Virtue Broadcasting Plc
Preliminary Results Announcement
For the Year Ended 31 December 2003

London, UK - 24 May 2004

Financial Highlights

- Turnover from continuing operations increased by 194% to £2.1 million. Turnover increased by 22% to £2.7 million.
- Operating loss reduced by 78% to £1.7 million.
- Loss per share reduced by 89% to 1.0 pence. Adjusted loss per share reduced by 75% to 1.3 pence.
- Successfully acquired and integrated a further three companies into the Group
- Extended the Group's international footprint into Germany, Spain, Sweden and Switzerland

Mike Neville, Chairman, comments: "This has been a very busy year for the Group both in terms of business development and corporate activity. The net result of our efforts has been the emergence of the Group as one of the key players in the European IP based corporate communications market. We have a fantastic client base, responsive product development approach and a strong dedicated team. I am very proud of the Group's performance to date and look forward to further developments that can be achieved from our present position".

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Chairman's Statement

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

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

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

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

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

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

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

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

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

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

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

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

Mike Neville, Chairman

Financial Review

Financial highlights

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

Corporate Services Europe

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

Turnover was up by 183% on last year at £1.6 million reflecting a compound rate of organic growth of 42% per half year since the first half of 2002 and a contribution of £583,000 from the acquisition of Unit.Net. The organic growth in turnover experienced during the year was a result of a strong focus on customer account management, expanding our reseller network, and product development, which led to an increase in market share.

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

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

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

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

Corporate Services Australia

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

Turnover from Corporate Services for the Australian segment was up by 241% on last year at £426,000. Performance was strong with focus on product improvements and higher service levels. Operating loss before goodwill amortisation was reduced by 40% to £88,000, a margin of -21% compared to -117% in 2002 . The operating margin reflected some local price pressure; however, this was more than compensated by an increased number of clients and volume of services delivered. During 2003 the business provided services to 21 of the S&P 200 (2002: 6).

Central expenses

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

Discontinued operations

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

Interest

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

Taxation

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

Dividend

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

Loss per share

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

Pro-forma trading profit and loss account

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

Continuing operations before exceptional items and amortisation

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

Cash flow

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

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

Net funds

The total movements in net funds comprise:

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

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

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

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

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

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

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

Financial liabilities

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

Treasury policy and financial risk management

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

Going concern

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

Post balance sheet acquisitions

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

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

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

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

Outlook for 2004

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

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

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

Group profit and loss account

for the year ended 31 December 2003

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

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

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

Balance Sheets
As at the year ended 31 December 2003

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

Approved by the Board on 24 May 2004.

Mike Neville
Chairman

James Ormondroyd
Finance Director

Group Cash Flow Statement
for the year ended 31 December 2003

£ thousands	Notes	**2003**	2002
Net cash outflow from operating activities	8	**(1,918)**	(5,364)
Returns on investment and servicing of finance			
Interest received		**21**	155
Interest paid		**(9)**	(10)
Net cash inflow from returns on investment and servicing of finance		**12**	145
Taxation			
Corporation tax		**-**	-
Capital expenditure and financial investment			
Payments to acquire intangible assets		**(4)**	-
Payments to acquire tangible assets		**(169)**	(223)
Receipts from sales of tangible assets		**4**	-
Cash outflow from capital expenditure and financial investment		**(169)**	(223)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**14**	(64)
Disposal of subsidiary undertakings		**568**	(657)
Receipt on disposal of Tornado Entertainment Ltd		**100**	-
Cash inflow/ (outflow) from acquisitions and disposals		**682**	(721)
Equity Dividends paid to shareholders		**-**	-
Cash outflow before use of liquid resources and financing		**(1,393)**	(6,163)
Financing			
Issue of ordinary shares net of expenses		**1,673**	20
Repayment of loans		**(200)**	-
Cash inflow from financing		**1,473**	20
Increase/ (decrease) in cash		**80**	(6,143)
Reconciliation of net cash flow movements in net funds			
Net funds at the start of the year	8	**1,104**	7,447
Increase/ (decrease) in cash	8	**80**	(6,143)
Decrease in borrowings	8	**200**	-
Debt in subsidiaries acquired	8	**-**	(200)
Net funds at end of year	8	**1,384**	1,104

Notes

1 Basis of preparation

The consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement, consolidated statement of total recognised gains and losses and extracts from the notes to the accounts for 2003 and 2002 do not constitute the Group's Annual Report & Accounts. The auditors have made a report on the Group's statutory accounts for each of the years 2003 and 2002 under section 235 of the Companies Act 1985 which do not contain a statement under sections 237(2) or (3) of the Companies Act and are unqualified. The statutory accounts for 2002 have been delivered to the Registrar of Companies and statutory accounts for 2003 will be filed with the Registrar in due course.

Copies of the Annual Report & Accounts will be posted to shareholders by 31 May 2004. Further copies of this announcement can be downloaded from the website www.virtuebroadcasting.com or by applications to The Company Secretary, Virtue Broadcasting Plc, 60-62 Commercial Street, London, E1 6LT.

2 Segmental analysis

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

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

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

3 Net operating expenses

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

4 Exceptional items – operating

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

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

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

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

5 Exceptional items – non-operating

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

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

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

[3] In June 2003 the Group disposed of its Media Services division, Virtue Media Services Ltd, for an aggregate consideration of £860,000 before transaction expenses which gave rise to an exceptional profit of £282,000. See note 9 for further information.

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

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

6 Loss per share

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

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

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

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

7 Reconciliation of movement in equity shareholders' funds

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

8 Consolidated cash flow

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

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

b) Analysis of changes in net debt

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

9 Acquisitions and disposals

a) Acquisition of Unit.Net

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

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

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

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

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

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

b) Net cash outflow in respect of acquisitions

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

c) Disposal of Virtue Media Services UK Ltd

£ thousands	2003
Intangible fixed assets	7
Tangible fixed assets	35
Investments	64
Cash	7
Debtors	464
Creditors	(155)
Provisions	(10)
Exceptional charges	91
	503
Profit on disposal	**282**
Consideration	**785**
Consideration satisfied by:	

Cash consideration (net of transaction expenses of £75,000)	607
Contingent cash consideration	118
Fair value of network services	60
	785

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

10 Post balance sheet events

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

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

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

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

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