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Virtue Broadcasting Plc

(formerly Tornado Group Plc)

Chairman's statement

Financial highlights

£ thousand	2002	2001	%
Operating results before exceptional items and goodwill			
Turnover from continuing operations	2,011	1,299	54.8
Operating loss from continuing operations	(2,282)	(2,927)	(22.0)
Loss per share	(5.3)p	(9.4)p	(43.6)
Group results			
Turnover	2,213	1,718	28.8
Operating loss	(7,818)	(9,911)	(21.1)
Loss per share	(9.1)p	(9.9)p	(8.1)

In my interim statement last year, I detailed our four goals to achieve profitability in the short to medium term:

- to create two divisions that will focus on the Corporate and Media market sectors, in order to respond more effectively to customers' needs;
- to implement a £2.7 million cost saving programme;
- to increase our market share in the Investor Relations communication market and to leverage this customer base by repositioning our on-line webcasting and webseminar services to a technology product offering;
- to consolidate our UK music industry position by providing more flexible ways for our customers to Share, Promote and Exploit digital content.

A year on, we have delivered against all of these objectives and reduced loss per share on continuing operations before exceptional items and goodwill to 5.3 pence per share from 9.4 pence per share.

The Corporate Services division performed well with turnover growing by 89% to £695,000 (2001: £367,000), which includes a five month contribution of £253,000 from the acquisition of Streamway Netcasting Ltd. It provided services to 20 of the constituent companies of the FTSE100 and 22 of the AFX150 during 2002, compared to 6 and nil as at December 2001, and added the London Stock Exchange's Regulatory News Service to its reseller channels.

During the second half of 2002 the division commenced the repositioning of its on-line webcasting and webseminar services to a technology product offering titled Communication Manager. It expects to complete the roll out of its Communication Manager platform to customers in the second half of 2003.

The Media Services division performed satisfactorily with turnover growing by 41% to £1,316,000 (2001: £932,000). The division continued to provide services to EMI, BMG and Universal Music in the UK and in addition has rolled out services to their respective international departments.

The division has developed a secure file sharing platform for pre-release music and has now commenced beta trials with customers including EMI Publishing. It has also commenced trials of mobile content distribution with its partner Emblaze.

In the second half of 2002 the Media Services division announced that it had discontinued funding Tornado Entertainment Ltd, a subsidiary of the Group, due to continued poor performance, recording operating losses to October 2002 of £4.1 million (2001: £6.9 million). The closure crystallised losses on termination of £2.0 million.

Before we look forward it is worth reflecting on the turnaround we have achieved over the last year. We have posted significant revenue growth and made savings in on-going operating expenditure; we have closed the largest loss making operation and have acquired and integrated two competitors in the corporate market; and we have continued to improve the Group's products.

The economic environment experienced in the technology and telecommunications sectors in which we have operated over the past year has been one of the most difficult in many years, it has been impossible to realise the growth in revenues necessary in order to provide sufficient investment in the Group. Due to the breadth of our customer needs and associated products across both the divisions together with our financial position, we have concluded it to be necessary to focus on one market segment in order to deliver value to shareholders and provide enhanced opportunities for employees and customers.

In light of this, we decided it was appropriate to pursue the disposal of the UK Media Services division, Virtue Media Services Ltd, which will complete on 30 June 2003 with its disposal to Interoute Communications Ltd for an aggregate consideration of £800,000.

Virtue Broadcasting's vision is to provide corporations with the capabilities to capture and deliver on-line communications that combine automation with increased returns on investment for customers. The Group will:

- *build on the momentum created by acquisitions in the Corporate Services division;*
- *complete the roll-out of Communication Manager and focus on cross-selling this product to our existing clients;*
- *focus on improving the operational and financial performance of our UK and Australian businesses.*

We shall aim to achieve this without ruling out any other potential opportunities to deliver enhanced shareholder value in the Corporate Communications market segment.

The current trading outlook supports the Board's belief that there will be continued performance improvements in the first half of 2003. However, the long term prospects of the Group still depend upon an increase in volume and consistency of revenue streams. As with any growth business there remains uncertainty and risk about the ability of the Group to achieve revenue growth as anticipated and to do so within the Group's existing funding.

We thank you for standing by us as we turn this business around. Your support is much appreciated by all of us in the Group.

Neil Ferris, Executive Chairman

Financial review

Virtue Broadcasting's full year results for 2002 include turnover from continuing operations increasing by 55% to £2.0 million (2001: £1.3 million) and operating loss before tax before exceptional items and goodwill amortisation from continuing operations reducing by 22% to £2.3 million.

Merger

The Company merged with Virtue Broadcasting Ltd on 24 June 2002 incurring £280,000 of direct transaction costs, which have been presented as an exceptional charge. The consideration for the entire issued share capital of Virtue Broadcasting Ltd was the issue of 45,918,489 ordinary shares of 5.0 pence nominal value each, which represented approximately 45% of the share capital of the Company as enlarged by the merger. The transaction qualified for merger accounting under generally accepted accounting principles, meaning that the consolidated results and net assets of both companies have been combined to present the financial statements as if the merger had always been in place and the results reflect the full trading of both Companies for all periods presented.

Following the merger, the Company was renamed Tornado Virtue Plc, and announced that it was to form two divisions: Corporate Services and Media Services. Both divisions were tasked with positioning their product offering and delivering significant revenues in their market segments, based on the core application and delivery technologies operated by the Group. The Group also implemented a restructuring that yielded £2.7 million per annum of operating expenditure savings. On 20 December 2002 the Company was renamed Virtue Broadcasting Plc.

Corporate Services

The Corporate Services division recorded increased turnover of 89% to £695,000, which includes a five month contribution of £253,000 from the acquisition of Streamway Netcasting Ltd. Operating loss before goodwill impairment and amortisation from this division decreased to £705,000 from £742,000 of which £334,000 was related to Streamway Netcasting Ltd.

Media Services

The Media Services division performed satisfactorily with turnover growing by 41% to £1,316,000. The growth in revenues led to a reduced operating loss before goodwill amortisation from this division of £1,086,000 from £1,396,000.

Australian operations

Following the acquisition of Viewpoint Media in August 2002 the Australian operation delivered improved results, recording turnover of £192,000 (2001: £47,000) and operating loss before goodwill amortisation of £111,000 (2001: £189,000).

Central expenses

Central expenses, principally the cost of operating the head office of the Group, were reduced by 10.6% to £713,000.

Acquisition

On 30 July 2002 the Group announced that it had acquired 100 per cent of Streamway Netcasting Ltd, in consideration of the issue of 11,396,552 new ordinary shares of 5.0 pence each in the Company representing 10 per cent of the enlarged issued share capital of the Company. This values Streamway at £596,000 based on a share price of 5.25

pence, which compared to the fair value of net liabilities acquired of £460,000 and transaction expenses of £24,000 gives rise to goodwill on acquisition of £1,080,000.

Following the decision to dispose of the UK Media Services business the Board has reassessed the direction and strategy of the Corporate Services division and as part of this has reassessed the carrying value of its assets. Due to market conditions and the strategic repositioning of the Corporate Services products from on-line webcasting and webinar services to a technology product offering, management has reviewed the acquired goodwill for impairment. The review indicated that the carrying value of the acquired goodwill at 31 December 2002 should be impaired by £937,000 and resulted in an associated operating exceptional impairment charge to the profit and loss account for the year ended 31 December 2002.

Discontinued operations

In the second half of 2002 the Media Services division announced that it had discontinued funding Tornado Entertainment Ltd due to a winding up petition presented by C&W and its performance, recording operating losses to October 2002 of £4.1 million (2001: £6.9 million). The closure crystallised losses on termination of £2.0 million comprising: write off of £0.7 million of net assets; £0.9 million provision for vacant leasehold property; and £0.4 million in redundancy payments. Tornado Entertainment Ltd was subsequently placed into liquidation in December 2002.

Discontinued operations includes the results of Tornado Entertainment Ltd for ten months to October 2002 and Virtue Broadcasting Company, Inc. the former Canadian subsidiary of the Group, which was sold to its management team in April 2002.

Net funds

Net funds reduced from £7.4 million to £1.1 million, predominately due to operating cash out flows made by Tornado Entertainment Ltd until its closure in October 2002 of £3.6 million together with closure costs paid during 2002 of £0.7 million, and the continuing losses of the Corporate Services and Media Services divisions.

Disposal of UK Media Services division

The Board believe that due to the breadth of its customer needs and associated products across both the Corporate Services and Media Services divisions together with its financial position, it is necessary to focus on one market segment in order to deliver value to shareholders and provide enhanced opportunities for employees and customers. In light of this, the Board concluded it was appropriate to pursue the disposal of the UK Media Services division, Virtue Media Services Ltd. The Group will complete the disposal of Virtue Media Services Ltd to Interoute Communications Ltd on 30 June 2003 for an aggregate consideration of £800,000. This sum comprises cash of £600,000 and a sum equating to the adjusted working capital of Virtue Media Services Ltd on 30 June 2003, which the Board estimate to be approximately £200,000 receivable over six months. In addition, Interoute will provide internet access and streaming services to the Group to the value of €168,000 and has contracted to purchase £77,000 of services from the Group over the next twelve months.

Virtue Broadcasting Plc

(formerly Tornado Group Plc)

Directors and advisors

Directors

Neil Ferris

Executive Chairman

Nick English ACA

Chief Executive Officer

James Ormondroyd ACA

Chief Financial Officer

Giles English

Sales & Marketing 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 2002

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 2002.

Principal activities, business review and future developments

The Group's principal activity is the provision of streaming media applications and services to the Corporate Communications and Media markets.

A review of the Group's operations and future developments is included in the Chairman's statement and Financial review on pages 2 to 3.

Change of name

The Company changed its name to Tornado Virtue Plc at the time of the merger with Virtue Broadcasting Ltd on 24 June 2002. Following the closure of Tornado Entertainment Ltd the Company changed its name to Virtue Broadcasting Plc on 20 December 2002.

Results and dividends

Turnover for the year was £2.2 million (2001: £1.7 million) and loss after taxation was £9.9 million (2001: £9.0 million).

No interim dividend has been paid and the directors recommend that no final dividend be paid for the year (2001: nil).

Research and development

Expenditure on research and development was £0.3 million (2001: £2.1 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 26 June 2003 that the Group had disposed of Virtue Media Services Ltd to Interoute Communications Ltd for an aggregate consideration of £800,000, which will complete on 30 June 2003. This sum comprises cash of £600,000 and a further cash sum equating to the adjusted working capital of Virtue Media Services Ltd on 30 June 2003, which the Board estimate to be approximately £200,000 and to be received over six months from completion. In addition, Interoute will provide internet access and streaming services to the Group to the value of €168,000 over the next twelve months.

Share capital

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

Purchase of own shares

In order to satisfy s142 of the Companies Act the Company acquired 56,450,482 deferred shares of 20.0 pence and 113,965,523 deferred shares of 4.9 pence in December 2002, this represented 99 per cent. of the called up share capital of the Company. This was financed by the proceeds of an issue of one ordinary share to a nominated employee of the Company. The deferred shares have been cancelled.

Changes to the Board

On 18 March 2002 Jim Dickie resigned as a director of the Company.

Following completion of the merger with Virtue Broadcasting Ltd on 24 June 2002 Nick English, Giles English and Ohad Finkelstien were appointed to the Board as Business Development director, Sales & Marketing director and non-executive director respectively and Peter Donnelly resigned as non-executive director.

Following the closure of Tornado Entertainment Ltd the Board was restructured on 28 November 2002 resulting in Lord Waheed Ali, Ian Watson and Gareth Roblin resigning as non-executive director, Executive Chairman and Chief Financial Officer respectively and James Ormondroyd being appointed Chief Financial Officer.

Ohad Finkelstien resigned as non-executive director on 24 February 2002 following his retirement from the Interoute Group.

Directors

The remaining directors of the Company are:

- *Neil Ferris* (48): Appointed Executive Chairman on 28 November 2002, he has been a member of the board since September 2000. Before joining he was the Managing Director of EMI Records UK and Brilliant Recording Company.
- *Nick English* (32): Appointed Chief Executive Officer on 28 November 2002 previously he was the Business Development Director. He was a founder and Chief Executive Officer of Virtue Broadcasting Ltd.
- *James Ormondroyd* (31): Appointed Chief Financial Officer 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 at PricewaterhouseCoopers between 1993 and 2000.
- *Giles English* (29): Appointed Sales and Marketing Director on 24 June 2002. Previously he was a founder and Sales and Marketing Director of Virtue Broadcasting Ltd where he was the architect of the company's product and marketing strategy.

Directors' interests

The directors' interests in shares of the Company are shown in the Remuneration report on pages 7 to 8.

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.

Virtue Broadcasting Plc

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Directors report (continued)

for the year ended 31 December 2002

Major shareholders

As at 11 June 2003, 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	15,294,909	13.4
Giles English	9,768,004	8.6
Nick English	9,768,003	8.6
Mr J Gildersleeve	7,655,001	6.7
Mr J Kinnear	7,280,000	6.4
Mr I Watson	6,775,001	5.9
Mr R Gray	6,566,906	5.8
Mr D Grapengiesser	4,998,131	4.4
Vidacos Nominees Limited	4,125,000	3.6
Mr P Donnelly	3,960,000	3.5
Deutsche Bank Aktiengesellschaft London	3,659,299	3.2

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 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 26 creditors days at 31 December 2002 (31 December 2001: 33 days).

Donations

There were no political or charitable donations during the year (2001: £nil).

Annual General Meeting

The Annual General Meeting of the Company will be held at the 5 Giltspur Street, London, EC1 at 10:00 a.m. on 7 August 2003. The notice of the meeting, detailing the Ordinary and Special Business to be conducted is set out on page 33 to this report.

Auditor

Following the transfer of substantially all of the business of the UK firm of PricewaterhouseCoopers, the Company's auditors, to a limited liability partnership on 1 January 2003, PricewaterhouseCoopers resigned on 29 April 2003 and the Directors appointed the new firm, PricewaterhouseCoopers LLP with effect from 12 May 2003. Resolutions concerning the appointment of the auditors will be proposed at the Annual General Meeting.

By order of the Board

James Ormondroyd

Director

26 June 2003

Remuneration report

Policy on remuneration of directors

Following the restructuring of the business and board during 2002, the Company's Remuneration Committee consists of the Chairman and Chief Financial Officer, except that each has no involvement in any decisions relating to their own remuneration. Previously the Committee had consisted of the former non-executive directors of the Company.

In determining remuneration policy the committee's objective is to ensure that the Company is able to motivate, attract and retain executives capable of making a significant contribution to the success of the Group.

The remuneration package for each director presently consists of a fixed salary plus a fixed contribution to a defined contribution pension scheme.

There is no current performance related bonus or share option scheme or other long-term incentive plan. Following the disposal of the UK Media Services division, it is the intention of the committee to implement performance related schemes in 2003 with the aim of providing appropriate rewards for demanding performance targets.

Each executive 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' remuneration

£ thousands	Salary and fees	Benefits in kind ⁽¹⁾	Termination Pay ⁽²⁾	2002	2001
				Total	Total
Executive					
J Dickie	31	2	98	131	132
N Ferris ⁽³⁾	127	-	-	127	132
G Roblin ⁽⁴⁾	92	5	16	113	95
I Watson	79	5	25	109	132
J Gildersleeve ⁽⁵⁾	59	4	-	63	132
G English ⁽⁷⁾	53	1	-	54	-
N English ⁽⁷⁾	53	1	-	54	-
J Ormondroyd ⁽⁷⁾	5	-	-	5	-
Total	499	18	139	656	623
Non-executive					
W Alli	10	-	-	10	20
P Donnelly ⁽⁶⁾	8	-	-	8	23
O Finkelstien	-	-	-	-	-
Total	18	-	-	18	43

- [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 £45,000 (2001: £121,000) paid to third parties in respect of making available the services of N Ferris to the Company.
- [4] In addition G Roblin received £4,700 salary from a group company following his resignation from the board until 27 December 2002 when his employment terminated.

- [5] In addition J Gildersleeve received £20,000 salary from a group company for the period from his resignation from the board until his employment ended in October 2002. He also received a termination payment of £25,000 on 18 December 2002.
- [6] In addition P Donnelly received £15,000 consultancy fees from a group company following his resignation from the board.
- [7] N English, G English and J Ormondroyd's remuneration is from the date of their appointments. N English and G English received remuneration of £27,500 each from Virtue broadcasting Ltd prior to the merger with Tornado Group Plc.

Directors' pension arrangements

Executive directors are entitled to a contribution to their individual company approved personal pension plan equal to 15 per cent of their basic annual salary. N Ferris, I Watson, J Dickie and J Gildersleeve waived their rights to pension contributions in March 2002 and N English, G English and J Ormondroyd waived their rights to pension contributions for the year ended 31 December 2002 on joining the board. Contributions paid during the year were:

£ thousands	2002	2001
G Roblin	9	15
J Dickie	5	15
I Watson	3	10
J Gildersleeve	3	10
N Ferris	2	11
Total	22	61

Directors' share options

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

thousands	At start of year ⁽¹⁾	Grant- of ed/Re- priced	Lapsed/ Re- priced ⁽²⁾	At end of year	Exercise Price (pence)	Exercise date	Lapse date
G Roblin	173	-	(173)	-	130.0	01/06/01	20/10/10
	100	-	(100)	-	100.0	01/07/01	22/02/11
	77	-	(77)	-	130.0	20/10/01	20/10/10
	250 ⁽³⁾	-	-	250	0.0	20/03/02	27/12/04
	-	273	-	273	6.5	25/06/02	27/12/04
	600	273	(350)	523			
N Ferris	173	-	(173)	-	130.0	01/06/01	20/10/10
	100	-	(100)	-	100.0	01/07/01	22/02/11
	77	-	-	77	130.0	20/10/01	20/10/10
	63	-	(63)	-	35.0	31/12/01	31/12/11
	250 ⁽³⁾	-	-	250	0.0	20/03/02	20/03/12
	-	273	-	273	6.5	25/06/02	27/12/12
	663	273	(336)	600			
J Dickie	123	-	-	123	130.0	01/06/01	31/03/04
	100	-	-	100	100.0	01/07/01	31/03/04
	77	-	(77)	-	130.0	20/10/01	20/10/10
	250 ⁽³⁾	-	(250) ⁽³⁾	-	0.0	20/03/02	27/11/02
	550	-	(327)	223			
J Ormondroyd	642	-	-	642	6.5	27/06/02	27/06/12
W Alli	100	-	(100)	-	1.00	01/07/02	22/02/11

Virtue Broadcasting Plc

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Remuneration report (continued)

- [1] J Ormondroyd held 642,000 options granted during his employment at the date of his appointment as director.
- [2] Share options awarded from the Group Employee Benefit Trust.
- [3] The only share options exercised during the year ended 31 December 2002 were 250,000 at £nil exercise price by J Dickie on 17 July 2002. This resulted in a gain of £12,500 based on the market price of 5.0 pence at the time of exercise.
- [4] On 25 June 2002 the Company agreed to re-issue 273,000 options each to G Roblin and N Ferris at an exercise price of 6.5 pence from prices ranging from 35.0 to 130.0 pence. These reissued options replaced 350,000 and 336,000 options respectively.

The market price at 31 December 2002 was 1.75 pence. The range of market prices during the year was a high of 25.5 pence on 8 January 2002 and a low of 1.75 pence on 27 November 2002 and 31 December 2002.

Interests in shares

thousands	At 31 December 2002	At 31 December 2001
G English ^[1]	10,461	-
N English ^[1]	10,461	-
I Watson (resigned 28 November 2002)	8,280	8,280
J Gildersleeve (resigned 28 November 2002)	8,280	8,280
P Donnelly (resigned 24 June 2002)	3,960	3,960
J Dickie (resigned 18 March 2002)	250	-
N Ferris	88	88

- [1] G English and N English subscribed for shares as part of the merger with Virtue Broadcasting Ltd.

All directors' interests are beneficially held. Both I Watson and J Gildersleeve had sold 1,505,000 and 625,000 shares respectively between 31 December 2002 and 11 June 2003. On 5 February 2003 both G English and N English transferred 692,800 shares each to a former employee following the exercise of that employee's option agreement.

On behalf of the board

James Ormondroyd
Director

26 June 2003

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 historically reported to shareholders that voluntary disclosures will be provided. Following the merger between Tornado Group plc and Virtue Broadcasting Limited the Group has been unable to comply with certain of the key principles of the Combined Code as discussed below.

Board and management reporting

The Board currently comprises the Executive Chairman, Chief Executive Officer, the Chief Financial Officer and Sales and Marketing director and meets regularly throughout the year. The Board has adopted a schedule of matters to be specifically reserved for its decision, in accordance with the provisions of the Combined Code.

Since the resignation of Lord Alli on 28 November 2002 the Company has not had any non-executive directors which is not in compliance with the Combined Code.

Each operating company and business unit produces management reports each month.

A summary of these reports is presented to the Board at its regular meeting. Such information includes details of the key features of the Group's performance and an analysis against budget of revenue and expenditure.

Directors' remuneration

The Board has established a Remuneration Committee comprising the Chairman and Chief Financial Officer (previously the non-executive directors of the group). Details of the Company's remuneration policy are contained in the Remuneration Report on page 7. The Committee makes its decisions following consultation with the Chief Executive Officer and has access to external professional advice if required.

Therefore, the Chairman and Chief Financial Officer are making decisions on their own remuneration levels, which is not in compliance with the Combined Code.

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 following the board restructuring in 2002. Outside regular briefings the full board meets twice a year with the external auditor.

Internal control

The directors are responsible for 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:

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 note 17 of the Financial Statements.

Company management

The Chief Executive Officer chairs management boards for the Group comprising the senior management of the Media Services, Corporate Services, Group and Australian operations 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.

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.

Data security

The Company has established controls and procedures over the security of the data held on its computer systems. Such arrangements are tested regularly and reviewed.

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.

Dialogue with institutional shareholders

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

Going concern

After making due and careful enquiry, the directors have formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Company and 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.

Virtue Broadcasting Plc

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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);
- prepare financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business; and
- to maintain the integrity of the Group website. The directors understand that uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

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 are also responsible for preparing the directors' remuneration report.

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 whether the financial statements have been 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 Directors' report, the Remuneration report, the Chairman's statement, the Financial review 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 2002 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

26 June 2003

Virtue Broadcasting Plc

(formerly Tornado Group Plc)

Group profit and loss account

for the year ended 31 December 2002

£ thousands	Notes	2002			2001 (restated)			
		Continuing operations existing	Discontinued acquisitions	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Turnover	2	1,758	253	202	2,213	1,299	419	1,718
Net operating expenses	3	(4,027)	(1,598)	(4,406)	(10,031)	(4,341)	(7,288)	(11,629)
Operating loss		(2,269)	(1,345)	(4,204)	(7,818)	(3,042)	(6,869)	(9,911)
Analysed as:								
Business performance before exceptional items and goodwill amortisation:								
Media Services		(952)	-	(2,947)	(3,899)	(1,387)	(5,226)	(6,613)
Corporate Services		(447)	(170)	(38)	(655)	(742)	-	(742)
Central expenses		(713)	-	(664)	(1,377)	(798)	(1,209)	(2,007)
		(2,112)	(170)	(3,649)	(5,931)	(2,927)	(6,435)	(9,362)
Exceptional items - operating	4	(134)	(1,025)	(555)	(1,714)	(130)	(434)	(564)
Goodwill amortisation	11	(23)	(150)	-	(173)	15	-	15
Exceptional items - non-operating								
Merger expenses	5				(280)			-
(Loss)/profit on sale and termination of operations	5				(1,904)			121
Loss on ordinary activities before interest					(10,002)			(9,790)
Net interest receivable	6				145			309
Loss on ordinary activities before tax	7				(9,857)			(9,481)
Tax	9				-			460
Loss on ordinary activities after tax					(9,857)			(9,021)
Equity minority interests					64			198
Loss for the financial year					(9,793)			(8,823)
Dividends					-			-
Retained loss for the financial year					(9,793)			(8,823)
Loss per share (pence)								
Basic	10				(9.1)			(9.9)
Basic - Adjusted	10				(5.3)			(9.4)

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 2002

£ thousands	Notes	Group		Company	
		2002	2001 (restated)	2002	2001
Fixed assets					
Goodwill	11	202	(8)	-	-
Other intangible assets	11	4	6	-	-
Tangible assets	12	359	1,611	5	-
Investments	13	64	64	376	7,595
		629	1,673	381	7,595
Current assets					
Debtors (including £nil due after one year (2001: £444,000))	14	1,610	2,280	988	12,635
Cash at bank and in hand		1,304	7,447	1,318	6,672
		2,914	9,727	2,306	19,307
Creditors					
Amounts falling due within one year	15	(1,680)	(1,416)	(436)	-
		1,234	8,311	1,870	19,307
Total assets less current assets					
		1,863	9,984	2,251	26,902
Creditors					
Amounts falling due after more than one year	16	(9)	(61)	-	-
Provisions for liabilities and charges	18	(878)	(125)	(811)	-
		976	9,798	1,440	26,902
Capital and reserves					
Called up share capital	19	114	16,409	114	14,113
Share premium account	20	12,038	12,001	12,038	12,001
Other reserves	20	13,060	(3,814)	16,874	-
Profit and loss account	20	(24,366)	(14,696)	(27,586)	788
		846	9,900	1,440	26,902
Equity shareholders' funds					
Equity minority interests		130	(103)	-	-
Non-equity minority interests		-	1	-	-
		976	9,798	1,440	26,902

The accounts on pages 12 to 32 were approved by the Board of directors on 26 June 2003 and were signed on its behalf by:

Nick English
Chief Executive

James Ormondroyd
Director

Virtue Broadcasting Plc

(formerly Tornado Group Plc)

Group cash flow statement

for the year ended 31 December 2002

£ thousands	Notes	2002	2001
Net cash outflow from operating activities	22a)	(5,364)	(7,853)
Returns on investment and servicing of finance			
Interest received		155	329
Interest paid		(10)	(20)
Net cash inflow from returns on investment and servicing of finance		145	309
Taxation			
UK corporation tax receipt		-	329
Tax receipt		-	329
Capital expenditure and financial investment			
Payments to acquire tangible assets		(223)	(1,042)
Receipts from sales of tangible assets		-	1,081
Payments for additions to investments		-	(14)
Cash (outflow)/inflow from capital expenditure and financial investment		(223)	25
Acquisitions and disposals			
Purchase of subsidiary undertakings	26c)	(70)	-
Cash acquired as part of acquisition of subsidiary undertaking	26c)	6	-
Disposal of subsidiary undertakings		(657)	-
Cash outflow from acquisitions and disposals		(721)	-
Equity Dividends paid to shareholders		-	-
Cash outflow before use of liquid resources and financing		(6,163)	(7,190)
Financing			
Issue of ordinary shares		20	6,890
Cash inflow from financing		20	6,890
Decrease in cash	22b)	(6,143)	(300)
Reconciliation of net cash flow movements in net funds			
Net funds at the start of the year		7,447	7,724
Exchange differences		-	23
Decrease in cash		(6,143)	(300)
Debt in subsidiaries acquired		(200)	-
Net funds at end of year	22b)	1,104	7,447

Notes to the accounts

1 Accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and 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.

The Company acquired Virtue Broadcasting Ltd (now Virtue Media Services Ltd) by way of a scheme of arrangement for the merger of the two companies that became effective in June 2002. The financial statements have been prepared on a merger accounting basis combining the results and net assets of the Company and its subsidiaries with those of Virtue Broadcasting Limited and its subsidiaries as if the Company had been parent of the enlarged group throughout 2001 and 2002. Comparative profit and loss, cash flows and balance sheets have been restated accordingly to incorporate Virtue Broadcasting Limited and subsidiaries from 1 January 2001. Under merger accounting the shares issued by the Company to acquire Virtue Broadcasting Ltd were accounted for at par and no share premium arose; the shares acquired by the Company in Virtue Broadcasting Ltd were similarly accounted for at nominal value of the shares issued.

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.

In October 2002 Tornado Entertainment Ltd, a former subsidiary undertaking, ceased to trade and in December 2002 was placed into liquidation. As a result Tornado Entertainment Ltd was deconsolidated from October 2002 and the net assets were written back to the profit and loss account. Further details are set out in note 26d).

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 £28,464,000 (2001: £217,000).

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. Tornado Entertainment Ltd, Virtue Broadcasting Company, Inc. and Virtue Latino S.A. de C.V. have ceased to be subsidiary undertakings and are classified as discontinued operations in the profit and loss account. Streamway Netcasting Ltd (now Virtue Corporate Services Ltd) and Viewpoint Media Pty Ltd are subsidiary undertakings acquired during the year and are classified as acquisitions within continuing operations.

Following the transactions during the year the directors consider that the consolidated profit and loss account format better represents the internal classification of expenditure and the method by which the business is managed. As such this format has been adopted in the profit and loss account and comparative disclosures have been amended to reflect this presentation.

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.

Virtue Broadcasting Plc

(formerly Tornado Group Plc)

Notes to the accounts (continued)

f) *Principal rate of exchange*

£	2002		2001	
	Year end	Average	Year end	Average
Canadian Dollar	2.270	2.262	2.316	2.228
Australian Dollar	2.861	2.794	2.843	2.828

g) *Turnover*

Turnover is recognised when earned and is based upon net invoiced sales of goods and excludes transactions between companies within the Group and VAT.

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 reliably 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.

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.

l) *Goodwill*

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 Virtue Corporate Services Ltd to be three years before impairment (see note 4) and Viewpoint Media Pty Ltd to be five years 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 based on the content library licenses.

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.

Notes to the accounts (continued)

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.

r) *Deferred taxation*

Deferred taxation is provided, without discounting, on all timing differences which have originated but not reversed at the balance sheet date, except for those which should not be recognised under FRS 19, calculated at the enacted rates at which it is estimated that tax will be payable. Deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered.

2 Segmental analysis

	Turnover		Loss before interest and tax			
	2002	2001 (restated)	Before goodwill 2002	After goodwill 2002	Before goodwill 2001 (restated)	After goodwill 2001 (restated)
£ thousands						
Business analysis						
Media Services	1,316	932	(1,086)	(1,109)	(1,396)	(1,391)
Corporate Services	695	367	(705)	(1,792)	(742)	(732)
Loss before central expenses	-	-	(1,791)	(2,901)	(2,138)	(2,123)
Central expenses	-	-	(713)	(713)	(798)	(798)
Continuing operations	2,011	1,299	(2,504)	(3,614)	(2,936)	(2,921)
Discontinued operations	202	419	(6,108)	(6,108)	(6,869)	(6,869)
Merger expenses	-	-	(280)	(280)	-	-
Total	2,213	1,718	(8,892)	(10,002)	(9,805)	(9,790)
Geographical analysis						
Europe	1,819	1,252	(1,680)	(2,799)	(1,949)	(1,949)
Australasia	192	47	(111)	(102)	(189)	(174)
Loss before central expenses	-	-	(1,791)	(2,901)	(2,138)	(2,123)
Central expenses (Europe)	-	-	(713)	(713)	(798)	(798)
Continuing operations	2,011	1,299	(2,504)	(3,614)	(2,936)	(2,921)
Discontinued operations (Europe)	40	40	(6,110)	(6,110)	(6,309)	(6,309)
Discontinued operations (Americas)	162	379	2	2	(560)	(560)
Merger expenses	-	-	(280)	(280)	-	-
Total	2,213	1,718	(8,892)	(10,002)	(9,805)	(9,790)

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.

Virtue Broadcasting Plc

(formerly Tornado Group Plc)

Notes to the accounts (continued)

£ thousands		2002	2001 (restated)
Net assets			
Media Services:	Europe	684	2,110
	Australasia	76	(116)
Corporate Services:	Europe	(113)	144
	Australasia	228	(58)
Discontinued operations:	Europe	-	947
	Americas	-	172
Unallocated net assets		101	6,599
Total		976	9,798

The segmental analyses of turnover; loss before interest and tax; and net assets for Europe and Corporate Services includes £253,000, £(301,000) and £334,000 in respect of Streamway Netcasting Limited which was acquired during the year.

3 Net operating expenses

£ thousands		2002				2001 (restated)		
		Continuing operations existing	acquisitions	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Staff costs	8	(1,555)	(311)	(1,648)	(3,514)	(1,615)	(3,447)	(5,062)
Other operating charges		(1,899)	(99)	(1,694)	(3,692)	(2,276)	(2,347)	(4,623)
Depreciation		(416)	(13)	(509)	(938)	(335)	(1,060)	(1,395)
Amortisation		(23)	(150)	-	(173)	15	-	15
Exceptional items	4	(134)	(1,025)	(555)	(1,714)	(130)	(434)	(564)
Total		(4,027)	(1,598)	(4,406)	(10,031)	(4,341)	(7,288)	(11,629)

4 Exceptional items - operating

£ thousands		2002				2001 (restated)		
		Continuing operations existing	acquisitions	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Merger integration costs ^[1]		34	-	367	401	-	-	-
Restructuring costs ^[2]		100	88	188	376	130	112	242
Virtue Broadcasting Company, Inc. ^[3]		-	-	-	-	-	322	322
Impairment of goodwill ^[4]		-	937	-	937	-	-	-
Total		134	1,025	555	1,714	130	434	564

[1] Following the merger with Virtue Broadcasting Ltd 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.

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

[3] The Company disposed of its Canadian subsidiary Virtue Broadcasting Company, Inc., on 5 April 2002. In 2001 it recognised an exceptional charge of £322,000 in relation to the write off of Canadian assets.

[4] Due to market conditions and the strategic repositioning of the Corporate Services division's products from on-line webcasting and webinar services to a technology product offering, management has reviewed that division's acquired goodwill for impairment. The review indicated that the carrying value of the acquired goodwill at 31 December 2002 should be impaired by £937,000 which has 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 has no cash impact.

Notes to the accounts (continued)

5 Exceptional items - non-operating

£ thousands	2002			2001
	Continuing operations	Discontinued operations	Total	Total
Merger costs ^[1]	(52)	(228)	(280)	-
(Loss)/profit on sale and termination of operations:				
Tornado Entertainment Ltd ^[2]	-	(1,977)	(1,977)	-
Virtue Broadcasting Company, Inc. ^[3]	-	73	73	-
Profit on disposal of tangible fixed assets ^[4]	-	-	-	121
Total	(52)	(2,132)	(2,184)	121

- [1] Expenses of £280,000 were incurred in respect of the merger of the Company with Virtue Broadcasting Ltd.
- [2] 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 (see note 18 for further information).
- [3] 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.
- [4] In June 2001 the Group disposed of £929,000 of computer equipment to Morse Group for £1,050,000, giving rise to a profit on disposal of £121,000.

6 Net interest receivable

£ thousands	2002	2001 (restated)
Interest payable on bank loans and overdrafts	(10)	(20)
Interest receivable	155	329
Net interest receivable	145	309

7 Loss on ordinary activities before taxation

£ thousands	2002				2001 (restated)		
	Continuing operations existing	acquisitions	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Loss before taxation is stated after charging:							
Operating leases:							
Land and buildings	250	1	272	523	147	391	538
Plant and machinery	3	-	4	7	3	4	7
Loss on disposal of tangible fixed assets	22	-	636	636	(22)	121	99
Auditors' remuneration:							
Audit	82	9	-	91	22	32	54
Non-audit fees:							
Other assurance fees	20	-	-	20	6	5	11
Taxation advice	19	-	-	19	7	26	33

Virtue Broadcasting Plc

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Notes to the accounts (continued)

8 Employees and directors

£ thousands	2002				2001 (restated)		
	Continuing operations existing	acquisitions	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Staff costs:							
Wages and salaries	1,379	276	1,292	2,947	1,441	2,665	4,106
Social security costs	140	28	205	373	134	303	437
Inheritance tax liability	-	-	-	-	-	45	45
Pension costs	19	5	97	121	12	157	169
Other costs	17	2	54	73	28	277	305
	1,555	311	1,648	3,514	1,615	3,447	5,062

Number

Average number of people employed

(including Executive directors) by business:

Media Services	22	-	30	52	24	38	62
Corporate Services	9	7	2	18	14	13	27
Central	8	1	6	15	10	8	18
	39	8	38	85	48	59	107

£ thousands

Directors:

Aggregate emoluments	246	-	297	543	115	559	674
Pension contributions	-	-	21	21	11	50	61
Termination pay	-	-	139	139	-	-	-
	246	-	457	703	126	609	735

The average number of employees reflects the period for which acquired or disposed subsidiaries were members of the Group.

All pension contributions made during the year were to defined contribution personal pension schemes. Accrued contributions at 31 December 2002 were £5,000 (2001: £14,000).

The highest paid director received £131,000 (2001: £132,000)

9 Taxation

£ thousands	2002	2001 (restated)
UK corporation tax	-	-
Research and development tax credit received	-	330
Release of prior year provision	-	130
	-	460

Notes to the accounts (continued)

Factors affecting the tax charge

£ thousands	2002	2001 (restated)
Profit on ordinary activities before tax	(9,857)	(9,481)
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 30% (2001:30%)	(2,957)	(2,844)
Effects of:		
Depreciation in excess of capital allowances for the period	140	88
Amortisation of intangible assets and goodwill	333	-
Non-deductible expenses	429	587
Deferred tax asset due to losses not recognised in the period	435	2,167
Losses arising in other subsidiaries not available for future use	1,439	-
Losses on sale and termination of operations	180	-
Other	1	2
Current tax charge	-	-

10 Earning 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 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.

Supplementary basic and diluted EPS have been calculated to exclude the effect of goodwill amortisation in respect of the subsidiaries and joint ventures acquired during 2002 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.

	2002			2001 (restated)		
	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 earnings per share						
Earnings attributable to ordinary shareholders	(9,793)	107,437	(9.1)	(8,823)	89,165	(9.9)
Supplemental earnings per share						
Effect of exceptional items:						
Operating exceptional items	1,714			564		
Non-operating exceptional items	2,184			(121)		
Acquisition goodwill amortisation	173			(15)		
Basic - adjusted earnings per share	(5,722)	107,437	(5.3)	(8,395)	89,165	(9.4)

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.

Virtue Broadcasting Plc

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Notes to the accounts (continued)

11 Intangible fixed assets

£ thousands	Group		Total
	Acquisition Goodwill	Other intangible assets	
Cost			
At 1 January 2002 (restated)	(12)	13	1
Additions	1,320	-	1,320
At 31 December 2002	1,308	13	1,321
Amortisation			
At 1 January 2002 (restated)	(4)	7	3
Charge for the year	173	2	175
Impairment ^[1]	937	-	937
At 31 December 2002	1,106	9	1,115
Net book value			
At 1 January 2002 (restated)	(8)	6	(2)
At 31 December 2002	202	4	206

[1] As set out in note 4 management has performed an impairment review of the carrying value of the Corporate Services division prior to signing the financial statements. This review has indicated that the carrying value of the acquired goodwill in respect of Streamway Netcasting Limited at 31 December 2002 should be written-off down to nil at that date.

12 Tangible fixed assets

£ thousands	Group			Company
	Computer equipment & software	Fixtures, fittings & equipment	Total	Computer equipment & software
Cost				
At 1 January 2002 (restated)	2,551	390	2,941	-
Disposal of subsidiary undertaking	(1,921)	(191)	(2,112)	-
Subsidiary undertakings at date of acquisition	99	-	99	-
Additions	173	50	223	5
Disposals	(80)	-	(80)	-
At 31 December 2002	822	249	1,071	5
Depreciation				
At 1 January 2002 (restated)	1,213	117	1,330	-
Disposal of subsidiary undertaking	(1,403)	(95)	(1,498)	-
Charge for the year	828	110	938	-
Disposals	(58)	-	(58)	-
At 31 December 2002	580	132	712	-
Net book value				
At 1 January 2002 (restated)	1,338	273	1,611	-
At 31 December 2002	242	117	359	5

Notes to the accounts (continued)

13 Fixed asset investments

£ thousands	Group			Company
	Own shares	Unlisted investments	Total	Investment in Group undertakings
At 1 January 2002 (restated)	-	64	64	7,595
Additions	-	-	-	3,455
Provisions	-	-	-	(2,539)
Disposals	-	-	-	(8,135)
As at 31 December 2002	-	64	64	376

Interests in own shares represents 1,000,000 of the Company's ordinary shares (nominal value £1,000) acquired in December 2001 of which 310,000 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 shares at 31 December 2002 was £17,500. At the 31 December 2002 the trust has awarded options over 500,000 shares of the remaining 690,000 shares.

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 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 Media Services Ltd	Great Britain	100%	Ordinary	Streaming services
Virtue Corporate Services Ltd	Great Britain	100%	Ordinary	Streaming services
Virtue Broadcasting Pty Ltd	Australia	63%	Ordinary	Streaming services
Viewpoint Media Pty Ltd	Australia	63%	Ordinary	Streaming services

14 Debtors

£ thousands	Group		Company	
	2002	2001 (restated)	2002	2001
Amounts falling due within one year				
Trade debtors	975	616	-	-
Other debtors	123	731	28	-
Amounts owed by Subsidiary Undertakings	-	-	960	12,635
Prepayments and accrued income	512	489	-	-
	1,610	1,836	988	12,635
Amounts falling due after one year				
Prepayments and accrued income	-	444	-	-
	-	444	-	-
	1,610	2,280	988	12,635

Virtue Broadcasting Plc

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Notes to the accounts (continued)

15 Creditors: amounts falling due within one year

£ thousands	Group		Company	
	2002	2001 (restated)	2002	2001
Amounts falling due within one year				
Bank loans and other borrowings ^[1]	200	10	-	-
Trade creditors	513	425	177	-
Other taxation and social security	89	210	-	-
Other creditors	145	37	-	-
Accruals and deferred income	728	720	259	-
Accrued pension contributions	5	14	-	-
	1,680	1,416	436	-

[1] Bank loans are sterling and bear interest based on LIBOR. The bank loans are secured by a fixed charge over a deposit account of Tornado Entertainment Limited (a former group undertaking).

16 Creditors: amounts falling due after more than one year

£ thousands	Group		Company	
	2002	2001 (restated)	2002	2001
Amounts falling due after more than one year				
Loan from former Subsidiary undertaking director	-	61	-	-
Other creditors	9	-	-	-
	9	61	-	-

17 Financial instruments

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 counterparty credit limits and following established credit control policies. In a low interest environment the Group's borrowings and cash deposits remain at floating rates of interest. The Group does not enter into derivative transactions.

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 2002 total £840,000 (2001: £186,000) are denominated in sterling and are floating rate financial liabilities. Within financial liabilities are the group's provisions of £878,000 (2001: £125,000) for vacant leasehold properties, as in establishing the provisions the cash flows have been discounted. Floating rate financial liabilities bear interest at rates based on LIBOR, which are fixed in advance for periods of between one and six months.

c) Maturity of financial liabilities

	2002				2001 (restated)			
	Debt	Finance leases	Other financial liabilities	Total	Debt	Finance leases	Other financial liabilities	Total
	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands
In one year or less or on demand	202	-	-	202	61	-	-	61
In more than one year but not more than two years	-	9	-	9	-	-	-	-
In more than two year but not more than five years	-	-	878	878	-	-	-	-
More than five years	-	-	-	-	-	-	125	125
Total	202	9	878	1,089	61	-	125	186

Notes to the accounts (continued)

d) Borrowing facilities

The Group has no committed borrowing facilities (2001: nil).

e) Interest rate and currency profile of financial assets

Currency	2002				2001 (restated)			
	Unquoted investments	Deposits	Cash	Total	Unquoted investments	Deposits	Cash	Total
	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands	£ thousands
Sterling	64	98	1,289	1,451	64	406	6,719	7,189
Australian dollars	-	5	15	20	-	1	13	14
Canadian dollars	-	-	-	-	-	-	74	74
Euro	-	-	-	-	-	-	323	323
Total	64	103	1,304	1,471	64	407	7,129	7,600

Unquoted investments are non-interest bearing. 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 earns 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 (2001: nil).

g) Currency risk

There were no significant net foreign currency monetary assets or liabilities at the end of the balance sheet date (2001: £323,000 of cash was held in a Euro bank account by a UK operation). 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 (2001: nil).

18 Provisions for liabilities and charges

a) Group analysis of provisions for liabilities and charges

£ thousands	Group				Company		
	Vacant property	Leasehold dilapidations	Other	Total	Vacant property	Leasehold dilapidations	Total
Balance as at 1 January 2002 (restated)	57	68	-	125	-	-	-
Charged to profit and loss account	889	2	4	895	850	45	895
Utilised in the year	(133)	-	-	(133)	(84)	-	(84)
Transferred with disposal of subsidiary	-	(9)	-	(9)	-	-	-
Balance as at 31 December 2002	813	61	4	878	766	45	811

Prior to the disposal of Tornado Entertainment Limited, the group's only vacant leasehold property comprised old Virtue Broadcasting's former head office in London. Full provision had been made for the residual lease commitments less expected rents under sub-leases together with other outgoings for the remaining period of that lease, which at 31 December 2002 is three years.

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 2002 is five 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 deferred tax asset of £4.1 million has not been recognised on losses available to carry forward against the Group. These will be offsettable only against taxable profits generated in the entities concerned, and currently there is insufficient evidence that any asset is recoverable.

Virtue Broadcasting Plc

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Notes to the accounts (continued)

19 Called up share capital

	2002		2001	
	Number of ordinary shares millions	£ thousands	Number of ordinary shares millions	£ thousands
Authorised				
Ordinary shares of 0.1p each (2001: 25p each)	20,000	20,000	80	20,000

	2002			
	Number of 4.9p deferred shares thousands	Number of 20p deferred shares thousands	Number of ordinary shares thousands	£ thousands
Alloted and fully paid				
Ordinary shares of 25p at start of year	-	-	56,450	14,113
Shares issued upon merger with Virtue Broadcasting Ltd	-	-	45,918	2,296
Ordinary shares at start of year (restated)	-	-	102,368	16,409
Share split	-	56,450	-	-
Shares issued to Brewin Dolphin as part of merger	-	-	200	10
Shares issued upon acquisition of Virtue Corporate Services Ltd	-	-	11,397	569
Share split	113,966	-	-	-
Purchase of deferred shares	(113,966)	(56,450)	-	(16,874)
Ordinary shares of 0.1p at end of year	-	-	113,965	114

On 24 June 2002 the Company sub-divided and re-designated each ordinary share of 25.0 pence into one deferred share of 20.0 pence and one ordinary share of 5.0 pence. Additionally, the Company issued 45,918,000 5.0 pence ordinary shares to facilitate the merger of Virtue Broadcasting Ltd and Tornado Group Plc and 200,000 ordinary shares to Brewin Dolphin in consideration of professional fees relating to the merger.

On 30 July 2002 the Company issued 11,397,000 5.0 pence ordinary shares in consideration of the purchase of the entire share capital of Streamway Netcasting Ltd.

On 20 December 2002 the Company sub-divided and re-designated each ordinary share of 5.0 pence into one deferred share of 4.9 pence and one ordinary share of 0.1 pence. Additionally, the Company acquired 56,450,482 deferred shares of 20.0 pence and 113,965,523 deferred shares of 4.9 pence, which was financed by the proceeds of an issue of one ordinary share to a nominated employee of the Company. The deferred shares were cancelled on purchase.

Notes to the accounts (continued)

20 Reserves

£ thousands	Group			Total
	Share premium	Other reserves ⁽¹⁾	Profit and loss account	
At 1 January 2002				
Tornado Group Plc	12,001	(7,045)	(11,458)	(6,502)
Virtue Broadcasting Ltd	4,183	-	(3,238)	945
Merger difference	-	(952)	-	(952)
Transfer of share premium	(4,183)	4,183	-	-
Merger reserves at 1 January 2002	12,001	(3,814)	(14,696)	(6,509)
Shares issued during the year	37	-	-	37
Purchase of deferred shares	-	16,874	-	16,874
Credit in respect of UITF 17 charge	-	-	90	90
Loss for the financial year	-	-	(9,793)	(9,793)
Exchange differences	-	-	33	33
At 31 December 2002	12,038	13,060	(24,366)	732

£ thousands	Company			Total
	Share premium	Other reserves ⁽¹⁾	Profit and loss account	
At 1 January 2002 (restated)	12,001	-	788	12,789
Shares issued during the year	37	-	-	37
Redemption of deferred ordinary shares	-	16,874	-	16,874
Credit in respect of UITF 17 charge	-	-	90	90
Loss for the financial year	-	-	(28,464)	(28,464)
At 31 December 2002	12,038	16,874	(27,586)	1,326

[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

£ thousands	Group		Company	
	2002	2001 (restated)	2002	2001
Loss for the financial year	(9,793)	(8,823)	(28,464)	217
Foreign exchange adjustments	33	(40)	-	-
Share issues net of costs	616	8,214	2,912	3,660
Credit in respect of UITF 17 charge	90	203	90	203
Net (reduction)/ addition to shareholders' funds	(9,054)	(446)	(25,462)	4,080
Opening shareholders' funds	9,900	10,346	26,902	22,822
Closing shareholders' funds	846	9,900	1,440	26,902

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Notes to the accounts (continued)

22 Consolidated cash flow

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

£ thousands	2002	2001 (restated)
Group operating loss	(7,818)	(9,911)
Depreciation	938	1,395
Amortisation	173	(15)
Impairment of goodwill	937	-
Impairment of tangible fixed assets	-	171
UITF 17 stock option charge	90	203
Decrease/ (increase) in debtors	467	(238)
Increase in creditors	69	460
Loss on disposal of fixed assets	22	-
Merger expenses	(280)	-
Non-cash transactions	38	82
Net cash outflow from operating activities	(5,364)	(7,853)

b) Analysis of changes in net debt

£ thousands	At 1 Jan 2002 (restated)	Cash flow	Acquisitions (excluding cash)	At 31 Dec 2002
Cash in hand or at bank	7,447	(6,143)	-	1,304
Debt due within 1 year	-	-	(200)	(200)
	7,447	(6,143)	(200)	1,104

c) Cash flow relating to exceptional items

Operating cash flows included an outflow of £685,000 that relates to the acquisition and restructuring of Streamway Netcasting Ltd and the merger integration expenses incurred with Virtue Broadcasting Ltd.

d) Major non-cash transactions

Part of the consideration for the purchase of Streamway Netcasting Ltd and Viewpoint Media Pty Ltd comprised shares. Further details of these acquisitions are set out in note 26b).

23 Commitments

a) Operating leases

As at 31 December 2002 the Group has lease agreements in respect of properties for which payments extend over a number of years.

£ thousands	2002	2001 (restated)	
	Property	Property	Other
Annual commitments under non-cancellable operating leases expiring:			
Within one year	17	21	-
Within two to five years	444	300	12
After five years	-	256	-

Notes to the accounts (continued)

b) Other

As a condition of the acquisition of Viewpoint Media Pty Ltd the company granted the former shareholders of Viewpoint Media Pty Ltd an option to sell their shares in Virtue Broadcasting Pty Ltd to Virtue Broadcasting Plc in two equal instalments on 31 December 2003 and 31 December 2004 for a total of AUD\$200,000. The Company has the option to pay the consideration in cash or by issue of ordinary shares.

On 26 June 2002 the Company acquired a 25 percent. interest in Rants Ltd, which trades as Vidzone, in consideration of provision of network services, facilities and management services to a value of £250,000. These services were to be used by 30 June 2003.

On 8 May 2001 the Company entered into a software license and support agreement with Reliacast, Inc. a provider of audience management software for digital content over Internet and satellite networks, the Company had a remaining financial commitment of US\$235,000 at the year-end. On 15 January 2003 the Group entered into a settlement agreement to terminate the contract and made a termination payment of £77,000.

Within other debtors are rent deposits totalling £97,000 over which group companies have issued charges in favour of the lessor of its Eastcastle Street, Handbury Street and Commercial Street properties.

24 Share options

Certain employees hold options to subscribe for shares in the Company at prices ranging from 5.0 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. No share options were exercised, 2,383,000 options lapsed and 2,427,000 were issued during the year. 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:

Year of grant	Exercise price (pence)	Exercise period	2002	2001
			Numbers (thousands)	Numbers (thousands)
2000	150.0	2001-2010	6	570
2000	130.0	2001-2010	225	1,092
2001	130.0	2002-2011	-	46
2001	100.0	2001-2011	100	400
2001	35.0	2001-2011	-	63
2001	28.0	2002-2012	9	54
2001	25.0	2002-2012	83	418
2002	6.5	2002-2012	2,214	-
2002	5.0	2002-2012	50	-
			2,687	2,643

Details of options held by Directors are set out in the Remuneration Committee Report on page 7.

25 Related party transactions

The Company made normal trading transactions with i-21 Future Communications Limited, a group undertaking of Interoute Finance PLC, of which Virtue Broadcasting Ltd was an associated undertaking until 24 June 2002. In 2002, total purchases for the year on an arms length basis were £182,000 (2000: £82,000). These services were provided to a subsidiary undertaking as part of the networking services given by Interoute Finance PLC in consideration of its receiving shares in that subsidiary. As at 31 December 2002 the net balance owed by the Company to i-21 Future Communications Limited was £nil (2001: £9,000).

26 Merger and acquisitions

a) Merger

On 24 June 2002 Tornado Group Plc and Virtue Broadcasting Ltd merged their respective businesses. The merger was effected by the acquisition by Tornado Group Plc of the entire share capital of Virtue Broadcasting Ltd. The consideration was satisfied by the issue of 45,918,489 shares at 6.5 pence. The fair value of consideration was £3.0 million based upon the market price of Tornado Group Plc shares at closing on 23 June 2002. No significant adjustments have been necessary to the assets and liabilities of Virtue Broadcasting Ltd that have been recorded at their book values immediately prior to the merger and no adjustments were made to the net assets of Tornado Group Plc.

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Notes to the accounts (continued)

The net assets of the Tornado Group Plc and Virtue Broadcasting Ltd at the date of merger were £4.1 million and £1.6 million respectively.

The analysis of merged results is as follows:

£ thousands	Year to 31 December 2002			Year to 31 December 2001			
	Combined post merger	Tornado pre-merger	Virtue pre-merger	Total	Tornado	Virtue	Total
Turnover							
Continuing operations	1,160	-	598	1,758	-	1,299	1,299
Acquisitions	253	-	-	253	-	-	-
Discontinued operations	15	26	161	202	40	379	419
	1,428	26	759	2,213	40	1,678	1,718
Operating loss							
Continuing operations	(1,575)	-	(694)	(2,269)	(777)	(2,265)	(3,042)
Acquisitions	(1,345)	-	-	(1,345)	-	-	-
Discontinued operations	(731)	(3,415)	(58)	(4,204)	(6,508)	(361)	(6,869)
	(3,651)	(3,415)	(752)	(7,818)	(7,285)	(2,626)	(9,911)
Merger expenses	(2)	(228)	(50)	(280)	-	-	-
(Loss)/ profit on sale and termination of operations	(1,952)	(2)	50	(1,904)	-	121	121
Loss on ordinary activities before interest	(5,605)	(3,645)	(752)	(10,002)	(7,285)	(2,505)	(9,790)
Interest	36	112	(3)	145	302	7	309
Loss on ordinary activities before tax	(5,569)	(3,533)	(755)	(9,857)	(6,983)	(2,498)	(9,481)
Tax	-	-	-	-	460	-	460
Loss on ordinary activities after tax	(5,569)	(3,533)	(755)	(9,857)	(6,523)	(2,498)	(9,021)

b) Acquisitions

Streamway Netcasting Ltd

The Group purchased two companies during the year for a total consideration of £892,000 of which £620,000 was in respect of the acquisition on 30 July 2002 of Streamway Netcasting Ltd. 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 £(158,000), relating to Streamway Netcasting Ltd, details of which are set out below together with the resultant amount of goodwill arising. Both of these purchases have been accounted for as acquisitions. From the dates of acquisition to 31 December 2002 the acquisitions contributed £253,000 to turnover, £301,000 to loss before interest and £306,000 to loss after interest.

Streamway Netcasting Ltd contributed £473,000 to the group's net operating cash flows outflows, paid £5,000 in respect of interest and utilised £21,000 for capital expenditure. In the financial period for the eight months to 31 December 2002, Streamway Netcasting Ltd financial statements show:

£ thousands	8 months ending 31 December 2002	12 months ending 30 April 2001
Turnover	253	573
Operating loss	(301)	(510)
Loss before taxation	(306)	(796)
Taxation	-	-
Loss attributable to shareholders	(306)	(796)
Total recognised gains for the period	(306)	(796)

Notes to the accounts (continued)

£ thousands	Book value of assets acquired	Fair value adjustments	Fair value of assets acquired
Analysis of assets acquired			
Tangible fixed assets	84	(10)	74
Debtors	218	(92)	126
Cash	7	-	7
Creditors due less than one year	(216)	(56)	(272)
Creditors due more than one year	(395)	-	(395)
Net assets acquired	(302)	(158)	(460)
Goodwill			1,080
Consideration			620
Consideration satisfied by:			
Cash (including expenses of acquisition of £24,000)			24
Shares issued (11,397,000 at 5.25 pence each)			596
			620

The book value of assets and liabilities has been taken from the management accounts of Streamway Netcasting Ltd at 30 July 2002 (the date of acquisition). The fair value adjustments relate to provision for bad debt and adjustments to fixed assets and provisions for vacant offices.

Viewpoint Media Pty Ltd

A summary of the Viewpoint Media Pty Ltd acquisition acquired in August 2002 is set out below:

	£ thousands
Book value of net assets acquired	32
Fair value adjustments	-
Net assets acquired	32
Goodwill	240
Consideration	272
Consideration satisfied by:	
Cash (including expenses of acquisition of £10,000)	46
Shares issued by subsidiary undertaking net of minority interests	226
	272

c) *Net cash outflow in respect of acquisitions*

£ thousands	2002	2001
Net cash balances acquired	6	-
Acquisition of Streamway Netcasting Ltd	(24)	-
Acquisition of Viewpoint Media Pty Ltd	(46)	-
	(64)	-

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Notes to the accounts (continued)

d) Disposals

	Tornado Entertainment Ltd	Virtue Broadcasting Company, Inc.
£ thousands		
Tangible fixed assets	614	-
Debtors	255	96
Creditors	(1,046)	(187)
Exceptional charges	1,408	-
Minorities shares of assets	89	18
	1,320	(73)
(Loss)/profit on disposal	(1,977)	73
Cash consideration	(657)	-

Tornado Entertainment Ltd contributed £6.1 million (2001: £6.9 million) to loss before interest and tax and Virtue Broadcasting Company, Inc. £nil (2001: £0.6 million). See note 5 for further information.

27 Post balance sheet events

The Company announced on 26 June 2003 that the Group had disposed of Virtue Media Services Ltd to Interoute Communications Ltd for an aggregate consideration of £800,000, which will complete on 30 June 2003. This sum comprises cash of £600,000 and a further cash sum equating to the adjusted working capital of Virtue Media Services Ltd on 30 June 2003, which the Board estimate to be approximately £200,000. In addition, Interoute will provide internet access and streaming services to the Group to the value of €168,000 over the next twelve months.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 5 Giltspur Street, London, EC1 on 7 August 2003 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 7 will be proposed as ordinary resolutions and number 8 will be proposed as a special resolution:

Ordinary Business

- (1) To receive and adopt the report of the Directors and the accounts for the year ended 31 December 2002.
- (2) To receive, adopt and approve the Remuneration Report for the year ended 31 December 2002.
- (3) To confirm the appointment of Mike Neville as a Director of the Company.
- (4) To confirm the appointment of James Ormondroyd as a Director of the Company.
- (5) To confirm the appointment of Giles English as a Director of the Company.
- (6) To appoint PricewaterhouseCoopers LLP as auditors 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
- (7) 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 £113,965 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.

Special Business

- (8) That subject to the passing of resolution number 7 above, the Directors be and are hereby 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 shares in the Company and other persons entitled to participate therein, in the proportion (as nearly as may be) to such holders' holdings of such 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 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 up to an aggregate nominal value of £113,966,

and expires 15 months after the date of the passing of this resolution or, if earlier, on the date 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 26 June 2003

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

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Notice of Annual General Meeting (continued)

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:** 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. Shareholders are invited to complete and return the enclosed Proxy Form. 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 must be received at the office of the Company's registrars, Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less 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; and Copies of the Directors' service agreements with the Company.

Virtue Broadcasting Plc

(formerly Tornado Group Plc)