

Fastnet Group Limited

Report and Accounts

30 JUNE 1999



Fastnet Group Limited

Registered no. 3015466

DIRECTORS

I C Brown
R D G Bruce
C R Gray
M J A McGougan
A J Walsh

SECRETARY

A J Walsh

AUDITORS

Ernst & Young
400 Capability Green
Luton
Beds
LU1 3LU

BANKERS

Lloyds Bank Plc
39 Threadneedle Street
London
EC2R 8AU

SOLICITORS

Moore & Blatch
11 The Avenue
Southampton
Hants

REGISTERED OFFICE

Minchens Barn
Minchens Lane
Bramley
Basingstoke
Hants
RG26 5BH

 **ERNST & YOUNG**

Fastnet Group Limited

DIRECTORS' REPORT

The directors are pleased to present their report and the group accounts for the year ended 30 June 1999 for Fastnet Group Limited, the parent and holding company of Fastnet Systems PLC, Fastnet Consulting Services Limited and Fastnet Resources Limited.

RESULTS AND DIVIDENDS

The group loss for the year, after taxation, amounted to £13,341 (1998: profit £87,925).

Dividends of £25,000 have been accrued on the 'A' preference shares.

PRINCIPAL ACTIVITY

The principal activity of the group during the year was the design, installation and support of computer networks.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

Fastnet Group is the holding company for the group which comprises Fastnet Systems PLC, the principal trading company, Fastnet Resources Limited which started trading in October 1998 and Fastnet Consulting Services Limited, which started trading in December 1999.

Fastnet Systems continued to build on the success of the prior 3 years, and achieved a significant milestone in the current period with revenues exceeding £10 million for the first time. Profits before interest and tax reached £145,000, a slight improvement on the prior year. Order performance was exceptionally strong, with orders growing by some 20% in the year under review, and this meant that the order backlog at 1 July 1999 was at record levels. More importantly, over the year the professional services business grew by 51% to some £1.5 million and the Fastnet Assist support services business grew by over 40% to around £1.8 million. This growth reflected the increasing emphasis placed by the Board on growing the services businesses.

Fastnet Systems continued to win many new prestigious projects in the year including a number of high profile million pound contracts. Examples of such projects included the design and implementation of a UK wide LAN and WAN covering some 45 sites for a major union and the development of a site wide ATM network incorporating both access control and CCTV security systems for a prestigious public body. This latter project was one of the first of its kind in the country to combine multiple systems using a data network and illustrated the company's continuing ability to operate at the leading edge of technology for the benefit of its customers.

The year also saw the launch of Fastnet Resources, a new subsidiary delivering recruitment services focused specifically on the computer networking market for the group's client base and other corporate organisations. The group made a significant investment in building the infrastructure to support the business, including a new database and business tracking system, in addition to sales and marketing collateral. Such start up costs contributed to this business losing some £111,000 before interest and tax in the year. However, post year end trading in Fastnet Resources has been profitable and it is the expectation of the Board that the company will rapidly pay back the year one start up costs.

The outlook for the financial year 2000 is very buoyant despite the well documented impact of Year 2000 in reducing IT spend over the millennium period. The Board believes the great order success from Fastnet Systems in the current year, the continued emphasis on services initiatives, the launch of Fastnet Resources, and the group's increasingly developed sales and marketing ability will yield a further improvement on the group's financial results. Having said this the Board expects to continue its current strategy of managing the business for growth rather than purely profit in support of the long-term development of the group.

Fastnet Group Limited

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors at 30 June 1999 and their interests in the share capital of the company were as follows:

	At 30 June 1999			At 1 July 1998		
	Ordinary shares	'B' preference shares	'C' preference shares	Ordinary shares	'B' preference shares	'C' preference shares
I C Brown	159,588	—	8,574	162,500	—	8,574
C R Gray	45,773	100,000	—	47,500	100,000	—
M J A McGougan	39,587	—	15,000	41,250	—	15,000
A J Walsh	19,794	—	6,426	21,250	—	6,426

In addition, M Langmore served as a director until his resignation on 1 February 1999. R D G Bruce was appointed as a director on 29 July 1999.

OTHER SUBSTANTIAL SHAREHOLDINGS

In addition to the directors' shareholdings shown above, 3i Group PLC held the following shares at 30 June 1999:

	No.
'A' ordinary shares	210,309
'A' preference shares	1,587,500

YEAR 2000 COMPLIANCE

As it is well known, many computer and digital storage systems expressed dates using only the last two digits of the year and thus required modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. The operation of the group's business depends not only on the group's computer systems, but also to some degree on those of suppliers and customers. This could expose the group to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

Prior to 1 January 2000, prioritised action plans were developed and implemented which were designed to address the key risks, with emphasis on those systems which could cause a significant financial or legal impact on the group's business if they were to fail.

Post 1 January 2000, no significant operational problems have been identified to date although we continue to carefully monitor the operation of our computer systems.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



Secretary

APR 05 2000

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Fastnet Group Limited

We have audited the accounts on pages 7 to 21, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 11 to 12.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

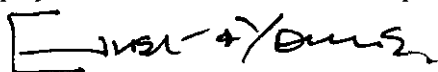
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 30 June 1999 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Luton

APR 05 2000

Fastnet Group Limited

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 June 1999

	Notes	1999 £	1998 £
TURNOVER	2	10,412,642	9,505,390
Cost of sales		6,511,886	6,071,663
GROSS PROFIT		3,900,756	3,433,727
Selling and distribution costs		2,763,181	2,269,826
Administrative expenses		1,107,197	1,037,266
		3,870,378	3,307,092
OPERATING PROFIT	3	30,378	126,635
Bank interest receivable		844	8,689
Interest payable and similar charges	6	(41,606)	(28,987)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(10,384)	106,337
Tax on (loss)/profit on ordinary activities	7	2,957	18,412
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(13,341)	87,925
Dividends:			
Preference dividends on non-equity shares		25,000	(131,149)
Preference dividends on equity shares		-	(29,110)
	9	25,000	(160,259)
(LOSS)/PROFIT RETAINED FOR THE FINANCIAL YEAR	19	(38,341)	248,184

There were no recognised gains or losses other than the (loss)/profit for the year.

Fastnet Group Limited

GROUP BALANCE SHEET

at 30 June 1999

	Notes	1999 £	1998 £
FIXED ASSETS			
Tangible assets	10	351,649	306,798
CURRENT ASSETS			
Stocks	12	630,432	371,825
Debtors	13	2,224,638	1,833,822
Cash at bank and in hand		33,387	230,072
		2,888,457	2,435,719
CREDITORS: amounts falling due within one year	14	2,505,256	2,300,551
NET CURRENT ASSETS		383,201	135,168
TOTAL ASSETS LESS CURRENT LIABILITIES		734,850	441,966
CREDITORS: amounts falling due after more than one year			
Loan	15	166,667	-
Loan notes	16	15,750	-
		182,417	-
ACCRUALS AND DEFERRED INCOME	17	958,986	731,178
		1,141,403	731,178
		(406,553)	(289,212)
CAPITAL AND RESERVES - (DEFICIT)			
Called up share capital	18	442,669	540,500
Share premium account	19	1,782,022	1,782,000
Capital redemption reserve	19	100,000	-
Profit and loss account	19	(2,731,244)	(2,611,712)
Shareholders' funds:			
Equity		(2,178,044)	(2,225,703)
Non-equity		1,771,491	1,936,491
		(406,553)	(289,212)

Director

APR 05 2000

ERNST & YOUNG

Fastnet Group Limited

COMPANY BALANCE SHEET at 30 June 1999

	Notes	1999 £	1998 £
FIXED ASSETS			
Investments	11	2,812,342	2,812,342
CURRENT ASSETS			
Debtors	13	14,503	37,003
CREDITORS: amounts falling due within one year	14	313,641	450,836
NET CURRENT LIABILITIES		(299,138)	(413,833)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,513,204	2,398,509
CREDITORS: amounts falling due after more than one year			
Loan	15	166,667	—
Loan notes	16	15,750	—
		182,417	—
		2,330,787	2,398,509
CAPITAL AND RESERVES			
Called up share capital	18	442,669	540,500
Share premium account	19	1,782,022	1,782,000
Capital redemption reserve	19	100,000	—
Profit and loss account	19	6,096	76,009
Shareholders' funds:			
Equity		559,296	462,018
Non-equity		1,771,491	1,936,491
		2,330,787	2,398,509

Director

APR 05 2000

ERNST & YOUNG

Fastnet Group Limited

GROUP STATEMENT OF CASH FLOWS for the year ended 30 June 1999

	Notes	1999 £	1998 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	21(a)	72,683	370,639
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		844	8,689
Interest paid		(38,643)	(22,382)
Interest element of finance lease and hire purchase rental payments		(2,963)	(6,605)
Preference dividend paid		(90,000)	—
		(130,762)	(20,298)
TAXATION			
Corporation tax paid		(33,622)	(12,252)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(222,104)	(248,435)
Receipts from sales of tangible fixed assets		12,300	12,375
		(209,804)	(236,060)
FINANCING			
Net cash flow on issue/repurchase of share capital	18	(25,000)	—
New secured loan	21(b)	300,000	—
Repayment of loans	21(b)	(133,333)	(133,334)
Repayments of capital element of finance leases and hire purchase contracts	21(b)	(36,847)	(25,488)
		104,820	(158,822)
DECREASE IN CASH		(196,685)	(56,793)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)			
		1999 £	1998 £
Decrease in cash		(196,685)	(56,793)
Cash (inflow)/outflow from (increase)/decrease in loans		(166,667)	133,334
Cash used to repay capital element of finance lease and hire purchase payments		36,847	25,488
Change in net funds resulting from cash flows	21(b)	(326,505)	102,029
New finance leases and hire purchase contracts		—	(16,956)
Issue of loan notes in consideration for share repurchase	21(b)	(54,000)	—
MOVEMENT IN NET FUNDS/(DEBT)		(380,505)	85,073
NET FUNDS/(DEBT) AT 1 JULY	21(b)	59,892	(25,181)
NET (DEBT)/FUNDS AT 30 JUNE	21(b)	(320,613)	59,892

NOTES TO THE ACCOUNTS
at 30 June 1999

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of Fastnet Group Limited and its subsidiary undertakings drawn up to 30 June each year.

Goodwill

Goodwill arising on acquisitions prior to 30 June 1998 was set off directly against reserves and has not been reinstated on implementation of FRS 10.

Positive goodwill arising on acquisitions since 1 July 1998 is capitalised, classified as an asset in the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Fixed assets

Fixed assets of businesses acquired are recorded at fair value on acquisition as determined by the directors. Other fixed asset additions are recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Leasehold improvements	-	over term of lease
Computer equipment	-	over 3 years
Motor vehicles	-	over 4 years
Fixtures, fittings and equipment	-	over 5 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks held for resale are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Maintenance stocks are written down to nil value over three years on a straight line basis.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Fastnet Group Limited

NOTES TO THE ACCOUNTS

at 30 June 1999

1. ACCOUNTING POLICIES (continued)

Deferred revenue

Revenues received in advance for maintenance contracts are credited to a deferred revenue account and released to the profit and loss account on a straight line basis over the period of the contracts.

Cost of sales

Cost of sales includes the cost of bought-in products and other third party costs incurred in making the supply of computer networks. Staff costs associated with installation of networks and provision of support are included in selling and distribution costs.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company makes contributions to personal pension plans of certain employees. Such payments are charged to the profit and loss account as incurred.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

Turnover is attributable to one continuing activity, the design, installation and support of computer networks and all arises in the United Kingdom.

3. OPERATING PROFIT

This is stated after charging:

	1999 £	1998 £
Depreciation of owned fixed assets	153,751	111,802
Depreciation of assets held under finance leases and hire purchase contracts	19,332	30,077
Auditors' remuneration - audit fees	21,500	20,000
- non-audit fees	10,250	7,200
Operating lease rentals - land and buildings	91,220	90,376
- plant and machinery	193,305	160,585

Fastnet Group Limited

NOTES TO THE ACCOUNTS

at 30 June 1999

4. DIRECTORS' EMOLUMENTS

	1999 £	1998 £
Fees	2,816	11,669
Emoluments	293,861	299,864
Pension contributions	8,102	9,985
Total (paid by subsidiary undertaking)	304,779	321,518

Three directors had retirement benefits accruing under a money purchase scheme (1998: 3). The emoluments of the highest paid director were £96,046 (1998: £88,093) together with pension contributions of £2,202 (1998: £2,085).

5. STAFF COSTS

	1999 £	1998 £
Wages and salaries	2,449,015	1,950,781
Social security costs	248,882	195,643
Other pension costs	23,560	34,774
	2,721,457	2,181,198

The monthly average number of employees during the year was as follows:

	1999 No.	1998 No.
Administration and sales	41	30
Technical	41	34
	82	64

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1998 £
Bank loans and overdrafts	38,643	22,382
Finance charges payable under finance leases and hire purchase contracts	2,963	6,605
	41,606	28,987

Fastnet Group Limited

NOTES TO THE ACCOUNTS

at 30 June 1999

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

	1999 £	1998 £
UK corporation tax - current year	10,609	23,250
- adjustment in respect of prior periods	(7,652)	(4,838)
	<u>2,957</u>	<u>18,412</u>

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £36,278 (1998: £nil).

9. DIVIDENDS

	1999 £	1998 £
Equity preference dividends on 'A' ordinary shares - written back	-	(29,110)
Non-equity preference dividends on preference shares - accrued	25,000	8,100
- written back	-	(139,249)
	<u>25,000</u>	<u>(160,259)</u>

Some of the preference dividends accrued in previous years were written back in the year ended 30 June 1998 following an agreement made with the respective shareholders.

Fastnet Group Limited

NOTES TO THE ACCOUNTS

at 30 June 1999

10. TANGIBLE FIXED ASSETS

<i>Group</i>	<i>Leasehold improvements</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Fixtures, fittings and equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost or fair value:					
At 1 July 1998	59,697	451,184	35,490	77,519	623,890
Additions	22,411	134,488	14,150	51,055	222,104
Disposals	—	(8,459)	(16,743)	—	(25,202)
At 30 June 1999	82,108	577,213	32,897	128,574	820,792
Depreciation:					
At 1 July 1998	5,829	255,716	30,555	24,992	317,092
Provided during the year	11,173	132,428	8,291	21,191	173,083
Disposals	—	(4,289)	(16,743)	—	(21,032)
At 30 June 1999	17,002	383,855	22,103	46,183	469,143
Net book value:					
At 30 June 1999	65,106	193,358	10,794	82,391	351,649
At 1 July 1998	53,868	195,468	4,935	52,527	306,798

The net book value of fixed assets includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	<i>1999</i>	<i>1998</i>
	£	£
Computer equipment	9,420	27,815
Motor vehicles	—	937

Fastnet Group Limited

NOTES TO THE ACCOUNTS at 30 June 1999

11. INVESTMENTS

Company

*Subsidiary
undertakings
£*

Cost:

At 1 July 1998 and 30 June 1999

2,812,342

Details of the investments in which the company holds more than 20% of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Country of registration</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Fastnet Systems PLC	England and Wales	Ordinary shares	100%	Computer networks
Fastnet Assist Limited	England and Wales	Ordinary shares	* 100%	Dormant
Fastnet Resources Limited	England and Wales	Ordinary shares	100%	IT recruitment and contracting services
Fastnet Consulting Services Limited	England and Wales	Ordinary shares	* 100%	IT consulting services

* Held by a subsidiary undertaking

12. STOCKS

Group

*1999
£*

*1998
£*

Goods for resale	478,631	201,022
Maintenance stocks	92,747	90,472
Work in progress	59,054	80,331
	<u>630,432</u>	<u>371,825</u>

13. DEBTORS

	<i>Group</i>		<i>Company</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Trade debtors	1,590,627	1,666,048	—	—
Amounts due from subsidiary undertakings	—	—	13,946	13,946
Other debtors	39,776	38,131	557	23,057
Prepayments and accrued income	594,235	129,643	—	—
	<u>2,224,638</u>	<u>1,833,822</u>	<u>14,503</u>	<u>37,003</u>

Fastnet Group Limited

NOTES TO THE ACCOUNTS at 30 June 1999

14. CREDITORS: amounts falling due within one year

	1999	Group	1999	Company
	£	1998	£	1998
Current instalments due on bank loan (note 15)	133,333	133,333	133,333	133,333
Current instalments due on loan notes (note 16)	38,250	—	38,250	—
Obligations under finance leases and hire purchase contracts	—	36,847	—	—
Trade creditors	1,872,010	1,544,736	—	—
Amounts due to subsidiary undertakings	—	—	71,867	158,190
Corporation tax	10,609	41,274	—	22,500
Other taxes and social security costs	114,445	147,647	—	—
Other creditors	104,291	101,815	20,000	21,922
Accruals	183,327	180,908	1,200	900
Accrued dividends	48,991	113,991	48,991	113,991
	<u>2,505,256</u>	<u>2,300,551</u>	<u>313,641</u>	<u>450,836</u>

15. LOAN

Group and company

	1999	1998
	£	£
The bank loan is repayable as follows:		
within one year	133,333	133,333
between one and two years	133,333	—
between two and five years	33,334	—
	<u>300,000</u>	<u>133,333</u>

The loan is secured by a fixed and floating charge over the assets of the group.

16. LOAN NOTES

Group and company

	1999	1998
	£	£
The loan notes are repayable as follows:		
within one year	38,250	—
between one and two years	15,750	—
	<u>54,000</u>	<u>—</u>

The loan notes are unsecured and interest free.

Fastnet Group Limited

NOTES TO THE ACCOUNTS at 30 June 1999

17. ACCRUALS AND DEFERRED INCOME

Group

	1999 £	1998 £
Pre-billed maintenance revenue	748,638	570,777
Deferred revenue	210,348	160,401
	<u>958,986</u>	<u>731,178</u>

18. SHARE CAPITAL

	<i>Authorised, allotted, called up and fully paid</i>			
	1999 No.	1998 No.	1999 £	1998 £
Ordinary shares of £1 each	289,691	287,500	289,691	287,500
'A' ordinary shares of £0.01 each	210,309	212,500	2,103	2,125
'A' preference shares of £0.01 each	1,587,500	1,587,500	15,875	15,875
'B' preference shares of £1 each	100,000	200,000	100,000	200,000
'C' preference shares of £1 each	35,000	35,000	35,000	35,000
	<u>2,222,500</u>	<u>2,322,500</u>	<u>442,669</u>	<u>540,500</u>

On 27 January 1999 the following share transactions took place:

- (i) 2,191 ordinary shares of £1 each were issued for cash at a premium of £1 each.
- (ii) 2,191 'A' ordinary shares of £0.01 each were repurchased by the company at a premium of £1.99 each and subsequently cancelled.
- (iii) 100,000 'B' preference shares of £1 each were repurchased by the company for £79,000 and subsequently cancelled. £54,000 of the consideration was satisfied by issue of unsecured, interest free loan notes (note 16).

NOTES TO THE ACCOUNTS

at 30 June 1999

18. **SHARE CAPITAL** (continued)

Following an agreement made with the shareholders, the following class rights applied from 1 January 1999:

The 'A' ordinary shares carry one vote per one hundred shares. Following redemption of the 'A', 'B' and 'C' preference shares, they carry a cumulative preference dividend of 9% of the net profit of the group. The holders of the 'A' ordinary shares may at any time convert their holding into ordinary shares.

The 'A' preference shares carry no voting rights and are redeemable in equal half yearly instalments from 31 December 2001 to 31 December 2003. They carry a fixed cumulative preference dividend of 3.15 pence per annum from 1 January 1999, together with an additional amount from 1 January 2001 depending on the profits of the group.

The 'B' preference shares carry no voting rights and, assuming all 'A' preference shares due for redemption have been redeemed, are redeemable on 31 December 2003. They carry a fixed cumulative preference dividend of 10 pence per annum from 1 January 2001.

The 'C' preference shares carry one vote per share and, assuming all 'A' preference shares due for redemption have been redeemed, are redeemable on 31 December 2003. They carry a fixed cumulative preference dividend of 6 pence per annum from 1 January 2001.

In addition to the redemption terms noted above, all 'A', 'B' and 'C' preference shares are redeemable on the sale or flotation of the company provided sufficient distributable reserves exist.

On a winding up of the company, the assets of the company are to be applied as follows:

- (i) First in paying to the holders of the 'A' preference shares £1 per share plus any arrears of dividends;
- (ii) Second in paying to the holders of the 'B' preference shares £1 per share plus any arrears of dividends;
- (iii) Third in paying to the holders of the 'A' ordinary shares £1 per share plus any arrears of dividends;
- (iv) Fourth in paying to the holders of the 'C' preference shares £1 per share plus any arrears of dividends;
- (v) Fifth in paying to the holders of ordinary shares £1 per share; and
- (vi) The balance of such assets to be distributed amongst the holders of the 'A' ordinary shares and ordinary shares in proportion to the amounts paid up or credited as paid up.

Fastnet Group Limited

NOTES TO THE ACCOUNTS

at 30 June 1999

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

Group

	<i>Share capital £</i>	<i>Share premium account £</i>	<i>Capital redemption reserve £</i>	<i>Goodwill write-off reserve £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' funds £</i>
At 1 July 1997 as previously reported	540,500	1,782,000	–	(2,517,265)	(342,631)	(537,396)
Reclassification	–	–	–	2,517,265	(2,517,265)	–
At 1 July 1997 as restated	540,500	1,782,000	–	–	(2,859,896)	(537,396)
Profit for the year	–	–	–	–	87,925	87,925
Dividends	–	–	–	–	160,259	160,259
At 1 July 1998	540,500	1,782,000	–	–	(2,611,712)	(289,212)
Issue of new shares	2,191	2,191	–	–	–	4,382
Repurchase of shares	(100,022)	(2,169)	100,000	–	(81,191)	(83,382)
Loss for the year	–	–	–	–	(13,341)	(13,341)
Dividends	–	–	–	–	(25,000)	(25,000)
At 30 June 1999	442,669	1,782,022	100,000	–	(2,731,244)	(406,553)

The cumulative amount of goodwill written off to reserves at 30 June 1999 is £2,517,265. In accordance with FRS 10, goodwill which was previously written off to a separate write-off reserve has been offset against the profit and loss account.

Company

	<i>Share capital £</i>	<i>Share premium account £</i>	<i>Capital redemption reserve £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' funds £</i>
At 1 July 1997	540,500	1,782,000	–	(84,250)	2,238,250
Dividends	–	–	–	160,259	160,259
At 1 July 1998	540,500	1,782,000	–	76,009	2,398,509
Issue of new shares	2,191	2,191	–	–	4,382
Repurchase of shares	(100,022)	(2,169)	100,000	(81,191)	(83,382)
Profit for the year	–	–	–	36,278	36,278
Dividends	–	–	–	(25,000)	(25,000)
At 30 June 1999	442,669	1,782,022	100,000	6,096	2,330,787

Fastnet Group Limited

NOTES TO THE ACCOUNTS at 30 June 1999

20. OTHER FINANCIAL COMMITMENTS

At 30 June 1999 the group had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Plant and machinery</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
	£	£	£	£
Operating leases which expire:				
Within one year	–	–	32,541	49,030
Within two to five years	20,300	20,300	162,423	121,930
In over five years	70,920	70,920	–	–
	<u>91,220</u>	<u>91,220</u>	<u>194,964</u>	<u>170,960</u>

21. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>1999</i>	<i>1998</i>
	£	£
Operating profit	30,378	126,635
Depreciation	173,083	141,879
Increase in stocks	(258,607)	(93,947)
Increase in debtors	(390,816)	(579,131)
Increase in creditors	298,967	738,392
Increase in accruals and deferred income	227,808	40,112
Profit on disposal of fixed assets	(8,130)	(3,301)
Net cash inflow from operating activities	<u>72,683</u>	<u>370,639</u>

(b) Analysis of changes in net funds/(debt)

	<i>At</i>		<i>Other</i>	<i>At</i>
	<i>1 July</i>	<i>Cash flow</i>	<i>changes</i>	<i>30 June</i>
	<i>1998</i>	<i>£</i>	<i>£</i>	<i>1999</i>
	£	£	£	£
Cash at bank and in hand	230,072	(196,685)	–	33,387
Loans	(133,333)	(166,667)	–	(300,000)
Loan notes	–	–	(54,000)	(54,000)
Finance leases and hire purchase contracts	(36,847)	36,847	–	–
	<u>59,892</u>	<u>(326,505)</u>	<u>(54,000)</u>	<u>(320,613)</u>

22. TRANSACTIONS WITH DIRECTORS

During the year, the group paid rent of £18,500 in respect of land and buildings owned by C R Gray.

23. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in FRS 8 and not disclosed transactions with other group undertakings.