Fastnet Group Limited

Report and Accounts

30 JUNE 2000

Registered no. 3015466

ERNST & YOUNG

DIRECTORS' REPORT

The directors are pleased to present their report and the group accounts for the year ended 30 June 2000 for Fastnet Group Limited, the parent and holding company of Fastnet Systems PLC, Fastnet Consulting Services Limited, Fastnet Assist Limited and Fastnet Resources Limited.

RESULTS AND DIVIDENDS

The group profit for the year, after taxation, amounted to £171,102 (1999: loss £13,341). Dividends of £25,000 have been accrued on the 'A' preference shares (1999: £25,000) and dividends of £25,000 were also paid during the year in respect of the same shareholding.

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 achieved record results in the year under review with revenue growing by 43% to some £15 million, and operating profits by over 1000% to some £388,000. These results are especially rewarding given the difficult market conditions that existed for the whole industry around the Year 2000 point.

The results for all subsidiaries and divisions were the strongest ever:

I. Fastnet Systems increased revenues by over 33%, with a particularly pleasing performance from the support services division Fastnet Assist, itself reporting revenue and order growth of 40% and 59% respectively. Much of this growth was achieved as a result of the new service programmes such as the remote monitoring and management services launched in the previous year. In addition the Systems organisation continued to demonstrate its compelling services proposition by securing many new and prestigious integration projects including wins at WPP Group, BBC Worldwide, Mid Kent Water and a prestigious new south coast shopping centre West Quay. Exciting developments for the next 12 months include (i) a commitment to reach silver status with Cisco Systems by the Autumn of 2000 for which the company is well on track, (ii) an investment in IP telephony and VoIP technology, an area where the company plans to become a market leader, and (iii) further enhancements of the company's iBMS solutions (intelligent building management systems).

II. Fastnet Consulting, the new subsidiary launched in December 1999 achieved very pleasing revenues of £712,000 in its initial 6 month trading period. The focus of Fastnet Consulting at launch was as a consultancy practice in Microsoft technology. Over the next few months this is being expanded to include other technologies in which the wider group is involved such as those offered by Cisco Systems. In addition, Fastnet Consulting expects to enhance its e-business presence, where the company already provides architecture and design consultancy services.

III. Fastnet Resources in its first full 12 month period since the launch of the business in October 1998 achieved revenue of £627,000, representing 175% growth over that achieved in the previous year. The business also returned a small profit, having made substantial investments in the initial start up year. Fastnet Resources continues to be focused as a specialist network recruitment services agency rather than as an IT generalist, and has found this value proposition to be a differentiator in the marketplace.

The Group also made a substantial investment during the year to further support its London customers, through the opening of a large and prestigious office facility based at the Lloyds building in the City. This facility also houses the new Fastnet Consulting business.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)
As of the 31 July 2000, the group was acquired by Redstone Telecom plc. Redstone is an exciting new provider of telecoms services and opens up both a range of new opportunities and customers for the Fastnet organisation to be able to target. In particular the combination of Redstone's telecommunication services and Fastnet's data networking services will further enhance the company's service proposition to provide a "one stop shop" solution for all aspects of network communications.

DIRECTORS AND THEIR INTERESTS
The directors at 30 June 2000 and their interests in the share capital of the company were as follows:

			At 30 June 2000			*At 1 July 1999*
	Ordinary shares	*'B' preference shares*	*'C' preference shares*	*Ordinary shares*	*'B' preference shares*	*'C' preference shares*
I C Brown	159,588	–	8,574	159,588	–	8,574
C R Gray	45,773	100,000	–	45,773	100,000	–
M J A McGougan	39,587	–	15,000	39,587	–	15,000
A J Walsh	24,794	–	6,426	19,794	–	6,426
R D G Bruce	5,000	–	–	5,000	–	–

On 28 July 2000 C R Gray, M J A McGougan and R D G Bruce resigned.

PROVISIONS FOR LIABILITIES AND CHARGES

	Provision for employers national insurance on compensation payments £
At 1 July 1999	–
Arising during the year - exceptional item	115,000
At 30 June 2000	115,000

A provision is recognised for employers national insurance on compensation payments, to option holders in the Fastnet Group, arising as a result of the change in ownership of the company. It is expected that £76,000 is payable upon completion of the change in ownership and £39,000 on 13 December 2001 providing the employees entitled to the payment remain as employees of the Fastnet Group.

POST BALANCE SHEET EVENT
On 31 July 2000, the holding company, Fastnet Group Limited was acquired by Redstone Telecom plc, a company quoted on the London Stock Exchange.

OTHER SUBSTANTIAL SHAREHOLDINGS

In addition to the directors' shareholdings shown above, 3i Group PLC held the following shares at 30 June 2000:

	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.

By order of the board

Secretary

18 August 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.

ERNST & YOUNG

REPORT OF THE AUDITORS
to the members of Fastnet Group Limited

We have audited the accounts on pages 7 to 22, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 11 and 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 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Luton
1 August 2000

GROUP PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2000

	Notes	2000 £	1999 £
TURNOVER	2	14,856,318	10,412,642
Cost of sales		9,613,394	6,511,886
GROSS PROFIT		5,242,924	3,900,756
Selling and distribution costs		3,266,492	2,763,181
Administrative expenses - pre exceptional item		1,473,517	1,107,197
- exceptional item	18	115,000	–
Administrative expenses		1,588,517	1,107,197
		4,855,009	3,870,378
OPERATING PROFIT	3	387,915	30,378
Bank interest receivable		52	844
Interest payable and similar charges	6	(56,083)	(41,606)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		331,884	(10,384)
Tax on profit/(loss) on ordinary activities	7	160,782	2,957
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		171,102	(13,341)
Dividends:			
Preference dividends on non-equity shares		50,000	25,000
	9	50,000	25,000
PROFIT/(LOSS) RETAINED FOR THE FINANCIAL YEAR	21	121,102	(38,341)

There were no recognised gains or losses other than the profit for the year.

ERNST & YOUNG

GROUP BALANCE SHEET
at 30 June 2000

	Notes	*2000* £	*1999* £
FIXED ASSETS			
Intangible assets	10	84,910	–
Tangible assets	11	463,119	351,649
		548,029	351,649
CURRENT ASSETS			
Stocks	13	838,987	630,432
Debtors	14	3,656,120	2,224,638
Cash at bank and in hand		300,254	33,387
		4,795,361	2,888,457
CREDITORS: amounts falling due within one year	15	4,192,011	2,505,256
NET CURRENT ASSETS		603,350	383,201
TOTAL ASSETS LESS CURRENT LIABILITIES		1,151,379	734,850
CREDITORS: amounts falling due after more than one year			
Loan	16	33,334	166,667
Loan notes	17	–	15,750
		33,334	182,417
PROVISIONS FOR LIABILITIES AND CHARGES	18	115,000	–
ACCRUALS AND DEFERRED INCOME	19	1,298,496	958,986
		1,446,830	1,141,403
		(295,451)	(406,553)
CAPITAL AND RESERVES - (DEFICIT)			
Called up share capital	20	437,669	442,669
Share premium account	21	1,782,022	1,782,022
Capital redemption reserve	21	105,000	100,000
Profit and loss account	21	(2,620,142)	(2,731,244)
Shareholders' funds:			
Equity		(2,066,942)	(2,178,044)
Non-equity		1,771,491	1,771,491
		(295,451)	(406,553)

Director

1st August 2000

ERNST & YOUNG

COMPANY BALANCE SHEET
at 30 June 2000

	Notes	2000 £	1999 £
FIXED ASSETS			
Investments	12	2,812,342	2,812,342
CURRENT ASSETS			
Debtors	14	15,253	14,503
CREDITORS: amounts falling due within one year	15	459,505	313,641
NET CURRENT LIABILITIES		(444,252)	(299,138)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,368,090	2,513,204
CREDITORS: amounts falling due after more than one year			
Loan	16	33,334	166,667
Loan notes	17	–	15,750
		33,334	182,417
		2,334,756	2,330,787
CAPITAL AND RESERVES			
Called up share capital	20	437,669	442,669
Share premium account	21	1,782,022	1,782,022
Capital redemption reserve	21	105,000	100,000
Profit and loss account	21	10,065	6,096
Shareholders' funds:			
Equity		563,265	559,296
Non-equity		1,771,491	1,771,491
		2,334,756	2,330,787

Director

1st August 2000

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 June 2000

	Notes	2000 £	1999 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	23(a)	912,055	72,683
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		52	844
Interest paid		(56,083)	(38,643)
Interest element of finance lease and hire purchase rental payments		–	(2,963)
Preference dividend paid		(50,000)	(90,000)
		(106,031)	(130,762)
TAXATION			
Corporation tax paid		(384)	(33,622)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(294,433)	(222,104)
Receipts from sales of tangible fixed assets		3,050	12,300
		(291,383)	(209,804)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertaking		(65,807)	–
FINANCING			
Net cash flow on issue/repurchase of share capital	20	(10,000)	(25,000)
New secured loan	23(b)	–	300,000
Repayment of loans	23(b)	(171,583)	(133,333)
Repayments of capital element of finance leases and hire purchase contracts	23(b)	–	(36,847)
		(181,583)	104,820
INCREASE/(DECREASE) IN CASH		266,867	(196,685)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		2000 £	1999 £
Increase/(decrease) in cash		266,867	(196,685)
Cash outflow/(inflow) from decrease/(increase) in loans		171,583	(166,667)
Cash used to repay capital element of finance lease and hire purchase payments		–	36,847
Change in net funds resulting from cash flows	23(b)	438,450	(326,505)
Issue of loan notes in consideration for share repurchase	23(b)	–	(54,000)
MOVEMENT IN NET FUNDS		438,450	(380,505)
NET (DEBT)/FUNDS AT 1 JULY	23(b)	(320,613)	59,892
NET FUNDS/(DEBT) AT 30 JUNE	23(b)	117,837	(320,613)

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. No profit and loss account is presented for Fastnet Group Limited as permitted by Section 230 of the Companies Act 1985.

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 2 to 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.

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 other than for Fastnet Consulting Services Limited where staff consulting costs have been included in cost of sales.

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:

		2000	*1999*
		£	*£*
Depreciation of owned fixed assets		179,328	153,751
Amortisation of goodwill		9,434	–
Depreciation of assets held under finance leases and hire purchase contracts		–	19,332
Auditors' remuneration	- audit fees	27,000	21,500
	- non-audit fees	6,170	10,250
Operating lease rentals	- land and buildings	240,635	91,220
	- plant and machinery	189,683	193,305

4. DIRECTORS' EMOLUMENTS

	2000	*1999*
	£	*£*
Fees	–	2,816
Emoluments	421,368	293,861
Pension contributions	7,804	8,102
Total (paid by subsidiary undertaking)	429,172	304,779

Three directors had retirement benefits accruing under a money purchase scheme (1999: 3). The emoluments of the highest paid director were £105,735 (1999: £96,046) together with pension contributions of £2,304 (1999: £2,202).

5. STAFF COSTS

	2000	*1999*
	£	*£*
Wages and salaries	3,282,264	2,449,015
Social security costs	343,081	248,882
Other pension costs	46,753	23,560
	3,672,098	2,721,457

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

	2000	*1999*
	No.	*No.*
Administration and sales	52	41
Technical	60	41
	112	82

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2000	*1999*
	£	*£*
Bank loans and overdrafts	56,083	38,643
Finance charges payable under finance leases and hire purchase contracts	–	2,963
	56,083	41,606

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

		2000 £	1999 £
UK corporation tax	- current year	154,012	10,609
	- adjustment in respect of prior periods	6,770	(7,652)
		160,782	2,957

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £63,969 (1999: £36,278).

9. DIVIDENDS

		2000 £	1999 £
Non-equity preference dividends on preference shares	- interim paid	25,000	–
	- final accrued	25,000	25,000
		50,000	25,000

10. INTANGIBLE FIXED ASSETS

	Goodwill £
Cost:	
Arising in the year	94,344
At 30 June 2000	94,344
Amortisation:	
Provided during the year	9,434
At 30 June 2000	9,434
Net book value:	
At 30 June 2000	84,910

Goodwill is being amortised in equal annual instalments over its estimated economic life of 5 years.

10. INTANGIBLE FIXED ASSETS (continued)

On 11 December 1999, the group acquired the trade and certain liabilities of an IT consulting business.

Analysis of the acquisition:

	Book and fair value £
Creditors due within one year	(28,537)
Goodwill arising on acquisition	94,344
	65,807
Discharged by:	
Costs associated with the acquisition	65,807

The acquired business contributed £711,903 to group turnover and made an operating loss of £70,151 for the period to 30 June 2000.

11. TANGIBLE FIXED ASSETS

Group

	Leasehold improvements £	*Computer equipment* £	*Motor vehicles* £	*Fixtures, fittings and equipment* £	*Total* £
Cost or fair value:					
At 1 July 1999	82,108	577,213	32,897	128,574	820,792
Additions	36,890	172,060	5,463	80,020	294,433
Disposals	(510)	(22,580)	(23,048)	(4,148)	(50,286)
At 30 June 2000	118,488	726,693	15,312	204,446	1,064,939
Depreciation:					
At 1 July 1999	17,002	383,855	22,103	46,183	469,143
Provided during the year	16,873	127,481	8,565	26,409	179,328
Disposals	(204)	(22,580)	(19,719)	(4,148)	(46,651)
At 30 June 2000	33,671	488,756	10,949	68,444	601,820
Net book value:					
At 30 June 2000	84,817	237,937	4,363	136,002	463,119
At 1 July 1999	65,106	193,358	10,794	82,391	351,649

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

	2000 £	*1999* £
Computer equipment	–	9,420

12. INVESTMENTS

Company	*Subsidiary undertakings* £
Cost:	
At 1 July 1999 and 30 June 2000	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:

Name of company	*Country of registration*	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
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

13. STOCKS

Group	*2000* £	*1999* £
Goods for resale	733,696	478,631
Maintenance stocks	71,677	92,747
Work in progress	33,614	59,054
	838,987	630,432

14. DEBTORS

	Group 2000 £	*Group* 1999 £	*Company* 2000 £	*Company* 1999 £
Trade debtors	3,076,614	1,590,627	–	–
Amounts due from subsidiary undertakings	–	–	13,946	13,946
Other debtors	19,539	39,776	1,307	557
Prepayments and accrued income	559,967	594,235	–	–
	3,656,120	2,224,638	15,253	14,503

15. CREDITORS: amounts falling due within one year

	Group		Company	
	2000	1999	2000	1999
	£	£	£	£
Current instalments due on bank loan (note 16)	133,333	133,333	133,333	133,333
Current instalments due on loan notes (note 17)	15,750	38,250	15,750	38,250
Trade creditors	2,802,036	1,872,010	–	–
Amounts due to subsidiary undertakings	–	–	260,231	71,867
Corporation tax	155,277	10,609	–	–
Other taxes and social security costs	431,049	114,445	–	–
Other creditors	203,416	104,291	–	20,000
Accruals	402,159	183,327	1,200	1,200
Accrued dividends	48,991	48,991	48,991	48,991
	4,192,011	2,505,256	459,505	313,641

16. LOAN

Group and company

	2000	1999
	£	£
The bank loan is repayable as follows:		
Within one year	133,333	133,333
Between one and two years	33,334	133,333
Between two and five years	–	33,334
	166,667	300,000

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

17. LOAN NOTES

Group and company

	2000	1999
	£	£
The loan notes are repayable as follows:		
Within one year	15,750	38,250
Between one and two years	–	15,750
	15,750	54,000

The loan notes are unsecured and interest free.

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	Provision for employers national insurance on compensation payments £
At 1 July 1999	–
Arising during the year - exceptional item	115,000
At 30 June 2000	115,000

A provision is recognised for employer's national insurance on compensation payments, to option holders in the Fastnet Group, arising as a result of the change in ownership of the company. It is expected that £76,000 is payable upon completion of the change in ownership and £39,000 on 13 December 2001 providing the employees entitled to the payment remain as employees of the Fastnet Group.

19. ACCRUALS AND DEFERRED INCOME

Group

	2000 £	1999 £
Pre-billed maintenance revenue	1,197,918	748,638
Deferred revenue	100,578	210,348
	1,298,496	958,986

20. SHARE CAPITAL

	Authorised, allotted, called up and fully paid			
	2000 No.	*1999 No.*	*2000 £*	*1999 £*
Ordinary shares of £1 each	284,691	289,691	284,691	289,691
'A' ordinary shares of £0.01 each	210,309	210,309	2,103	2,103
'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	100,000	100,000	100,000
'C' preference shares of £1 each	35,000	35,000	35,000	35,000
	2,217,500	2,222,500	437,669	442,669

On 19 November 1999 5,000 ordinary shares of £1 each were repurchased by the company at a premium of £1 each and subsequently cancelled.

20. 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.

21. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

Group

	Share capital	*Share premium account*	*Capital redemption reserve*	*Profit and loss account*	*Total shareholders' funds*
	£	*£*	*£*	*£*	*£*
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 1 July 1999	442,669	1,782,022	100,000	(2,731,244)	(406,553)
Repurchase of shares	(5,000)	–	5,000	(10,000)	(10,000)
Profit for the year	–	–	–	171,102	171,102
Dividends	–	–	–	(50,000)	(50,000)
At 30 June 2000	437,669	1,782,022	105,000	(2,620,142)	(295,451)

The cumulative amount of goodwill written off to reserves at 30 June 2000 is £2,517,265 (1999: £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

	Share capital	*Share premium account*	*Capital redemption reserve*	*Profit and loss account*	*Total shareholders' funds*
	£	*£*	*£*	*£*	*£*
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 1 July 1999	442,669	1,782,022	100,000	6,096	2,330,787
Repurchase of shares	(5,000)	–	5,000	(10,000)	(10,000)
Profit for the year	–	–	–	63,969	63,969
Dividends	–	–	–	(50,000)	(50,000)
At 30 June 2000	437,669	1,782,022	105,000	10,065	2,334,756

NOTES TO THE ACCOUNTS
at 30 June 2000

22. OTHER FINANCIAL COMMITMENTS

At 30 June 2000 the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings		*Plant and machinery*	
	2000	*1999*	*2000*	*1999*
	£	£	£	£
Operating leases which expire:				
Within one year	–	–	92,902	32,541
Within two to five years	212,966	20,300	118,731	162,423
In over five years	33,920	70,920	–	–
	246,886	91,220	211,633	194,964

23. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2000	*1999*
	£	£
Operating profit	387,915	30,378
Depreciation	179,328	173,083
Amortisation	9,434	–
Increase in stocks	(208,555)	(258,607)
Increase in debtors	(1,447,212)	(390,816)
Increase in provisions for liabilities and charges	115,000	–
Increase in creditors	1,536,050	298,967
Increase in accruals and deferred income	339,510	227,808
Loss/(profit) on disposal of fixed assets	585	(8,130)
Net cash inflow from operating activities	912,055	72,683

(b) Analysis of changes in net funds

	At 1 July 1999	*Cash flow*	*Other changes*	*At 30 June 2000*
	£	£	£	£
Cash at bank and in hand	33,387	266,867	–	300,254
Loans	(300,000)	133,333	–	(166,667)
Loan notes	(54,000)	38,250	–	(15,750)
	(320,613)	438,450	–	117,837

24. TRANSACTIONS WITH DIRECTORS

During the year, the group paid rent of £37,000 in respect of land and buildings owned by C R Gray.

ERNST & YOUNG

25. RELATED PARTY TRANSACTIONS

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

26. POST BALANCE SHEET EVENT

On 31 July 2000, the holding company, Fastnet Group Limited was acquired by Redstone Telecom plc, a company quoted on the London Stock Exchange.