002 levels being £736,000 (2002: £713,000). The board is pleased with this achievement in context of the increased European organisation and level of corporate finance activity.

Discontinued operations

Following the discontinuance of funding to Tornado Entertainment Ltd in October 2002 the Group exited the Media & Entertainment market segment with the disposal of its remaining UK media services division, Virtue Media Services, on 30 June 2003. The disposal generated cash consideration of £800,000 plus telecommunication services from the vendor to the value of €168,000, over which the board placed a fair value of £60,000, giving rise to a profit on disposal after associated costs of £282,000. The results of these businesses up until the date of closure or disposal are reported under discontinued operations.

Interest

Net interest receivable was £12,000 compared to £145,000 last year, which is in line with the reduction in net funds experience during 2002 from £7.4m to £1.1m primarily as a result of the losses and closure costs of Tornado Entertainment Ltd.

Taxation

The Group had no tax charge for the year due to continuing losses. No deferred tax asset has been recognised in respect of losses available for carry forward, of £2.5 million (2002: £4.1 million). Of the brought forward deferred tax asset £2.0 million was disposed with Virtue Media Services.

Dividend

No interim dividend has been paid and no final dividend will be paid for the year (2002: nil).

Loss per share

Adjusted loss per share was 1.3 pence (2002: 5.3 pence) and is calculated to exclude the effect of exceptional items and goodwill amortisation. This substantial reduction in loss per share relates primarily to the exit of the Media & Entertainment market segment. Details of the calculation are given in note 10 of the financial statements. The loss per share was 1.0 pence (2002: 9.1 pence).

Pro-forma trading profit and loss account

The Group commenced a consolidation strategy in 2003 culminating in the acquisition of Unit.Net in July 2003 and Kamera in January 2004 (further details of which are set out later in this review). In order to provide a benchmark for future performance the board has presented below an unaudited pro forma summary trading profit and loss account before exceptional items and goodwill amortisation to provide illustrative information of the effect of these transactions as if they had occurred at 1 January 2003.

Continuing operations before exceptional items and amortisation

£ thousand	As reported	Unit.Net pre-acquisition 2003 earnings	Kamera 2003 earnings	**Pro-forma Earnings**
Turnover	2,070	906	1,922	**4,898**
Operating loss	(1,417)	(441)	(539)	**(2,397)**
Interest	12	6	–	**18**
Loss before tax	(1,405)	(435)	(539)	**(2,379)**
Taxation	–	–	–	**–**
Loss after tax	(1,405)	(435)	(539)	**(2,379)**
Adjusted loss per share	(1.1)p			**(1.4)p**
Weighted average number of shares (million)	124.4			**168.6**

Cash flow

Analysis of free cash flow (a management measure of operating cash flow before acquisitions, disposals, dividends and financing) is as follows:

£ thousand	**2003**	2002	% Inc/ /(dec)
Cash out flow from operating activities	**(1,918)**	(5,364)	▼(64)%
Capital expenditure	**(173)**	(223)	▼(22)%
Proceeds from asset disposals	**4**	–	–
Net interest received	**12**	145	▼(92)%
Tax paid	**–**	–	–
Free cash flow	**(2,075)**	(5,442)	▼(62)%

Net funds

The total movements in net funds comprise:

	£ thousand
Opening net funds	1,104
Free cash flow	(2,075)
Acquisitions and disposals	682
Equity dividends	–
Issue of new shares	1,673
Closing net funds	**1,384**

The Group acquired cash balances of £138,000 as part of the Unit.Net acquisition for which it repaid £88,000 of loans outstanding to its parent and £36,000 transaction expenses respectively.

The cash consideration receivable for the disposal of Virtue Media Services was £800,000 gross of expenses of £75,000, of which at the balance sheet date the Group had received £607,000 and had paid £166,000.

The Group received £100,000 from the liquidator of Tornado Entertainment Ltd, its former subsidiary, in relation to a compromise agreement in connection with a bank deposit account held at Danske Bank A/S.

Financial Review

(continued)

In 2003 the Group issued 58 million new ordinary shares in two private placings, raising £1.7 million after expenses, in order to: provide the Group with working capital; and strengthen the balance sheet to provide a stronger base to pursue the group's consolidation strategy.

During the year the Group repaid bank debt outstanding totalling £200,000 and as at the balance sheet date it had no debt outstanding. The group does not have any committed facilities (2002: £nil).

Since the balance sheet date, on 5 May 2004, the Company issued a further 95 million new ordinary shares to raise a total of £3.1 million before expenses.

Financial liabilities

Other than short term creditors arising out of the ordinary course of business the Group's main financial liability is a property lease for its former head office in Marlow. The property has a rent of £255,500 pa and its earliest termination date is December 2007. Full provision was made in 2002 for the residual lease commitments, together with other outgoings less expected rents under sub-leases for the remaining period of the lease. As at the balance sheet date the total provision for liabilities under the lease was £469,000.

Treasury policy and financial risk management

The main financial risks faced by the Group are funding risk and credit risk. As with any growing business there remains uncertainty and risk about the ability of the Group to achieve its business objectives within its current funding. The Board continually reviews the funding status of the Group and its exposure to liquidity risk. The Group controls credit risk by setting credit limits and following established credit control policies. In a low interest environment the Group's cash deposits remain at floating rates of interest. The Group does not enter into derivative transactions.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a 'Going Concern' basis in preparing the Financial Statements

Post balance sheet acquisitions

The Company announced on 27 November 2003 that it had agreed to acquire Kamera Holdings AB for an aggregate consideration of £2.4 million, which completed on 9 January 2004. This sum comprises cash of £100,000 and a new issue of 43,770,247 0.1p ordinary shares. Kamera provides webcasting and content distribution services to large corporations in the Nordic market. The unaudited accounts of Kamera Holding AB show consolidated revenues of £1.9 million and loss before tax of £0.5 million for the year ended 31 December 2003.

On 12 February 2004 the Company acquired 298,663 shares in its Australian subsidiary, Virtue Broadcasting Pty Ltd, from Edgewise Solutions Pty Ltd in consideration of an issue of 1,707,541 new ordinary shares of 0.1 pence each. The acquisition takes the Group's holding in its Australian subsidiary to 83% from 63%.

On 6 May 2004 the Company acquired Foroso Communications GmbH a high quality webconferencing company based in Germany. The Company has paid a total of £0.5 million in cash, deferred consideration of £0.2 million is payable in 2005 and potentially up to £0.6 million of contingent consideration subject to Foroso achieving certain conditions including earning either £600,000 profit after taxation or achieving revenues of £1.0 million from the date of acquisition until 31 December 2005. The acquisition broadens the Group's product portfolio enabling it to expand its one-to-many communication solutions into the few-to-few communications market.

On 14 May 2004 the Group acquired the business assets of Webcom for a net consideration of approximately £48,000. Webcom supplies end to end IP communication solutions in the Australian market place and has annualised turnover of approximately £430,000 based on its unaudited management accounts for the 9 months to 31 January 2004.

Outlook for 2004

The Board anticipates further improvement in performance for both existing and acquired businesses, particularly, in the revenue performance of the Unit.Net businesses following their recovery from liquidation and implementation of operating synergies with Kamera.

Central costs are expected to increase to allow the Board to better manage its pan-European operations and to assist in the implementation of the Group's expansionist policy.

As a consequence of the acquisition strategy the Group has an infrastructure and technology platform capable of delivering significantly higher throughput with limited additional costs. The Board anticipates that the Group's capital expenditure in 2004 will not be significantly different from 2003.

Directors and advisors

Directors	**Mike Neville**	Executive Chairman
	Klaus Ackerstaff	Chief Executive Officer
	James Ormondroyd ACA	Finance Director
	Giles English	Non-Executive Director
Company Secretary	**James Ormondroyd ACA**	
Registered Office	Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0DX	
Registered in England and Wales	039101656	
Nominated advisor and nominated broker	**Brewin Dolphin Securities Ltd** 34 Lisbon Street Leeds LS1 4LX	
Auditors	**PricewaterhouseCoopers LLP** 1 Embankment Place London WC2N 6RH	
Solicitors	**Taylor Wessing** Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0DX	
Bankers	**Barclays Bank Plc** Media Banking Centre 27 Soho Square London W1D 3QR	
Registrars	**Capita IRG Plc** Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU	

Directors' report

for the year ended 31 December 2003

The directors are pleased to present their report and the consolidated financial statements of the Company and its subsidiaries for the financial year ended 31 December 2003.

Principal activities, business review and future developments

The Group's principal activity is the provision of online communication solutions for large corporations worldwide.

A review of the Group's operations and future developments is included in the Chairman's statement and Financial review on pages 2 to 5.

Results and dividends

Turnover for the year was £2.7 million (2002: £2.2 million) and loss after taxation was £1.3 million (2002: £9.9 million).

Research and development

Expenditure on research and development was £0.1 million (2002: £0.3 million). The Group continues to attach considerable importance to the development and updating of its products and services.

Post balance sheet events

The Company announced on 27 November 2003 that it had agreed to acquire Kamera Holdings AB for an aggregate consideration of £2.4 million, which completed on 9 January 2004. This sum comprises cash of £100,000 and a new issue of 43,770,247 0.1p ordinary shares. For further information see note 26 of the financial statements.

On 12 February 2004 the Company acquired 298,663 shares in its Australian subsidiary, Virtue Broadcasting Pty Ltd, from Edgewise Solutions Pty Ltd in consideration of an issue of 1,707,541 new ordinary shares of 0.1 pence each. The acquisition takes the Group's holding in its Australian subsidiary to 83% from 63%.

On 5 May 2004, the Company issued 95 million new ordinary shares to raise a total of £3.1 million before expenses.

On 6 May 2004 the Company acquired Foroso Communications GmbH a high quality webconferencing company based in Germany. The Company has paid a total of £0.5 million in cash, deferred consideration of £0.2 million payable in 2005 and up to £0.6 million contingent consideration subject to Foroso achieving certain conditions including earning either £600,000 profit after taxation or revenues of £1.0 million from the period of acquisition until 31 December 2005. The acquisition broadens the Group's product portfolio enabling it to expand its one-to-many communication solutions into the few-to-few communications market.

On 14 May 2004 the Group acquired the business assets of Webcom for a net consideration of approximately £48,000. Webcom supplies end to end IP communication solutions in the Australian market place.

Share capital

Details of changes in share capital and shares issued during the year are shown in note 19 of the financial statements.

Changes to the Board

Following the disposal of Virtue Media Services Ltd on 30 June 2003 both Nick English and Neil Ferris resigned as directors of the Company and Mike Neville was appointed to the board as Chairman.

Klaus Ackerstaff, the former CEO of Unit.Net acquired by the Group on 24 July 2003, was appointed to the board as Chief Executive Officer on 27 October 2003.

Directors

The current directors of the Company are:

- ***Mike Neville (47):*** Appointed Chairman on 30 June 2003. Mike has more than 15 years experience in the telecommunications sector and has previously held various senior management positions with organisations such as Cable & Wireless and latterly Norweb Telecom, where he was a main board director. During his tenure with Cable & Wireless, he travelled extensively representing the company at the most senior level in America and the Pacific Rim. He currently holds a small number of other non executive directorships, where he specialises in advising on strategy, mergers and acquisitions and corporate finance.
- ***Klaus Ackerstaff (38)***: Appointed Chief Executive Officer on 27 October 2003. Klaus joined Unit.Net, which was acquired by the company in July 2003, in 1999 as Chief Technology Officer to lead the design and implementation of the existing delivery platform. With the IT infrastructure in place in 2001, he was appointed Unit.Net's Chief Operating Officer in order to manage its expansion across the European market. Klaus received a Doctorate in Physics from the University of Hamburg in 1996. His PhD studies included a scholarship at the University of Indiana, Bloomington, Indiana, and followed three years as a research assistant at DESY, where he worked on applying computing technology to high-energy physics analysis. After earning his PhD Klaus began his professional career at CERN (Organisation Européenne pour la Recherche Nucléaire) in Geneva, where he was responsible for the IT infrastructure of the OPAL (particle physics) project.
- ***James Ormondroyd (32):*** Appointed Finance Director on 28 November 2002. Previously he was the company's Commercial Director and prior to the merger with Virtue Broadcasting Ltd he was its Finance Director. He is a Chartered Accountant having trained and worked at PricewaterhouseCoopers between 1993 and 2000.
- ***Giles English (30):*** Appointed Non-Executive Director in June 2003 following the disposal of Virtue Media Services to Interoute Communications, where currently he is the UK Sales Director. Giles is a founder of the company and prior to the disposal of Virtue Media Services he was the Group's Sales Director.

Directors' interests

The directors' interests in shares of the Company are shown in the Remuneration report on page 9.

No directors were or are materially interested in any contract, other than their service contract, subsisting during or at the end of the financial year that was significant in relation to the Group's business.

Directors' report
(continued)

Major shareholders

As at 26 April 2004, the Company has been notified of the following interests in 3% or more of the Company's shares:

	Number of ordinary shares	%
Interoute Finance Plc	15,294,000	7.0
Giles English	9.768.004	4.5
MVI Group	9,522,329	4.4
Zodiac Venture Capital	9,507,647	4.4
Mr S Campbell	8,000,000	3.7
Mr J Kinnear	7,280,000	3.3
Mr R Gray	6,556,906	3.0

Employee involvement

Every effort is made to keep all staff informed and involved in the operations and progress of the Group. This is achieved through the use of electronic communications and staff briefings.

The Company operates Approved, Unapproved and Enterprise Management Incentive employee share option schemes, in which certain of the group's employees are invited to participate.

It is the Group's aim that recruitment and development of staff should be determined solely on ability and other relevant requirements of the job. Disabled persons and those who become disabled are given the same consideration as others and, depending on their skills, will enjoy the same prospects as other staff.

Supplier payment policy

The Group agrees appropriate terms & conditions individually with its suppliers. It seeks to abide by these agreed terms provided that the supplier has also complied with them. The Company had 61 creditors days at 31 December 2003 (31 December 2002: 26 days).

Donations

There were no political or charitable donations during the year (2002: £nil).

Annual General Meeting

The Annual General Meeting of the Company will be held at the offices of Brewin Dolphin Securities, 5 Giltspur Street, London at 10 a.m. 23 June 2004. The notice of the meeting, detailing the Ordinary and Special Business to be conducted is set out on page 33 of this report.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board

James Ormondroyd

Finance Director

21 May 2004

Remuneration Report

Policy on remuneration of directors

The Company's Remuneration Committee consists of the Chairman and Non-Executive Director, except that the Chairman has no involvement in any decisions relating to his own remuneration.

The success of the Company is dependent upon the skill and experience of motivated employees throughout all levels of the business. In determining remuneration policy the committee's objectives are to recommend to the Board a reward framework that ensures that the Company is able to motivate, attract and retain executives capable of making a significant contribution to the success of the Group, with due regard to the Company's financial and commercial health.

The remuneration package for each director presently consists of a fixed salary, a bonus scheme and participation in a share option programme.

The approximate expected relative value of future annual remuneration packages excluding pension contributions, share options and benefits in kind which are detailed below is fixed salary 38%; on-target annual bonus 38%; and share price performance bonus scheme 24%.

Salaries and benefits

Salaries and benefits for directors are reviewed annually. The salaries are set by the committee after consideration of the company's performance, market conditions, the level of increase awarded to employees throughout the business and the need to reward individual performance. Consistent with his part time status the Chairman's salary is pro-rated accordingly. The current salary/fees for the Chairman, Chief Executive Officer and Finance Director is £80,000 pa each.

Bonus schemes

From 1 January 2004 the Chairman, Chief Executive Officer and Chief Financial Officer will participate in an annual bonus scheme which is designed to reinforce the relationship between individual and corporate performance and reward. Targets are set annually in advance by the committee and incorporate a mixture of financial measures and personal business targets. The achievement of targets will be assessed by the committee. For 2004 the committee determined that a current bonus of 100 per cent of basic salary for on-target performance would be appropriate.

From 1 January 2004, all directors will participate in a bonus scheme linked to the Company's share price. Each director will be awarded £25,000 should the mid-market share price average 8.5 pence over a three month period; and a further £25,000 should the mid-market share price average 14.0 pence over a three month period. Bonuses if earned are to be paid in either cash or new shares in the Company based on a recommendation by the Finance Director to the committee on the Company's working capital position.

Service contracts

Each director has a service contract for an initial term of twelve months and thereafter either party may terminate employment by giving twelve month's notice. There are no contractual termination payments other than an option for the company to make a payment in lieu of notice.

Directors' pension arrangements

Mr Ormondroyd has waived entitlement to a contribution to a personal pension plan equal to 15 per cent of this basic annual salary. No contributions were paid during the year.

Directors' remuneration

					2003	2002
£ thousands	**Salary and fees**	**Bonus**	**Benefits in kind** [1]	**Termination Pay** [2]	**Total**	Total
Executive						
N Ferris [3] [6]	**39**	**–**	**–**	**25**	**64**	127
G English	**32**	**–**	**2**	**–**	**34**	54
N English	**32**	**–**	**2**	**–**	**34**	54
J Ormondroyd	**72**	**49**	**4**	**–**	**125**	5
K Ackerstaff [4]	**13**	**5**	**–**	**–**	**18**	–
Total	**188**	**54**	**8**	**25**	**275**	240
Non-executive						
G English	**3**	**–**	**–**	**–**	**3**	–
M Neville [5]	**32**	**31**	**–**	**–**	**63**	–
Total	**35**	**31**	**–**	**–**	**66**	–

[1] Benefits in kind include medical insurance, life assurance and income protection.

[2] Termination pay represents amounts paid by the Group under compromise agreements relating to contracts of employment.

[3] Salary and fees include an amount of £12,000 (2002: £45,000) paid to third parties in respect of making available the services of N Ferris to the Company.

[4] Mr K Ackerstaff remuneration is from the date of his appointment.

[5] Salary and fees include an amount of £63,000 (2002: £nil) paid to third parties in respect of making available the services of M Neville to the Company.

[6] In addition G Roblin and N Ferris, former directors, received £32,000 and £27,000 consultancy fees respectively from a group company following their resignations as directors.

The committee awarded bonuses of £5,000, £7,000 and £49,000 to Mr Ackerstaff, Mr Neville and Mr Ormondroyd respectively for their performance in initiating the turnaround strategy announced in June 2003.

Remuneration report
(continued)

Directors' share options
The table below sets out the interest of directors during the year in share options of Virtue Broadcasting Plc:

thousands	At start of year [1]	Granted/Repriced	Lapsed/Repriced [3]	At end of year	Exercise Price (pence)	Exercise date	Lapse date
M Neville	–	**570**	–	**570**	3.0	08/10/03	07/10/13
N Ferris	77	–	–	77	130.0	20/10/01	20/10/10
	250[2]	–	–	250	0.0	20/03/02	20/03/12
	273	–	–	273	6.5	25/06/02	27/11/12
	600	–	–	**600**			
K Ackerstaff	**1,196**	–	–	**1,196**	3.0	08/10/03	07/10/13
J Ormondroyd	642	–	–	642	6.5	27/06/02	27/06/12
	–	1,196	–	1,196	3.0	08/10/03	07/10/13
	642	**1,196**	–	**1,838**			
G English	**–**	**570**	**–**	**570**	3.0	08/10/03	07/10/13

[1] K Ackerstaff held 1,196,000 options granted during his employment at the date of his appointment as director.

[2] Share options awarded from the Group Employee Benefit Trust.

The mid-market price at 31 December 2003 was 5.75 pence. The range of mid-market prices during the year was a high of 7.0 pence on 3 November 2003 and a low of 1.25 pence between 10 July and 23 July 2003.

Interests in shares
The table below sets out the interest of directors during the year in shares of Virtue Broadcasting Plc

thousands	**At 31 December 2003**	At 31 December 2002
G English	9,768	10,461
N English (resigned 30 June 2003)	8,768	10,461
M Neville	553	–
K Ackerstaff	350	–
J Ormondroyd	95	–
N Ferris (resigned 30 June 2003)	88	88

All directors' interests are beneficially held. On 19 January 2004 Mr N English disposed of 6,000,000 shares.

On behalf of the board

Mike Neville
Chairman
21 May 2004

Corporate governance statement

The directors are responsible for the Company's system of corporate governance. The Company supports the Principles of Good Governance and the Code of Best Practice ('the Combined Code').

Whilst the Company is not required to comply with the provisions of the Combined Code, it has provided voluntary disclosures. Due to its position and size the Group has been unable to comply with certain of the key principles of the Combined Code as set out below.

Board

The Board currently comprises the Chairman, Chief Executive Officer, Finance Director and Non-Executive Director.

Key features of the corporate governance structure are:

- The Chairman is closely involved with the development of the corporate strategy and financing of the Group. He is also a member of the Remuneration Committee.
- The Chief Executive Officer exercises his delegated powers through the management team comprising the Finance Director, himself and senior members of management. The management team meets fortnightly.
- The Non-Executive director provides a range of skills and experience in the Group. He brings independent judgement on issues of strategy, performance, risk and people through his membership of the Board and Remuneration Committee. The Company currently does not employ any independent directors.

All directors have access to the advice and services of the Company Secretary, who ensures that the Board meets formally at least eight times per year, receives appropriate and timely information for decision making, that Board procedures are followed and that statutory and regulatory requirements are met. Any director, in order to fulfill his duties, may take independent professional advice at the Company's expense.

Under the Company's Articles of Association, one-third of the Board retires by rotation each year and all directors are required to offer themselves for re-election at least every three years.

The Company does not have a Nomination Committee, which is not in compliance with the Combined Code. The Board as a whole is responsible for its structure, size, composition and successional needs thereby keeping under review the balance between executive and non-executive directors, and the Board's blend of skills and experience.

Remuneration committee

The Remuneration Committee comprises the Chairman and Non-Executive director (previously including the Finance Director). Details of the Company's remuneration policy are contained in the Remuneration Report on page 9.

Accountability and audit

The Board seeks to ensure that its Annual Report and Financial Statements provide a balanced and concise assessment of the Company's position. The company does not currently have a separate Audit Committee. Outside regular briefings the full board meets twice a year with the external auditor.

Risk assessment and internal control

The directors are responsible for risk assessment and the systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key elements of the Group's system of internal control are as follows:

Company management: The Chief Executive Officer chairs management boards for the Group comprising the senior management with responsibilities for sales, marketing, service support, technology, product development and finance. Additionally, there are regular meetings of product strategy forums where the future direction of the Group's product offerings and routes to market are considered.

Financial management: Detailed annual budgets are prepared for the Group and each operating company. These budgets are reviewed and agreed by the Board and actual performance is reported against these budgets on a regular basis. The Company has in place documented authority levels for approving purchase orders, invoices and all bank transactions. Further information concerning financial risk management is detailed in the Financial Review.

Quality management: The Company's businesses are focused on meeting the highest levels of customer satisfaction. Quality procedures for the development of the products, services and maintenance support are documented and reviewed frequently.

Internal audit: The Company does not operate an internal audit function; the board feels this appropriate due to the current size of the Group's business.

External audit: In addition executive management have a dialogue with the external auditors on matters arising from their work which is designed to express an opinion on the financial statements.

Dialogue with shareholders

The directors of the Company, together with their advisers, hold meetings with the key shareholders, thereby helping to ensure that there is a mutual understanding of objectives.

Directors' responsibility statement

The following statement is made with a view to distinguishing for shareholders the respective responsibilities of the directors and the auditors in relation to the financial statements.

The directors are required by company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and Group as at the end of the financial year and of the profit or loss for the year to that date. In preparing the financial statements the directors are required:

- to ensure that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985;
- to take such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities;
- to apply suitable accounting policies in a consistent manner and supported by reasonable and prudent judgements and estimates where necessary;
- to comply with all applicable accounting standards (except where any departures from this requirement are explained in the notes to the financial statements); and
- prepare financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

Independent Auditors' report to the members of Virtue Broadcasting Plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Financial Review, the Directors' Report, the Remuneration Report and the Corporate Governance Statement.

Basis of audit opinion

We conducted our audit in accordance with 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 affairs of the Company and the Group at 31 December 2003 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
21 May 2004

Note

The maintenance and integrity of the Virtue Broadcasting Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

Group profit and loss account

for the year ended 31 December 2003

		2003				2002 (restated)		
		Continuing operations		Discontinued		Continuing	Discontinued	
£ thousands	Notes	Existing	Acquisitions	Operations	Total	operations	operations	Total
Turnover	2	**1,487**	**583**	**627**	**2,697**	705	1,508	2,213
Net operating expenses	3	**(2,757)**	**(763)**	**(886)**	**(4,406)**	(3,319)	(6,712)	(10,031)
Operating loss		**(1,270)**	**(180)**	**(259)**	**(1,709)**	(2,614)	(5,204)	(7,818)
Analysed as:								
Business performance before exceptional items and goodwill amortisation:								
Media Services		**–**	**–**	**(258)**	**(258)**	**–**	(3,937)	(3,937)
Corporate Services		**(486)**	**(195)**	**–**	**(681)**	(617)	–	(617)
Central expenses		**(736)**	**–**	**–**	**(736)**	(713)	(664)	(1,377)
		(1,222)	**(195)**	**(258)**	**(1,675)**	(1,330)	(4,601)	(5,931)
Exceptional items - operating	4	**–**	**–**	**–**	**–**	(1,111)	(603)	(1,714)
Amortisation		**(48)**	**15**	**(1)**	**(34)**	(173)	–	(173)
Exceptional items - non-operating Merger expenses	5				**–**			(280)
Profit/(loss) on sale and termination of operations	5				**383**			(1,904)
Loss on ordinary activities before interest					**(1,326)**			(10,002)
Net interest receivable	6				**12**			145
Loss on ordinary activities before tax	7				**(1,314)**			(9,857)
Tax	9				**–**			–
Loss on ordinary activities after tax					**(1,314)**			(9,857)
Equity minority interests					**73**			64
Loss for the financial year					**(1,241)**			(9,793)
Dividends					**–**			–
Deficit for the financial year					**(1,241)**			(9,793)
Loss per share (pence)								
Basic	10				**(1.0)**			(9.1)
Basic - Adjusted	10				**(1.3)**			(5.3)

There were no material recognised gains or losses other than those shown in the profit and loss account.

There was no difference between the loss before taxation and the retained loss for the year and their historic cost equivalents.

Balance Sheets
as at 31 December 2003

£ thousands	Notes	Group 2003	Group 2002	Company 2003	Company 2002
Fixed assets					
Positive goodwill	11	**154**	202	**–**	–
Negative goodwill	11	**(135)**	–	**–**	–
Goodwill	11	**19**	202	**–**	–
Other intangible assets	11	**–**	4	**–**	–
Tangible assets	12	**229**	359	**4**	5
Investments	13	**–**	64	**128**	376
		248	629	**132**	381
Current assets					
Debtors	14	**1,254**	1,610	**2,996**	988
Cash at bank and in hand		**1,384**	1,304	**1,125**	1,318
		2,638	2,914	**4,121**	2,306
Creditors					
Amounts falling due within one year	15	**(996)**	(1,680)	**(798)**	(436)
Net current assets		**1,642**	1,234	**3,323**	1,870
Total assets plus current assets		**1,890**	1,863	**3,455**	2,251
Creditors					
Amounts falling due after more than one year	16	**(3)**	(9)	**–**	–
Provisions for liabilities and charges	18	**(538)**	(878)	**(533)**	(811)
Net assets		**1,349**	976	**2,922**	1,440
Capital and reserves					
Called up share capital	19	**172**	114	**172**	114
Share premium account	20	**13,653**	12,038	**13,653**	12,038
Other reserves	20	**13,060**	13,060	**16,874**	16,874
Profit and loss account	20	**(25,593)**	(24,366)	**(27,777)**	(27,586)
Equity shareholders' funds	21	**1,292**	846	**2,922**	1,440
Equity minority interests		**57**	130	**–**	–
		1,349	976	**2,922**	1,440

The accounts on pages 14 to 33 were approved by the Board of directors on 21 May 2004 and were signed on its behalf by:

Mike Neville
Chairman

James Ormondroyd
Finance Director

Group cash flow statement

for the year ended 31 December 2003

£ thousands	Notes	2003	2002
Net cash outflow from operating activities	22a	**(1,918)**	(5,364)
Returns on investment and servicing of finance			
Interest received	6	**21**	155
Interest paid	6	**(9)**	(10)
Net cash inflow from returns on investment and servicing of finance	12	**145**	
Taxation			
Corporation tax		**–**	–
Capital expenditure and financial investment			
Payments to acquire intangible assets		**(4)**	–
Payments to acquire tangible assets		**(169)**	(223)
Receipts from sales of tangible assets		**4**	–
Cash outflow from capital expenditure and financial investment		**(169)**	(223)
Acquisitions and disposals			
Purchase of subsidiary undertakings	25b	**14**	(64)
Disposal of subsidiary undertakings	25c	**568**	(657)
Receipt on disposal of Tornado Entertainment Ltd	5	**100**	–
Cash inflow/ (outflow) from acquisitions and disposals		**682**	(721)
Equity Dividends paid to shareholders		**–**	–
Cash outflow before use of liquid resources and financing		**(1,393)**	(6,163)
Financing			
Issue of ordinary shares net of expenses		**1,673**	20
Repayment of loans	5	**(200)**	–
Cash inflow from financing		**1,473**	20
Increase/(decrease) in cash	22b	**80**	(6,143)

Reconciliation of net cash flow movements in net funds			
Net funds at the start of the year		**1,104**	7,447
Increase/ (decrease) in cash		**80**	(6,143)
Decrease in borrowings		**200**	–
Debt in subsidiaries acquired		**–**	(200)
Net funds at end of year	22b	**1,384**	1,104

Notes to the financial statements

for the year ended 31 December 2003

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with applicable UK accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

b) Composition of the Group

A list of Subsidiary and Associated Undertakings that principally affect the amount of profit or loss or net assets of the Group is given in note 13.

c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its Subsidiary and Associated Undertakings made up to 31 December.

Undertakings in which the Group has a material interest are accounted for as subsidiaries where the Group exercises dominant influence. Unless otherwise stated the acquisition method of accounting has been adopted, under which the results of subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition and interests sold are consolidated up to the date of disposal.

The Group's Employee Benefit Trust ("EBT") is a separately administered trust, the assets of which mainly comprise shares in the Company. In accordance with UITF 13, as the Company has de facto control, the assets, liabilities, income and costs of the EBT have been included in the consolidated financial statements.

Goodwill arising on the acquisition of interests in subsidiary undertakings, representing the excess of purchase consideration over the Group's share of the separable net assets acquired, is capitalised. Goodwill is denominated in the currency in which the acquisition is made and financed.

Assets and liabilities including related goodwill of overseas subsidiary undertakings are expressed in sterling at year end exchange rates. Profits and losses of overseas subsidiary undertakings are expressed in sterling at average exchange rates for the year. Exchange differences arising on the translation of opening shareholders' funds are recorded as a movement on reserves.

Under section 230 of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. The loss for the financial year dealt with in the accounts of the Company was £191,000 (2002: £28,464,000).

d) Presentation of the profit and loss account

The Group has undertaken a number of disposals and acquisitions in the financial year; therefore a columnar presentation has been adopted in the profit and loss account to illustrate the underlying business performance. Virtue Media Services Ltd ceased to be a subsidiary undertakings in June 2003 and is classified as discontinued operations in the profit and loss account, accordingly the profit and loss comparatives have been restated to allow comparisons of continuing and discontinued operations. Unit.Net UK Ltd, Unit.Net Deutschland GmbH, Unit.Net Streaming Spain SA and Virtue Broadcasting (Switzerland) Ltd are subsidiary undertakings acquired during the year and are classified as acquisitions within continuing operations.

e) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at contracted rates or, where no contract exists, at average monthly rates. Monetary assets and liabilities denominated in foreign currencies which are held at the year end are translated into sterling at year end exchange rates. Exchange differences on monetary items are taken to the profit and loss account.

f) Principal rate of exchange

	2003		2002	
£	**Year end**	**Average**	**Year end**	Average
Euro	**1.417**	**1.443**	1.535	1.591
Swiss Franc	**2.210**	**2.198**	2.227	2.330
Australian Dollar	**2.372**	**2.508**	2.861	2.794

g) Turnover

The Group provides on-line corporate communication services to large corporations. Services provided principally relate to webcasting and turnover is recognised when the webcasting services are performed, which is compliant with FRS 5 Application Note G. Turnover excludes transactions between companies within the Group and VAT.

Notes to the financial statements (continued)

for the year ended 31 December 2003

h) Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of past events and where the amount of the obligation can be readily estimated. Restructuring costs are recognised in respect of the direct expenditures of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken by the balance sheet date.

i) Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

j) Pension costs

Contributions to the group's defined contribution pension schemes are charged to the profit and loss account in the year in which they become payable.

k) Employee share options

Where options are granted at a price lower than their fair value at the date of grant, the difference is charged to the profit and loss account. Shares held by the EBT are accounted for as fixed asset investments at cost.

l) Goodwill

Positive goodwill is stated at cost less provision for amortisation. Amortisation is calculated so as to write off the cost in equal instalments over its expected useful economic life. The directors considered the useful economic life of positive goodwill arising on the acquisition of Viewpoint Media Pty Ltd as five years, having taken into account the underlying businesses of this entity.

Negative goodwill arising on the acquisition of Unit.Net represents the excess of the fair value assets acquired over the consideration paid. The directors considered that a five year period was appropriate to write back this negative goodwill having taken into account the underlying business of these entities.

m) Intangible fixed assets

Intangible fixed assets acquired have been recorded at cost and amortised in equal instalments over their useful economic life. Intangible fixed assets primarily comprise licence fees for content libraries, the useful economic life of which is estimated at five years.

n) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less a provision for depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets in equal instalments over their expected useful economic lives. The normal expected useful lives of the major categories of tangible fixed assets are:

	Useful economic life
Computer equipment	2-3 years
Computer software	2-3 years
Fixtures and equipment	3-4 years

o) Investments

Unquoted fixed asset investments and investments in group undertakings are stated at the lower of cost and net realisable value. As permitted by section 133 of the Companies Act, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the company's shares and the fair value of any other consideration given by to acquire the share capital of subsidiary undertakings.

p) Impairment of fixed assets and goodwill

The carrying values of fixed assets are reviewed for impairment when a triggering event arises that indicates assets might be impaired. First year impairment reviews are conducted for acquired goodwill and intangible assets. Impairment is determined by reference to the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Any provision for impairment is charged to the profit and loss account in the year concerned.

q) Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Notes to the financial statements (continued)

for the year ended 31 December 2003

r) Deferred taxation

Provision is made for deferred taxation using the incremental liability approach and is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of timing differences that have originated but not reversed by the balance sheet date subject to the deferred tax assets being recognised to the extent that they are regarded as recoverable. Assets are regarded as recoverable when it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2 Segmental analysis

	Turnover		Loss before tax			
	2003	2002 (restated)	Before goodwill & exceptional items 2003	After goodwill & exceptional items 2003	Before goodwill & exceptional items 2002 (restated)	After goodwill & exceptional items 2002 (restated)
Geographical and Business analysis						
Corporate Services Europe	**1,644**	580	**(593)**	**(578)**	(471)	(1,732)
Corporate Services Australasia	**426**	125	**(88)**	**(136)**	(146)	(169)
Loss before central expenses	**–**	–	**(681)**	**(714)**	(617)	(1,901)
Central expenses	**–**	–	**(736)**	**(736)**	(713)	(713)
Continuing operations	**2,070**	705	**(1,417)**	**(1,450)**	(1,330)	(2,614)
Discontinued operations (Europe)	**627**	1,346	**(258)**	**124**	(4,603)	(7,110)
Discontinued operations (Americas)	**–**	162	**–**	**–**	2	2
Merger expenses	**–**	–	**–**	**–**	–	(280)
Interest	**–**	–	**12**	**12**	145	145
Total	**2,697**	2,213	**(1,663)**	**(1,314)**	(5,786)	(9,857)

Analyses by business are based on the Group's management structure. Turnover between segments is immaterial. Geographical analysis is based on the territory in which the order is received. It would not be materially different if based on the territory in which the customer is located.

Central expenses comprise the cost of combined Group operations, principally the head office operations of the Group.

£ thousands		2003	2002 (restated)
Net assets			
Corporate Services:	Europe	**180**	108
	Australasia	**242**	200
Discontinued operations:	Europe	**–**	872
Discontinued operations:	Americas	**–**	–
Central net liabilities		**(457)**	(1,308)
Net cash		**1,384**	1,104
Total		**1,349**	976

Central net liabilities comprise the liabilities of the combined Group operations, principally the head office.

The segmental analyses of turnover; loss before interest and tax; and net operating assets for Europe and Corporate Services includes £583,000, £(180,000) and £(115,000) in respect of Unit.Net group of companies which were acquired during the year.

Notes to the financial statements (continued)

for the year ended 31 December 2003

3 Net operating expenses

		2003				2002 (restated)		
		Continuing operations		Discontinued		Continuing	Discontinued	
£ thousands	Notes	Existing	Acquisitions	Operations	Total	operations	operations	Total
Staff costs	8	**(1,463)**	**(380)**	**(368)**	**(2,211)**	(1,099)	(2,415)	(3,514)
Other operating charges		**(1,105)**	**(373)**	**(402)**	**(1,880)**	(850)	(2,842)	(3,692)
Depreciation		**(141)**	**(25)**	**(115)**	**(281)**	(86)	(852)	(938)
Amortisation		**(48)**	**15**	**(1)**	**(34)**	(173)	–	(173)
Exceptional items	4	**–**	**–**	**–**	**–**	(1,111)	(603)	(1,714)
Total		**(2,757)**	**(763)**	**(886)**	**(4,406)**	(3,319)	(6,712)	(10,031)

4 Exceptional items - operating

	2003				2002 (restated)		
	Continuing operations		Discontinued		Continuing	Discontinued	
£ thousands	Existing	Acquisitions	Operations	Total	operations	operations	Total
Merger integration costs [1]	**–**	**–**	**–**	**–**	–	401	401
Restructuring costs [2]	**–**	**–**	**–**	**–**	174	202	376
Impairment of goodwill [3]	**–**	**–**	**–**	**–**	937	–	937
Total	**–**	**–**	**–**	**–**	1,111	603	1,714

[1] Following the merger with Virtue Broadcasting Ltd in 2002 the Group implemented a reorganisation plan with costs of £401,000. The exceptional charge represents the cost of redundancies and a UITF 17 charge of £90,000 relating to a share transfer by a former director.

[2] The costs of £376,000 incurred in 2002 arise from the restructuring of the business following the integration of Streamway Netcasting Ltd within the Group and other rationalisation programmes announced during the year. The exceptional charges represent the cost of redundancies and termination fees of software license contracts.

[3] Due to market conditions and the strategic repositioning of the Corporate Services division's products, management reviewed that division's acquired goodwill for impairment for the period ended 2002. The review indicated that the carrying value of the acquired goodwill at 31 December 2002 should be impaired by £937,000 which resulted in an associated operating exceptional impairment charge being booked in the profit and loss account for the year ending 31 December 2002. This adjustment had no cash impact.

Notes to the financial statements (continued)

for the year ended 31 December 2003

5 Exceptional items - non-operating

£ thousands	**2003**	2002
Merger costs [1]	**–**	(280)
(Loss)/profit on sale and termination of operations:		
Danske Bank settlement [2]	**100**	–
Virtue Media Services Ltd [3]	**282**	–
Tornado Entertainment Ltd [4]	**–**	(1,977)
Virtue Broadcasting Company, Inc. [5]	**–**	73
Profit on disposal of tangible fixed assets	**1**	–
Total	**383**	(2,184)

[1] Expenses of £280,000 were incurred in respect of the merger of the Company with Virtue Broadcasting Ltd in June 2002.

[2] The Company reached a compromise agreement with the liquidator of Tornado Entertainment Ltd, its former subsidiary, regarding a claim made by the Company over a £200,000 bank deposit held by Tornado Entertainment Ltd with Danske Bank A/S. Under the agreement Danske Bank A/S agreed to release Tornado Entertainment Ltd from a fixed charge over the deposit supporting a £200,000 loan outstanding in one of the company's subsidiaries and Tornado Entertainment Ltd agreed to pay £100,000 to the Company. As a result an exceptional income of £100,000 has been recorded in the profit and loss account for the year ended 31 December 2003.

[3] In June 2003 the Group disposed of its Media Services division, Virtue Media Services Ltd, for an aggregate consideration of £860,000 before transaction expenses which gave rise to an exceptional profit of £282,000. See note 25 for further information.

[4] In October 2002 the Group's subsidiary Tornado Entertainment Ltd ceased trading following withdrawal of Group funding support. It was subsequently placed into liquidation in December 2002. The exceptional loss represents: £722,000 for the write off of the subsidiary's net assets; £360,000 for subsequent redundancy costs incurred; and provisions of £895,000 for a vacant property lease.

[5] In April 2002 the Group disposed of its Canadian subsidiary, Virtue Broadcasting Company, Inc., to the incumbent management team for £nil consideration, at the time of disposal the subsidiary had net liabilities of £91,000. Transaction costs of £18,000 were incurred.

6 Net interest receivable

£ thousands	**2003**	2002
Interest payable on bank loans and overdrafts	**(9)**	(10)
Interest receivable	**21**	155
Net interest receivable	**12**	145

Notes to the financial statements (continued)

for the year ended 31 December 2003

7 Loss on ordinary activities before taxation

£ thousands	2003 Continuing operations Existing	2003 Continuing operations Acquisitions	2003 Discontinued Operations	2003 Total	2002 (restated) Continuing operations	2002 (restated) Discontinued operations	2002 (restated) Total
Loss before taxation of £1,314,000 (2002: £9,857,000) is stated after charging:							
Research & development	**67**	**16**	**48**	**131**	28	309	337
Operating leases:							
Land and buildings	**146**	**60**	**72**	**278**	136	387	523
Plant and machinery	**–**	**–**	**–**	**–**	7	–	7
Profit/ (loss) on disposal of tangible fixed assets	**1**	**–**	**–**	**1**	(20)	(616)	(636)
Auditors' remuneration:							
Audit [1]	**80**	**–**	**–**	**80**	91	–	91
Non-audit fees:							
Other assurance fees	**–**	**–**	**–**	**–**	20	–	20
Taxation advice	**7**	**–**	**–**	**7**	19	–	19

[1] Within the Group audit fee of £80,000 (2002: £91,000) is £40,000 (2002: £57,000) in respect of the parent company.

8 Employees and directors

£ thousands	2003 Continuing operations Existing	2003 Continuing operations Acquisitions	2003 Discontinued Operations	2003 Total	2002 (restated) Continuing operations	2002 (restated) Discontinued operations	2002 (restated) Total
Staff costs:							
Wages and salaries	**1,269**	**321**	**328**	**1,918**	950	1,997	2,947
Social security costs	**136**	**34**	**38**	**208**	120	253	373
Pension costs	**11**	**11**	**–**	**22**	5	116	121
Other costs	**47**	**14**	**2**	**63**	24	49	73
	1,463	**380**	**368**	**2,211**	1,099	2,415	3,514

Number							
Average number of people employed (including Executive directors) by business:							
Media Services	–	–	8	8	–	52	52
Corporate Services	25	8	–	33	16	2	18
Central	5	1	1	7	7	8	15
	30	9	9	48	23	62	85

The average number of employees reflects the period for which acquired or disposed subsidiaries were members of the Group. All pension contributions made in 2002 were to defined contribution personal pension schemes. Accrued contributions at 31 December 2003 were £nil (2002: £5,000).

£ thousands							
Directors:							
Aggregate emoluments	**225**	**18**	**73**	**316**	59	484	543
Pension contributions	**–**	**–**	**–**	**–**	–	21	21
Termination pay	**–**	**–**	**25**	**25**	–	139	139
	225	**18**	**98**	**341**	59	644	703

In addition to the above, former directors G Roblin and N Ferris were paid consultancy costs of £32,000 and £27,000 respectively during 2003. Aggregate emoluments include £78,000 (2002: £45,000) payable to third parties for directors' services.

Notes to the financial statements (continued)

for the year ended 31 December 2003

8 Employees and directors (continued)

The emoluments of the highest paid director were as follows:

£ thousands	2003	2002
Emoluments	**125**	131
Contributions to pension scheme	**–**	–
	125	131

9 Taxation

£ thousands	2003	2002
Current tax charge	**–**	–
	–	–

Factors affecting the tax charge

£ thousands	2003	2002
Loss on ordinary activities before tax	**(1,314)**	(9,857)
Loss on ordinary activities before tax multiplied by the standard rate of corporate tax in the UK of 30% 2002: 30%)	**(394)**	(2,957)
Effects of:		
Depreciation in excess of capital allowances for the period	**68**	140
Amortisation of intangible assets and goodwill	**10**	333
Non-deductible expenses	**22**	429
Deferred tax asset due to losses not recognised in the period	**409**	435
Losses arising in other subsidiaries not available for future use	**5**	1,439
Profit/(losses) on sale and termination of operations not qualifying	**(120)**	180
Other	**–**	1
Current tax charge	**–**	–

10 Loss per 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, excluding those held in the employee share trust (see note 13) which are treated as cancelled. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year. No diluted earning per share has been presented as the Group has made losses.

Supplementary basic and diluted EPS have been calculated to exclude the effect of goodwill amortisation in respect of the subsidiaries and joint ventures acquired and exceptional items. The adjusted numbers have been provided in order that the effects of goodwill amortisation and exceptional items on reported earnings can be fully appreciated.

Notes to the financial statements (continued)

for the year ended 31 December 2003

10 Loss per share (continued)

	2003			2002		
	Earnings £ thousands	Weighted average no of shares Thousands	Per share amount Pence	Earnings £ thousands	Weighted average no of shares Thousands	Per share amount Pence
Basic loss per share						
Earnings attributable to ordinary shareholders	**(1,241)**	**124,373**	**(1.0)**	(9,793)	107,437	(9.1)
Supplemental loss per share						
Basic earnings per share						
Effect of exceptional items:						
Operating exceptional items	**–**			1,714		
Non-operating exceptional items	**(383)**			2,184		
Goodwill amortisation	**34**			173		
Basic - adjusted loss per share	**(1,590)**	**124,373**	**(1.3)**	(5,722)	107,437	(5.3)

There is no material difference between the basic earnings per shares and diluted earnings per share as the Group has been loss making in both periods.

11 Intangible fixed assets

	Group			
£ thousands	Negative goodwill	Positive goodwill	Other intangible assets	**Total**
Cost				
At 1 January 2003	–	1,308	13	**1,321**
Additions [1]	(150)	–	4	**(146)**
Disposal of subsidiary undertaking	–	–	(17)	**(17)**
At 31 December 2003	(150)	1,308	–	**1,158**
Amortisation				
At 1 January 2003	–	1,106	9	**1,115**
Charge for the year	(15)	48	1	**34**
Disposal of subsidiary undertaking	–	–	(10)	**(10)**
At 31 December 2003	(15)	1,154	–	**1,139**
Net book value				
At 1 January 2003	–	202	4	**206**
At 31 December 2003	**(135)**	**154**	**–**	**19**

[1] see note 25 for further information regarding the negative goodwill acquired during the year.

Notes to the financial statements (continued)

for the year ended 31 December 2003

12 Tangible fixed assets

£ thousands	Group: Computer equipment & software	Group: Fixtures fittings and equipment	Group: **Total**	Company: Computer equipment & software
Cost				
At 1 January 2003	822	249	**1,071**	**5**
Disposal of subsidiary undertaking	(293)	(20)	**(313)**	**–**
Subsidiary undertakings at date of acquisition	12	10	**22**	**–**
Additions	160	9	**169**	**2**
Disposals	(12)	(2)	**(14)**	**–**
At 31 December 2003	689	246	**935**	**7**
Depreciation				
At 1 January 2003	580	132	**712**	**–**
Disposal of subsidiary undertaking	(262)	(16)	**(278)**	**–**
Charge for the year	206	75	**281**	**3**
Disposals	(11)	–	**(11)**	**–**
Exchange	2	–	**2**	**–**
At 31 December 2003	515	191	**706**	**3**
Net book value				
At 1 January 2003	242	117	**359**	**5**
At 31 December 2003	174	55	**229**	**4**

13 Fixed asset investments

£ thousands	Group: Own shares	Group: Unlisted investments	Group: **Total**	Company: Investment In Group undertakings
At 1 January 2003	–	64	**64**	**376**
Additions	–	–	**–**	**207**
Disposal of subsidiary undertaking	–	(64)	**(64)**	**(455)**
As at 31 December 2003	–	–	**–**	**128**

Interests in own shares represents 1,000,000 of the Company's 0.1p ordinary shares acquired in December 2001 of which 560,000 have been transferred to employees. These shares were gifted by a former director to a trust for the benefit of directors who are not founder shareholders and employees. The market value of the remaining 440,000 (2002: 690,000) shares at 31 December 2003 was £25,300 (2002: £17,500) over which the trust has awarded options over 250,000 shares (2002: 500,000).

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list can be obtained in the Company's next Annual Return. The Group's principal operating subsidiaries are:

Company	Country of incorporation and operation	% owned and voting rights	Class of share owned	Main activity
Virtue Broadcasting (Switzerland) Ltd	Great Britain/Switzerland	100%	Ordinary	Streaming services
Virtue Corporate Services Ltd	Great Britain	100%	Ordinary	Streaming services
Virtue Broadcasting Pty Ltd	Australia	63%	Ordinary	Streaming services
Unit.Net Deutschland GmbH	Germany	100%	Ordinary	Streaming services
Unit.Net UK Ltd	Great Britain	100%	Ordinary	Streaming services
Unit.Net Streaming Spain SA	Spain	100%	Ordinary	Streaming services
Virtue Broadcasting (Holdings) Ltd	Great Britain	100%	Ordinary	Holding company

Notes to the financial statements (continued)

for the year ended 31 December 2003

14 Debtors

£ thousands	Group 2003	Group 2002	Company 2003	Company 2002
Amounts falling due within one year				
Trade debtors	**623**	975	**9**	–
Amounts owed by Group Undertakings	**–**	–	**2,414**	960
Other debtors	**456**	123	**436**	28
Prepayments and accrued income	**175**	512	**137**	–
	1,254	1,610	**2,996**	988

15 Creditors: amounts falling due within one year

£ thousands	Group 2003	Group 2002	Company 2003	Company 2002
Amounts falling due within one year				
Bank loans and other borrowings	**–**	200	**–**	–
Trade creditors	**294**	513	**224**	177
Amounts owed to Group Undertakings	**–**	–	**288**	–
Other taxation and social security	**71**	89	**–**	–
Other creditors	**131**	145	**131**	–
Accruals and deferred income	**479**	728	**155**	259
Accrued pension contributions	**21**	5	**–**	–
	996	1,680	**798**	436

16 Creditors: amounts falling due after more than one year

£ thousands	Group 2003	Group 2002	Company 2003	Company 2002
Amounts falling due after more than one year				
Other creditors	**3**	9	**–**	–
	3	9	**–**	–

Notes to the financial statements (continued)

for the year ended 31 December 2003

17 Financial instruments

The Financial Review on page 3 sets out details of the Group's treasury and financial risk management policy.

a) *Short term debtors and creditors*

Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

b) *Interest rate and currency profile of financial liabilities*

The Group's financial liabilities at 31 December 2003 total £538,000 (2002: £1,087,000) are denominated in sterling. Within financial liabilities are the group's provisions of £538,000 (2002: £878,000) for vacant leasehold properties. In establishing the provisions the cash flows have not been discounted. Debt and finance lease liabilities in 2002 were floating rate financial liabilities which bore interest at rates based on LIBOR, and were fixed in advance for periods of between one and twenty four months.

c) *Maturity of financial liabilities*

	2003				2002			
Currency	**Debt £ thousands**	**Finance leases £ thousands**	**Other financial liabilities £ thousands**	**Total £ thousands**	Debt £ thousands	Finance leases £ thousands	Other financial liabilities £ thousands	Total £ thousands
In one year or less or on demand	**–**	**–**	**205**	**205**	200	–	331	531
In more than one year but not more than two years	**–**	**–**	**105**	**105**	–	9	205	214
In more than two year but not more than five years	**–**	**–**	**228**	**228**	–	–	342	342
More than five years	**–**	**–**	**–**	**–**	–	–	–	–
Total	**–**	**–**	**538**	**538**	200	9	878	1,087

d) *Borrowing facilities*

The Group has no committed borrowing facilities (2002 nil).

e) *Interest rate and currency profile of financial assets*

	2003			2002			
	Deposits £ thousands	**Cash £ thousands**	**Total £ thousands**	Unquoted investments £ thousands	Deposits £ thousands	Cash £ thousands	Total £ thousands
Sterling	**70**	**1,235**	**1,305**	64	98	1,289	1,451
Australian Dollars	**9**	**25**	**34**	–	5	15	20
Swiss Francs	**–**	**33**	**33**	–	–	–	–
Euro	**6**	**91**	**97**	–	–	–	–
Total	**85**	**1,384**	**1,469**	64	103	1,304	1,471

Deposits comprise rent deposit monies, which are charged against performance under operating leases for the Company's properties until satisfaction of the operating lease and earn interest based on LIBID. Floating rate cash deposits earn interest based on LIBID.

f) *Fair value of financial assets and liabilities*

In the directors' opinion there is no material difference between the book value and current value of any of the Group's financial assets and liabilities (2002: nil).

g) *Currency risk*

There were no significant net foreign currency monetary assets or liabilities at the end of the balance sheet date (2002 £nil). Matched assets and liabilities are those that generate no gain or loss in the profit and loss account either because they are denominated in the same currency as the Group operations to which they belong or because they qualify under SSAP 20 as a foreign currency borrowing providing a hedge against a foreign equity investment.

h) *Hedges*

The Group has no material hedged transactions or positions in the period (2002: nil).

Notes to the financial statements (continued)

for the year ended 31 December 2003

18 Provisions for liabilities and charges

a) Group analysis of provisions for liabilities and charges

	Group				Company		
£ thousands	Vacant property	Leasehold dilapidations	Other	**Total**	Vacant property	Leasehold dilapidations	**Total**
Balance as at 1 January 2003	813	61	4	**878**	766	45	**811**
Charged to profit and loss account	–	19	1	**20**	–	19	**19**
Utilised in the year	(318)	–	–	**(318)**	(297)	–	**(297)**
Transferred with disposal of subsidiary	(26)	(16)	–	**(42)**	–	–	**–**
Balance as at 31 December 2003	**469**	**64**	**5**	**538**	**469**	**64**	**533**

With the closure of Tornado Entertainment Limited in October 2002 the Group relocated its head office from Marlow to its London office. Provision has been made for the residual lease commitments, together with other outgoings less expected rents under sub-leases for the remaining period of that lease, which at 31 December 2003 is four years. The Company provides for dilapidations which will fall due for repair at the termination of the lease which is expected in December 2007.

b) Deferred taxation

A potential deferred tax asset of £2.5 million (2002: £4.1 million) has not been recognised on losses available to carry forward against the Group. These may be offset in future only against taxable profits generated by the entities concerned.

19 Called up share capital

	2003		2002	
Authorised	**Number of ordinary shares millions**	**Nominal value £ thousands**	Number of ordinary shares millions	Nominal value £ thousands
Ordinary shares of 0.1p each	**20,000**	**20,000**	20,000	20,000

	2003	
Authorised	**Number of ordinary shares thousands**	**Nominal value £ thousands**
Ordinary shares of 0.1p at start of year	**113,965**	**114**
October share issue	**30,548**	**31**
November share issue	**27,500**	**27**
Ordinary shares of 0.1p at end of year	**172,013**	**172**

On 3 October 2003 the Company issued 30,548,300 0.1 pence ordinary shares through a placing at 2.25 pence per share before expenses.

On 18 November 2003 the Company issued 27,500,000 0.1 pence ordinary shares through a placing at 4.0 pence per share before expenses.

Notes to the financial statements (continued)

for the year ended 31 December 2003

20 Reserves

£ thousands	Group Share premium	Group Other reserves [1]	Group Profit and loss account	Group Total
At 1 January 2003	12,038	13,060	(24,366)	**732**
Shares issued during the year	1,615	–	–	**1,615**
Loss for the financial year	–	–	(1,241)	**(1,241)**
Exchange differences	–	–	14	**14**
At 31 December 2003	**13,653**	**13,060**	**(25,593)**	**1,120**

£ thousands	Company Share premium	Company Other reserves [1]	Company Profit and loss account	Company Total
At 1 January 2003	12,038	16,874	(27,586)	**1,326**
Shares issued during the year	1,615	–	–	**1,615**
Loss for the financial year	–	–	(191)	**(191)**
At 31 December 2003	**13,653**	**16,874**	**(27,777)**	**2,750**

[1] Other reserves include £16,874,000 for the Group and Company in respect of a capital redemption reserve and £(3,814,000) for the Group in respect of a merger reserve.

21 Reconciliation of movement in equity shareholders' funds

	Group		Company	
£ thousands	**2003**	2002	2003	2002
Loss for the financial year	**(1,241)**	(9,793)	**(191)**	(28,464)
Foreign exchange adjustments	**14**	33	**–**	–
Share issues net of costs	**1,673**	616	**1,673**	2,912
Credit in respect of UITF 17 charge	**–**	90	**–**	90
Net addition/ (reduction) to shareholders' funds	**446**	(9,054)	**1,482**	(25,462)
Opening shareholders' funds	**846**	9,900	**1,440**	26,902
Closing shareholders' funds	**1,292**	846	**2,922**	1,440

Notes to the financial statements (continued)

for the year ended 31 December 2003

22 Consolidated cash flow

a) Reconciliation of operating profit to net cash flow from operating activities

£ thousands	**2003**	2002
Group operating loss	**(1,709)**	(7,818)
Depreciation	**281**	938
Amortisation	**34**	173
Impairment of goodwill	**–**	937
UITF 17 stock option charge	**–**	90
Decrease in debtors	**436**	467
(Decrease)/ increase in creditors	**(977)**	69
(Loss)/ profit on disposal of fixed assets	**(1)**	22
Merger expenses	**–**	(280)
Non-cash transactions	**18**	38
Net cash outflow from operating activities	**(1,918)**	(5,364)

b) Analysis of changes in net debt

£ thousands	At 1 Jan 2003	Cash flow	Acquisitions (excluding cash)	**At 31 Dec 2003**
Cash in hand or at bank	1,304	80	–	**1,384**
Debt due within 1 year	(200)	200	–	**–**
	1,104	280	–	**1,384**

23 Commitments

a) Operating leases

As at 31 December 2003 the Group has lease agreements in respect of properties for which payments extend over a number of years.

£ thousands	**2003** **Property**	2002 Property
Annual commitments under non-cancellable operating leases expiring:		
Within one year	**36**	17
Within two to five years	**464**	444
After five years	**–**	–

b) Other

Within other debtors are rent deposits totalling £70,000 (2002: £97,000) over which the Company has issued charges in favour of the lessors.

Notes to the financial statements (continued)

for the year ended 31 December 2003

24 Share options

Certain employees hold options to subscribe for shares in the Company at prices ranging from 3.0 pence to 150.0 pence under the Group's share option schemes. The Group operates Approved, Unapproved, Enterprise Management Incentive and Employee Benefit Trust schemes for selected employees under a contract of employment to be granted options to acquire ordinary shares in the Company. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are give below:

			2002	Issued	Exercised	**2003**
Year of grant	Exercise price (pence)	Exercise period	Numbers (thousands)	Numbers (thousands)	Numbers (thousands)	**Numbers (thousands)**
2000	150.0	2001-2010	6	–	–	**6**
2000	130.0	2001-2010	225	–	–	**225**
2001	100.0	2001-2011	100	–	–	**100**
2001	28.0	2002-2012	9	–	–	**9**
2001	25.0	2002-2012	83	–	–	**83**
2002	6.5	2002-2012	2,214	–	–	**2,214**
2002	5.0	2002-2012	50	–	–	**50**
2003	3.0	2003-2013	–	5,126	–	**5,126**
			2,687	5,126	–	**7,813**

Details of options held by Directors are set out inthe Remuneration Committee Report on Page 9.

25 Acquisitions and disposals

a) *Acquisition of Unit.Net*

On 21 July 2003 the Group acquired the UK, German and Spanish subsidiaries of Unit.Net A.G. (In Liquidation) ("Unit.Net"), a Swiss based company, together with certain Swiss based assets, sales contracts, inter-company loans and employees of Unit.Net. The effective date of the transaction was 1 July 2003. The Group paid Unit.Net £nil consideration but repaid £88,000 of loans to Unit.Net. The total adjustments required to the book values of the assets and liabilities of the companies acquired in order to present the net assets of those companies at fair values in accordance with group accounting principles were £104,000, details of which are set out below together with the resultant amount of goodwill arising.

These purchases have been accounted for as acquisitions. From the date of acquisition to 31 December 2003 the acquisitions contributed £583,000 to turnover; £180,000 to loss before interest; and £175,000 to loss after interest. The Unit.Net companies contributed £309,000 to the group's net operating cash flows outflows; received £5,000 in respect of interest; and utilised £57,000 for capital expenditure. The Unit.Net companies recorded a loss after tax of £4.6 million in 2002. The table below sets out management's best estimate of the combined results of the acquired Unit.Net business from 1 January 2003 to their acquisition on 1 July 2003:

£ thousands	**6 months ended June 2003**
Turnover	**906**
Operating loss	**(441)**
Loss before taxation	**(435)**
Taxation	**–**
Loss attributable to shareholders	**(435)**
Total recognised loss for the period	**(435)**

Notes to the financial statements (continued)

for the year ended 31 December 2003

25 Acquisitions and disposals (continued)

£ thousands **Analysis of assets acquired**	Book value of asset acquired	Fair value Adjustments	Fair value of assets acquired
Tangible fixed assets	22	–	22
Debtors	454	(33)	421
Cash	138	–	138
Creditors due less than one year	(138)	(71)	(209)
Provisions [1]	(98)	–	(98)
Net assets acquired	**378**	**(104)**	**274**
Goodwill			**(150)**
Consideration			**124**
Consideration satisfied by:			
Acquisition expenses			36
Net loan repayments			88

[1] Included within provisions is an amount of £73,000 relating to restructuring under taken before the acquisition date.

The book value of assets and liabilities has been taken from the management accounts of the Unit.Net companies acquired as at 1 July 2003 (the effective date of acquisition). The fair value adjustments relate to additional provisions against debtors and an adjustment of £71,000 to deferred income to bring the acquired business into line with the Group income recognition policy.

b) Net cash outflow in respect of acquisitions

£ thousands	**2003**	2002
Net cash balances acquired	**138**	6
Acquisition of Unit.Net	**(124)**	–
Acquisition of Streamway Netcasting Ltd	**–**	(24)
Acquisition of Viewpoint Media Pty Ltd	**–**	(46)
	14	(64)

c Disposal of Virtue Media Services UK Ltd

£ thousands	2003
Intangible fixed assets	7
Tangible fixed assets	35
Investments	64
Cash	7
Debtors	464
Creditors	(155)
Provisions	(10)
Exceptional charges	91
	503
Profit on disposal	282
Consideration	**785**
Consideration satisfied by:	
Cash consideration (net of transaction expenses of £75,000)	607
Contingent cash consideration	118
Fair value of network services	60
	785

Virtue Media Services Ltd contributed a profit of £23,000 (2002: loss of £948,000) to loss before interest, see note 5 for further information.

Notes to the financial statements (continued)

for the year ended 31 December 2003

26 Post balance sheet events

The Company announced on 27 November 2003 that it had agreed to acquire Kamera Holdings AB for an aggregate consideration of £2.4 million, which completed on 9 January 2004. This sum comprises cash of £100,000 and a new issue of 43,770,247 0.1p ordinary shares. The unaudited accounts of Kamera Holding AB show consolidated revenues of £1.9 million and loss before tax of £0.5 million for the year ended 31 December 2003.

On 12 February 2004 the Company acquired 298,663 shares in its Australian subsidiary, Virtue Broadcasting Pty Ltd, from Edgewise Solutions Pty Ltd in consideration of an issue of 1,707,541 new ordinary shares of 0.1 pence each. The acquisition takes the Group's holding in its Australian subsidiary to 83% from 63%.

On 5 May 2004, the Company issued 95,422,850 new ordinary shares to raise a total of £3.1 million before expenses.

On 6 May 2004 the Company acquired Foroso Communications GmbH, a high quality webconferencing company based in Germany. The Company has paid a total of £0.5 million in cash, deferred consideration of £0.2 million is payable in 2005 and potentially up to £0.6 million of contingent consideration subject to Foroso achieving certain conditions including earning either £600,000 profit after taxation or achieving revenues of £1.0 million from the period of acquisition until 31 December 2005. The acquisition broadens the Group's product portfolio enabling it to expand its one-to-many communication solutions into the few-to-few communications market.

On 14 May 2004 the Group acquired the business assets of Webcom for a net consideration of approximately £48,000. Webcom supplies end to end IP communication solutions in the Australian market place.

Virtue Broadcasting Plc

(Registered in England and Wales, company number 03901656)

Notice of Annual General Meeting

Notice is given that the Annual General Meeting of the Company will be held at 5 Giltspur Street, London EC1 on 23 June 2004 at 10.00 a.m. or as soon after such time for the following purposes: to consider and, if thought fit, pass the following resolutions of which numbers 1 to 6 will be proposed as ordinary resolutions and number 7 will be proposed as a special resolution:

Ordinary Business

(1) To receive and adopt the account and reports of the Directors and of the auditors for the year ended 31 December 2003.

(2) To receive, adopt and approve the Directors' Remuneration Report for the year ended 31 December 2003.

(3) To re-elect Klaus Ackerstaff as a Director of the Company.

(4) To re-elect James Ormondroyd as a Director of the Company.

(5) To re-appoint PricewaterhouseCoopers LLP as auditors of the Company from the conclusion of this meeting to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration

(6) That the Directors be and they are generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the 'Act') to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) provided that this authority shall be limited to relevant securities up to an aggregate nominal amount of £300,000 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of passing of such resolution or at the conclusion of the next annual general meeting of the Company whichever first occurs, but so that the Company is able before such expiry to make an offer or agreement which would or might require relevant securities to be allotted after expiry of such an authority and the Directors will be authorised to allot relevant securities in pursuance of that offer or agreement notwithstanding that the authority conferred by this resolution has expired.

(7) That subject to the passing of resolution number 6 above, the Directors be and are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash as if sub-paragraph (1) of section 89 of the Act did not apply to such allotment provided that this is limited to:

   (a) the allotment of equity securities in connection with or pursuant to an offer to the holders of ordinary shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' existing holdings of ordinary shares (or, as appropriate, to the number of shares which such other persons are for these purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body in any territory, and

   (b) the allotment generally otherwise than pursuant to sub paragraph (a) above of equity securities for cash up to an aggregate nominal value of £300,000,

   and (unless previously revoked, varied or renewed) expires 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company, but so that the Company is able before such expiry to 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 that offer or agreement notwithstanding that the power conferred by this resolution has expired.

By Order of the Board

James Ormondroyd, Company Secretary

Date 21 May 2004

Registered Office: Carmelite, 50 Victoria Embankment, London EC4Y 0DX

Explanatory Notes

a) **Voting:** All shareholders who wish to attend and vote at the meeting must be entered on the Company's register of members no later than 48 hours before the time fixed for the meeting. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

b) **Proxy Shareholders:** A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend on their behalf. A proxy need not be a member of the Company. Investors who hold their shares through a nominee may wish to attend the meeting as a proxy, or to arrange for someone else to do so for them, in which case they should discuss this with their nominee or stockbroker. Whilst proxies may vote on a poll on any resolution, they are not entitled to vote on a show of hands. Proxies may ask questions at the meeting if, in his discretion, the Chairman of the meeting allows it. Members are invited to complete and return the enclosed Proxy Form if they are unable to attend the meeting. Completion of the Proxy Form will not prevent a shareholder from attending and voting at the meeting if subsequently he/she finds they are able to do so. To be valid, completed Proxy Forms (and any authority under which it is executed, or a notarially certified copy of such authority) must be received at the office of the Company's registrars, Capita IRG plc of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no fewer than 48 hours before the time fixed for the meeting.

c) **Corporate shareholders:** Representatives of shareholders which are corporations attending the meeting should produce evidence of their appointment by an instrument executed in accordance with Section 36A of the Act or signed on behalf of the corporation by a duly authorised officer or agent.

d) **Documents:** The following documents will be available for inspection at the registered office of the Company on any weekday (except Saturdays, Sundays and Bank Holidays) during normal business hours from the date of this notice until the date of the meeting and at the place of the meeting for 15 minutes prior to and until the conclusion of the meeting: statement of transactions of Directors (and of their family interests) in the share capital of the Company and any of its subsidiaries; copies of the Directors' service agreements with the Company; and the register of directors' interests in the share capital of the Company (maintained under section 325 of the Act).

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