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Chairman's statement

Despite continued expansion of the company's activities in developing its interactive television services and a successful listing in March 2000 on the Alternative Investment Market, the financial year to 31 December 2000 has proved extremely difficult, due to the discovery of financial irregularities.

Post balance sheet events

The company announced on 19 February 2001 that it was undertaking a full investigation, together with its external advisers, into these financial irregularities.

The company also announced that it had suspended Steven Laitman, Chief Executive, with effect from 18 February 2001 and subsequently, on 23 February 2001, an injunction was served on him freezing his assets, and proceedings were commenced against him for damages. On 28 February 2001, Mr Laitman was given notice of summary termination of his employment contract with the company. Mr Laitman has also been dismissed as a director of the company. Additionally, e-district suspended two senior managers within the technical department, both of whom subsequently resigned.

The Fraud Squad of the Metropolitan Police has been notified and is investigating.

The company has received reports from Cap Gemini Ernst & Young and PricewaterhouseCoopers Forensic Services.

The reports have established the substantial overstatement of registered users, page impressions and revenues. The investigations have also identified evidence of collusion within the company in connection with these overstatements. No-one implicated in such collusion remains within the company.

The investigations have established that revenues were overstated by altering the company's internal monthly reports, which showed the level of business conducted with the company's sales agencies. In addition, supporting documentation, both written and electronic, including debtor confirmations provided to the auditors, was fabricated or altered to substantiate the false revenue.

Furthermore, a substantial majority of the monies received by the company's bankers and recorded in the company's records as being received from sales agencies was in fact received from bank accounts linked to Mr Laitman, with fabricated supporting documentation indicating that such receipts were from sales agencies. Approximately £980,000 has been received in this way between (and including) November 1999 and February 2001 and credited against false trade debtors.

The results of the investigations show that the reported numbers for revenues have been substantially overstated. The revenues reported in the financial statements for the 17 months ended 31 December 1999 were £781,571. Based solely on information obtained from the sales agencies during the investigation, these revenues were in fact only £96,938. In addition, the revenues reported in the unaudited half year report for the six months ended 30 June 2000 were £1,038,069. Based on information obtained from the sales agencies during the investigation, these revenues were in fact only £32,872.

Cap Gemini Ernst & Young was engaged to examine details of current and historical registered users and page impressions. Historical data on the company's databases is only available back to February 2000. Cap Gemini Ernst & Young carried out a comparative analysis of data on the company's databases against the published traffic details in respect of registered users and page impressions. Its findings were that data contained within the company's systems did not reconcile with the published traffic details. Cap Gemini Ernst & Young was not able to verify the accuracy of the data.

Your Board deeply regrets the significant adverse impact on the company resulting from the irregularities and collusion referred to above. The Board believes that the actions taken in respect of Mr Laitman and the two implicated senior managers have been decisive.

Prospects and strategy

As soon as was practicable following the discovery of the irregularities outlined above, the Board, supported by Cap Gemini Ernst & Young, embarked on a detailed review of the company's strategic assets and its market positioning based on corrected traffic and usage. In doing so, the company has held extensive discussions with its key strategic platform partners in the UK which demonstrated the success of its entertainment and community products (currently delivered under the "LeisureDistrict" brand) in attracting a significant proportion of their respective user bases. Interactive TV has been a significant focus for the company since its inception and so this confirmation was a key element of the review.

Market research conducted by Ofcom in July 2000 has shown that games are the most popular category of interactive service used by digital television ("DTV") viewers in the UK. According to the company's systems, 80% of registered users accessing the company's services in the four months to 31 May 2001 were using interactive television in the UK.

A focused strategy has been developed over the past three months in order to fully exploit the company's core competencies in the delivery of successful interactive community and entertainment products for DTV. With over 50% of the UK population expected to be using DTV by 2003 (Forrester, January 2001), this represents a major opportunity in terms of value generation.

We are working closely with our key strategic partners, including the UK's two major cable companies, to deliver a range of exciting new entertainment services, which will significantly extend and improve our existing offering. These services are of high quality and are strongly differentiated from other offerings available via our partners' DTV services. In most cases, they will be offered to users on a "pay-per-play" or subscription basis. These will be complemented by a range of premium voice telephony and mobile phone SMS services, including messaging services and competitions. It is on this basis that we expect to be able to generate sustainable, growing revenues over the coming months.

The company has developed a detailed product launch plan for the next year and beyond; a number of announcements will be made over the coming months in relation to the launch of these products with our partners. We have also been active in developing relationships with new

Chairman's statement

continued

partners that will enable the delivery of our product across DTV and similar platforms in the UK and Europe, including digital terrestrial, satellite and ADSL services.

The Board has taken steps to ensure that the company's technology, people and processes are up to the task outlined above. In particular, the company has invested in improved technology infrastructure to ensure that existing service levels are maintained, new products delivered and detailed logging of user activity can be captured. In combination with refinement of the company's proprietary systems software, this logging will assist greatly in enabling external validation of usage statistics. The company's senior management and operational structures have been restructured in order to maximise efficiency and ensure that both new and existing processes and controls are fully effective. As for any business of this type, people are key to success and, in the course of restructuring, we have significantly augmented our capabilities through the hiring of key technology and other operational staff. Our overall headcount remains at around 40 people.

As Chairman, I am full of admiration for the way staff and management at every level have responded to the difficulties of the past few months and on the Board's behalf I would like to thank everyone for their dedication and effort.

With over £10.5 million in cash at 31 May 2001, and monthly operating costs of approximately £200k, your board is determined to drive home its competitive advantage in order to enhance shareholder value. We are actively pursuing strategic partnership opportunities with both platform operators and traditional media content owners to ensure that we are able to achieve our short, medium and long-term objectives.



Frank Lewis
Chairman
18 June 2001

Chief Executive's Statement

With the notice of termination of employment given to Steven Laitman on 28 February 2001, the Board approved that I should take on the responsibility of acting CEO. It is your Board's intention that a new CEO be appointed as soon as practicable and actions are being undertaken to achieve that end.

As noted in my Chairman's statement, the substantial problems outlined have prompted a review by the company of the key drivers of our business model. Cap Gemini Ernst & Young was appointed by us to evaluate the findings of our review and, in so doing, has carried out detailed analysis of the market for DTV interactive services, our positioning, key competitors and our revenue models.

The Directors' view that:

- There is an extremely fast-growing global market for interactive DTV services, particularly for entertainment and community products, and that the UK is presently the leading market in the world for such services. The forecast value of all UK interactive DTV services coupled with wireless services is forecast to exceed £13 billion by 2005 (Jupiter, 2000), of which entertainment, subscription services and premium voice telephony services are a significant element.
- Our key strategic assets in competing in this market include our existing relationships with UK platform operators, a large cross-platform registered DTV user base and the ability to create compelling interactive TV content and functionality. Nevertheless, we must continue to upgrade our technology infrastructure and core skills in order to maintain a competitive advantage.
- According to the Company's systems, approximately 304,000 registered users of our services were active in the four months to 31 May 2001. The number of unique users active in the month has grown by an average compound monthly growth rate of 24% in the year to 31 May 2001. These figures have neither been independently reviewed nor audited. It is our intention to commence external verification of usage statistics and external reporting thereon as soon as is practicable.
- We are one of only a few significant UK players in this space although our offering contains many differentiated features, including our requirement for each user to register a unique identity and password, enabling personalisation of services and offers, and our capability to enable those users to interact across different networks and technology platforms.
- The market for advertising on iTV is currently limited and has been adversely affected by the fall-off in banner advertising popularity and rates on the Internet. In the short term, sustainable revenue is more likely to be generated by pay-per-play games, subscription services and premium rate telephony services. In the medium to long term, however, advertising is likely to be a significant revenue stream delivered through an enhanced TV environment, as described below, and driving meaningful added value services to existing TV advertisers.
- Our success over the next twelve months will be strongly dependent on maintaining close working relationships with key

platform operators in order to ensure that new and enhanced products are fully supported and marketed, and that the rewards are shared.

- Our success in the longer term will be dependent on the continued success of our platform partners in extending their DTV roll-outs, our ability to continue to attract third party developers in creating new content for our interactive portal services and our success in migrating core elements of our functionality to enhanced TV applications (i.e. the delivery of interactive services such as chat, synchronised and displayed on-screen simultaneously with broadcast television programming).

We have worked with Cap Gemini Ernst & Young in developing a strategy for success based on these findings and, over the course of the past three months have achieved considerable success in executing the first legs of this strategy.

Strategic partners

As noted in my Chairman's statement, we have developed much closer working relationships with our existing key platform operator partners, encompassing carriage and joint marketing of new and existing products, including pay-per-play games and similar services. On 15 June 2001, we extended our contract with NTL formalising such a relationship. We are also in advanced discussions with the second major UK cable platform operator. Finally, we have signed new contracts with ONdigital and Kingston Communications, to extend our services to their respective terrestrial and ADSL based digital television platforms. These contracts were signed on 16 May 2001 and 26 January 2001 respectively.

We continue to provide interactive content for a number of US cable companies and for the Sega Dreamcast games console platform through arrangements with Worldgate Communications and Planetweb in the US. It is, however, our intention to concentrate our efforts in the burgeoning UK market over the balance of the year and we are pursuing further distribution and marketing arrangements with UK DTV platform operators. We are also in discussions with several European platform operators with a view to launching non-English language products in 2002.

Our partnership model is being extended to include third party content developers and technology vendors. Over the course of the year, we have worked with a leading developer of educational CD-ROMS, books and similar products, to create a range of "edutainment" content for launch on interactive TV. We expect to build many more similar partnerships focusing on the delivery of iTV entertainment content based on well-known brands and characters.

Product development and related revenue streams

While the company continues to operate a PC Internet service, it is clear that, based on corrected usage information, this represents a declining proportion of our total registered user base. We do not believe that a relatively small-scale entertainment website product can be profitable, because the demand for banner advertising has fallen, and creating content that can be charged for is difficult in the PC arena, which offers a glut of free services.

Chief Executive's Statement

continued

Accordingly, product development is focused on core entertainment and community properties which recent trends have indicated are commercially viable within the specialised DTV market and which can be monetised via a user payment model. We are moving rapidly to launch a suite of premium single and multi-player games on a cross-platform basis, which will sit within and alongside our existing LeisureDistrict service. A unified payment mechanism has been developed for this purpose, which will be complemented by integrated billing in conjunction with partners as their respective technologies allow.

In addition, our successful moderated chat products are in the process of being re-engineered as a segmented range of free and premium offerings providing a mixture of special interest "channels" with supporting user profile and instant messenger features. We will also shortly be launching a range of premium voice telephony and SMS products which range from simple novelty lines to sophisticated voice and mobile services, all fully integrated with our community functionality.

By concentrating on revenue streams which recent trends indicate are commercially viable in the wider DTV market and enhancing successful elements of our existing service to create new revenue-generating opportunities, we expect to minimise our exposure to fluctuations in the advertising market. Nevertheless, we believe that the advertising opportunities represented by interactive TV are substantial. Accordingly, we have formed a creative team capable of cost-effectively producing encapsulated interactive TV environments (known as "microsites") for advertisers. We have developed a means of targeting delivery for a range of ad formats across different platforms, providing an attractive mixture of reach, targeting and affordable production costs to advertisers. Later in the year, advertisers will be able to capture data provided by users within our microsites as a means of response-based advertising and market research.

It is vital that we fuse our content, community and advertising offerings and embed them as deeply as possible into the wider offerings of our platform partners. In so doing we will be well-prepared for the advent of enhanced TV services, combining interactive services such as those outlined above with ordinary television programmes. This will signal another dramatic wave of growth and change and represents a huge commercial opportunity.

Technology, people and processes

As noted in my Chairman's statement, the company has invested in its technology infrastructure in order to cater for growth, improve the breadth of our service and provide improved measurability for all interested parties.

We have recently completed a project with Cap Gemini Ernst & Young's UK technology team to lay the foundations for the continued development of our systems software in order to ensure that we can

maintain a scalable and flexible technology base in the support of new product development.

Our ability to capture, store and report on large quantities of usage data has been greatly enhanced. This will enable more complete logging of user activity on the service and, in conjunction with an ongoing effort to rationalise the company's software infrastructure, we expect this to enable external verification of several key performance metrics. It will also enable us to provide important information for advertisers and partners, including average user session durations, as well as other valuable management information. This work has already started and we are now in the process of evaluating providers of verification services in order to commence external reporting thereon as soon as is practicable.

A significant restructuring process has been undertaken with a view to strengthening the company's operational management layer and addressing certain skill gaps in relation to our strategy going forward. This restructuring has been carried out in concert with an internal business process re-engineering initiative. Although there has been little impact on the company's overall headcount, there has been a significant re-definition of functional grouping within the business and individual roles and responsibilities. This has improved internal communication and the effectiveness of the company's system of internal controls.

We recognise that the company's top-level management must be augmented and re-organised in order to meet the challenges ahead. This process is underway and announcements will be made in due course.

Conclusions

It has been a difficult period. After our flotation in March 2000, our shares were caught in the significant downturn that affected valuations in the technology sector. This downturn continued right through to the discovery of irregularities and consequent suspension of our shares.

Since that time, however, huge progress has been made in identifying the way forward for the company and in creating and executing a plan to realise this strategy. Alongside this, key organisational and technical infrastructure has been put in place. We now have a solid foundation from which to develop the business so as to capitalise on the opportunity represented by entertainment and community services deliverable through DTV in accordance with the strategy outlined above.

Frank Lewis
Acting Chief Executive
18 June 2001



Operating and financial review

for the year ended 31 December 2000

Operating results

The operating loss for the year was £2.8m. The majority of the loss reflects the costs of building up the infrastructure, recruitment and remuneration of management and staff, and premises costs.

Taxation

The company had no trading profit for the year and therefore no tax charge. The trading losses incurred are available for relief against future profits but this potential deferred tax asset has not been recognised in accordance with the company's policy.

Shareholder returns and dividends

The share price at IPO was £1.95. The share price at suspension was £1.075.

The directors do not recommend the payment of a dividend.

Balance Sheet

Shareholders' funds totalled £12.7m at the year end.

Creditors at 31 December were £1.1m, an increase of £0.8m.

Litigation

Action is being taken against Mr Steven Laitman for damages. Approximately £980,000 was received into the company's bank accounts (of which approximately £420,000 was received subsequent to the year end) and recorded as being received from sales agencies, when in fact it was received from bank accounts linked to Mr Laitman. This money remains within our cash balance and is recorded in the balance sheet as exceptional receipts pending the resolution of the action for damages.

Funding and cash flow

During the year, £1.9m was absorbed by operations.

The IPO raised £16.4m of new money for the company, of which £1.7m was absorbed by related expenses.

Cash balances at the year end were £12.6m. The current monthly cash burn rate (excluding exceptional expenditure) is approximately £200k.

Treasury

The company's policy with regard to cash balances is to monitor short and medium-term interest rates and to place cash on deposit for periods that optimise interest earned while maintaining access to sufficient funds to meet day to day cash requirements.



E A Abrams

Finance Director

18 June 2001

Directors' report

for the year ended 31 December 2000

The directors present their report and the audited financial statements for the year ended 31 December 2000.

Change of name

Prior to its listing in March 2000 on the Alternative Investment Market, the company registered as a plc and changed its name to e-district.net plc (formerly SyNet Communications Limited).

Principal activity

The principal activity of the company is the ownership, development and operation of LeisureDistrict. LeisureDistrict is an interactive family entertainment channel, accessible via either personal computer or interactive television.

Review of business and future developments

A review of the business, its results and future direction is included in the Chairman's statement on page 1, the Chief Executive's report on page 3 and the financial review on page 5.

Results and dividends

The profit and loss account for the year is set out on page 13.

The directors do not recommend the payment of a dividend.

Purchase of own shares

On 7 March 2000, the company purchased 4,553,316 deferred shares of 10p each for £1 (see note 16).

Directors and their interests

The directors who held office during the year are given below:

Executive directors

F Lewis
E A Abrams (appointed 4 February 2000)
S D Laitman

On 28 February 2001 Mr S Laitman was dismissed as a director of the company.

Non-executive directors

B Fairman
R J B Blake (appointed 15 February 2000),
senior independent director

The interests of directors in the shares of the company at 31 December 2000 are disclosed in the report of the Remuneration Committee on pages 9 and 10.

Corporate governance

Details of corporate governance and the company's voluntary compliance with the Combined Code are given on pages 7 and 8.

Substantial shareholdings

At both 31 May 2001 and 19 February 2001, the day on which the shares were suspended, the company had been notified of the following shareholders, who are interested directly or indirectly, in 3 per cent or more of the issued share capital of the company:

	Number of ordinary 10p shares	Percentage of issued ordinary share capital
Clearsearch Limited*	25,277,300	32.9%
Foresight Technology VCT PLC	14,245,954	18.6%
S D Laitman	8,474,100	11.0%
Swiftventure Limited**	8,329,100	10.9%
F Lewis	4,237,050	5.5%
Stanlife Nominees Limited	3,791,000	4.9%

No other person has notified an interest in the ordinary shares of the company required to be notified to the company.

* Shares held on trust for a number of beneficiaries including S D Laitman.

** Shares held on trust for a number of beneficiaries including F Lewis.

Charitable and political contributions

The company made no political or charitable contributions during the year.

Creditor payment policy

Payment of suppliers is made on the basis of mutually agreed terms and conditions which are established in advance of purchase. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services, without exception. The company's average creditor payment period at 31 December 2000 was 16 days (1999: 89 days).

Employment policy

Employees of the company are regularly consulted by management and kept informed of matters affecting them and the overall development of the company. The company's policy is to provide, wherever possible, employment opportunities and training for disabled people, to care for employees who become disabled and to make the best possible use of their skills and potential.

Post balance sheet events

Details of post balance sheet events are set out in the Chairman's statement on page 1. The company has been informed of an investigation by solicitors, on behalf of certain specified shareholders, concerning the possibility of claims being made in relation to the financial irregularities set out in the Chairman's statement. The extent of any claim, which might arise and be successful, is unknown.

Auditors

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

By order of the Board



E A Abrams
Director
18 June 2001

Introduction

The Board of directors is accountable to the company's shareholders for good corporate governance and the directors support the Combined Code published in June 1998. However, being an AIM listed small company with limited resources, and although not required to, the directors have decided to voluntarily move towards full compliance with the Code over a reasonable period of time. In accordance with the Code, this section is split into two parts. The first part sets out how the company has applied the principles and the second part deals with compliance with the provisions of the Code during the accounting period.

PRINCIPLES OF THE COMBINED CODE

Board of directors

Board meetings are scheduled to take place at least monthly, with additional meetings to review and approve significant transactions. Last year, 14 meetings were held. There is a company document which describes the matters which are reserved for the Board and all members of the Board have access to this document. The main items reserved for the Board include business acquisitions and disposals, funding requirements, major capital expenditure and reviewing the financial results. In addition, approval of the annual budget and the quarterly update of forecasts is reviewed by the main Board.

If required, the directors are entitled to take independent advice and if the Board is informed in advance, the cost of the advice will be reimbursed by the company.

The company Secretary's services are available to all members of the Board. The appointment and removal of the company Secretary is a decision for the Board as a whole.

At the year end, the Board comprised the executive Chairman, the Chief Executive, two non-executive directors and one other executive director. Both non-executive directors are independent of management. However, one non-executive director is associated with a major shareholder. As described in the Chairman's statement, since the year end the Chief Executive Officer has been dismissed and the Chairman has taken on that role temporarily. The company does not intend to combine the role of Chairman and Chief Executive.

Non-executive directors are appointed on a contract with a three-month notice period and the executive directors are appointed on contracts with a six-month notice period. All directors are subject to re-election. Each year, one-third of the directors are subject to re-election.

The Board is provided with extensive Board papers, usually the week before each Board meeting.

The Remuneration Committee, the report of which is on pages 9 and 10, is composed of the two non-executive directors. It is responsible for the terms and conditions and remuneration of the executive directors and senior management. The Remuneration Committee may consult external agencies when ascertaining market salaries. The chairman of the Remuneration Committee will be available at the AGM to answer any shareholder questions.

The company has established an Audit Committee comprising the two

non-executive directors. The intention is for the committee to meet at least twice a year. It will monitor the effectiveness of the Group's controls and will provide the opportunity for the external auditors to communicate directly with the non-executive directors. The Audit Committee will also keep under review the level of non-audit services provided by PricewaterhouseCoopers.

Relations with shareholders

The company gives high priority to its communication with shareholders by means of an active investor relations programme. This is achieved through correspondence and the availability of extensive corporate information. In addition, the company visits its main institutional investors on an ongoing basis and makes available its interim and annual reports from the company's head office or via the Financial Times Annual Report Service. At the AGM, the shareholders will be given the opportunity to question the members of the Board. All Board members will be available to answer questions at the AGM. The notice of the AGM will be sent to shareholders at least 20 working days before the meeting.

Internal controls

The Board of directors acknowledges its responsibility for the company system of internal control, including suitable monitoring procedures and for reviewing its effectiveness. There are inherent limitations in any system of internal control and accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to material mis-statement or loss. The system is designed to manage rather than eliminate business risk.

The Board undertook in November and December 2000 an initial risk assessment designed to identify and evaluate the key risks affecting the business. This forms the basis of an ongoing process of review and management of the risks affecting the business.

The company control environment is the responsibility of the company directors and managers at all levels. The company organisational structure has clear lines of responsibility. Operating and financial responsibility is delegated to the operational management, including key risk assessment. Investment policy, acquisition and disposal proposals and major capital expenditure are authorised and monitored by the Board.

The company operates a comprehensive budgeting and financial reporting system and as a matter of routine, compares actual results with budgets, which are approved by the Board of directors. Management accounts are prepared on a monthly basis. Material variances from budget are thoroughly investigated. In addition, updated forecasts are prepared, at least quarterly, to reflect actual performance and the revised outlook for the year.

The Board considered the usefulness of establishing an internal audit function and decided in view of the size of the company it was not cost-effective to establish. This will be kept under review.

However, as set out in the Chairman's statement, a serious overriding of the operation of the internal controls occurred because of collusion in respect of the overstatement of registered users, page impressions and revenues. As soon as this overriding was identified, the Board requested a suspension of its quotation on AIM. Consequently the

Board appointed a specialist forensic accounting team from PricewaterhouseCoopers to investigate these irregularities.

The Board has taken action on those involved in the collusion. It has also been working with PricewaterhouseCoopers to review in detail the operation of its system of internal controls, both financial and other and has strengthened its controls in this area. This review was in process at the time in February the matters raised above were identified. The directors' review continues to the date of this report and is in accordance with the Turnbull guidance.

The Board is determined that, especially in the light of the matters referred to above, e-district fully implements the recommendations of the Turnbull report in the shortest possible time.

PROVISIONS OF THE COMBINED CODE

The company believes it has complied with the provisions of the Combined Code throughout the year ended 31 December 2000, apart from those mentioned below.

Training of directors

It is the intention of the Board to pass a resolution that directors are entitled to receive appropriate training at the company's cost, of up to £10,000.

Senior independent non-executive director

The senior independent non-executive director was not in place for the whole of the year. Richard Blake was appointed on 15 February 2000.

Nomination committee

The Nomination Committee comprises all the Board members, so therefore a majority of members is not non-executive.

Review of effectiveness of internal controls

The Board undertook a review of the effectiveness of internal controls. It carried out this review by, firstly, undertaking an initial risk assessment in November and December 2000. Following the initial review, the final risk assessment and the related review of the effectiveness of internal controls were being undertaken when the events referred to in the Chairman's statement came to light in February 2001. The review was temporarily halted until the investigation into the events was complete. Therefore the review of internal controls was not fully complete at the year end but has now been completed.

The Board proposes to update this risk review on a regular basis.

Audit committee

The Audit Committee was appointed on 15 February 2000. The Audit Committee did not formally meet during the year, although the Chairman did meet with the auditors to discuss the detailed planning of the audit of these financial statements. An Audit Committee meeting was scheduled for 26 February 2001 to discuss progress on the audit of these financial statements, but was postponed in view of the events described in the Chairman's statement. The Audit Committee does not have a majority of independent non-executive directors.

The Remuneration committee

The Committee does not consist exclusively of independent non-executive directors.

Non-executive directors

Only one of the two non-executive directors is independent.

OTHER MATTERS

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company has been informed of an investigation by solicitors, on behalf of certain specified shareholders, concerning the possibility of claims being made in relation to events referred to on page 1 of the Chairman's statement. The extent of any claims, which might arise and be successful, is unknown. The Financial statements have been prepared on a going concern basis, the validity of which depends upon the lack of any significant and successful litigation against the company which might arise in respect of the matters referred to above, the outcome of which remains uncertain.

Statement of directors' responsibilities

company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period. In preparing those financial statements, 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 financial statements.

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

As explained in the Chairman's statement, the company's internal financial controls and accounting systems were not fully effective throughout the financial year and the prior period. However, subsequent to the accounting date, a comprehensive investigation of revenues and costs and year end balances has been carried out and appropriate adjustments have been made to correct the underlying accounting records from which these financial statements have been prepared.

As a result of the matter referred to above, proper accounting records were not maintained at all times throughout the financial year and the prior period.

By order of the Board

F Lewis

Director

18 June 2001



Report of the Remuneration Committee

The Remuneration Committee consists of the non-executive directors, Bernard Fairman and Richard Blake.

The Remuneration Committee recommends to the Board the remuneration policy that applies to executive directors and senior management. The Remuneration Committee meets as necessary in order to consider and set the annual remuneration for executive directors, having regard to personal performance and industry remuneration rates. In determining that policy, it considers a number of factors including:

- (a) the basic salaries and benefits available to executive directors of comparable companies;
- (b) the need to attract and retain directors of an appropriate calibre;
- (c) the need to ensure executive directors' commitment to the success of the company.

Non-executive directors are appointed on a contract with a three-month notice period and may be awarded fees in relation to the Board and committee meetings attended. Any fees awarded to non-executive directors are determined by the Board. Non-executive directors do not participate in the company's share option schemes.

Executive directors are appointed on contracts with a six-month notice period.

Directors' remuneration

The following table summarises the remuneration receivable by the directors for the year to 31 December 2000.

	Salary, fees and bonuses £	Sums paid to a third party, for director's services £	2000 Total £	1999 Total £
Executive				
S D Laitman	121,887	—	121,887	50,000
F Lewis	121,260	—	121,260	40,000
E A Abrams	98,209	—	98,209	—
Non-executive				
B Fairman	—	14,167	14,167	7,664
R J B Blake	12,500	—	12,500	—
	353,856	14,167	368,023	97,664

Directors' interests

The interests of the directors at 31 December 2000 in the shares of the company were as follows:

	Number of ordinary shares of 10p each	
	2000	1999
S D Laitman	33,751,400 ¹	100
F Lewis	12,566,150 ²	50
E A Abrams	—	—
B Fairman	8,974 ³	—
R J B Blake	5,128	—

¹ Of this total, 25,277,300 ordinary shares are held by Clearsearch Limited on trust for a number of beneficiaries, including S D Laitman.

² Of this total, 8,329,100 ordinary shares are held by Swiftventure Limited on trust for a number of beneficiaries, including F Lewis.

³ These shares are held through a pension fund for the benefit of B Fairman.

Report of the Remuneration Committee

continued

Under the terms of the Unapproved Executive Share Option Scheme, the directors at 31 December 2000 have an interest in options over ordinary shares of 10p each of the company, as follows:

	Number of options			31 December 2000	Exercise price	Date from which exercisable	Expiry Date
	1 January 2000	Granted in the year	Exercised in the year				
S D Laitman	-	-	-	-	-	-	-
F Lewis	-	-	-	-	-	-	-
E A Abrams	-	1,043,400	-	1,043,400	10p	1/4/2001	28/1/2010
B Fairman	-	-	-	-	-	-	-
R J B Blake	-	-	-	-	-	-	-

Share options granted to E A Abrams noted above reflect the bonus issues on 26 January 2000 and 28 February 2000 (see note 16). No directors' share options lapsed during the year.

The market price of the company's shares at the end of the financial year was £1.04 and the range of the market prices during the period since the IPO was between £0.59 and £2.00.

On behalf of the Board



B Fairman

Chairman of the Remuneration Committee

18 June 2001

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, the Chief Executive's statement, the operating and financial review, the directors' report, the corporate governance statement and the report of the remuneration committee.

We also, at the request of the directors (because the company applies the Financial Services Authority Listing Rules as if it is a fully listed company on the London Stock Exchange), review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified by the Financial Services Authority for review by the auditors of listed companies, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or to form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Potential claims and going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning potential claims against the company and the going concern basis of preparation. The company has been notified of an investigation by solicitors, being undertaken on behalf of certain specified shareholders, concerning the possibility of claims being made. The extent of any claims, which might arise and be successful, is unknown. The financial statements have been prepared on a going concern basis, the validity of which depends on the lack of any significant, and successful, litigation against the company which might arise in respect of the matters referred to above and in the Chairman's statement, the outcome of which remains uncertain. In view of the significance of these uncertainties we consider that they should be brought to your attention but our opinion is not qualified in this respect.

Exceptional receipts

In forming our opinion we have considered the adequacy of the disclosure in Note 13 to the financial statements regarding exceptional receipts. During the year £417,398 (period ended 31 December 1999: £140,828) of the monies received by the company's bankers and originally recorded in the company's records as being received from sales agencies was in fact received from bank accounts linked to Mr S Laitman. Subsequent to the year end a further £422,389 was similarly received. Due to the uncertainty regarding the terms of these receipts and the circumstances in which they were received by the company, these receipts, in the year and the previous year, have been recorded under creditors - amounts falling due in under one year as exceptional receipts, pending the outcome of any related legal action. Should it ultimately be determined that these amounts are the property of the company they would be credited to the company's profit and loss account. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Auditors' report to the members of e-district.net plc

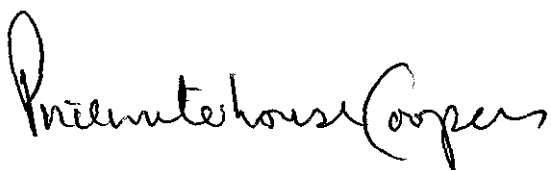
continued

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2000 and of the loss and cash flows of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

As explained in the Chairman's statement on page 1, the company's internal financial controls and accounting systems were not fully effective throughout the financial year and the prior period. However, subsequent to the balance sheet date, a comprehensive investigation of revenues and costs and of year end balances has been carried out, including obtaining evidence directly from third parties, and in our opinion appropriate adjustments have been made to correct the underlying accounting records from which financial statements have been prepared on which we are able to form our opinion.

As a result of the matter referred to above, in our opinion proper accounting records were not adequately kept at all times throughout the financial year and the prior period so as to comply in all respects with section 221 of the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Reading

18 June 2001

Profit and loss account

for the year ended 31 December 2000

	Note	Year ended 31 December 2000 £	17 months ended 31 December 1999 (restated) £
Turnover	2	39,703	96,938
Cost of sales		(252,979)	(116,564)
Gross loss		(213,276)	(19,626)
Operating expenses	3	(2,626,130)	(368,276)
Operating loss	4	(2,839,406)	(387,902)
Interest receivable	7	646,553	4,305
Loss on ordinary activities before taxation		(2,192,853)	(383,597)
Tax on loss on ordinary activities	8	-	-
Loss for the financial year	17	(2,192,853)	(383,597)
Loss per 10p share			
- basic and diluted	9	(2.9p)	(0.9p)

The results for the periods above are derived entirely from continuing operations.

There is no difference between the loss on ordinary activities before taxation and the loss for the periods stated above and their historical cost equivalents.

Statement of total recognised gains and losses

	Note	Year ended 31 December 2000 £	17 months ended 31 December 1999 £
For the year ended 31 December			
Loss for the period		(2,192,853)	(383,597)
Total recognised loss for the period		(2,192,853)	(383,597)
Prior year adjustments	1, 17	(444,656)	-
Total losses recognised since last annual report		(2,637,509)	(383,597)

Balance sheet

as at 31 December 2000

	Note	2000 £	1999 (restated) £
Fixed assets			
Intangible assets	10	33,829	62,818
Tangible assets	11	828,472	94,916
		862,301	157,734
Current assets			
Debtors	12	440,713	49,580
Cash at bank and in hand		12,598,041	89,884
		13,038,754	139,464
Creditors – Amounts falling due within one year	13	(1,062,253)	(224,300)
Net current assets/(liabilities)		11,976,501	(84,836)
Total assets less current liabilities		12,838,802	72,898
Provisions for liabilities and charges	15	(94,016)	–
Net assets		12,744,786	72,898
Capital and reserves			
Called up share capital	16	7,675,807	86
Share premium account	17	7,033,171	456,409
Capital redemption reserve	17	455,331	–
Profit and loss account	17	(2,419,523)	(383,597)
Equity shareholders' funds	19	12,744,786	72,898

The financial statements on pages 13 to 25 were approved by the Board of directors on 18 June 2001 and were signed on its behalf by:

F Lewis
Chairman



E A Abrams
Finance Director



Cash flow statement

for the year ended 31 December 2000

	Note	Year ended 31 December 2000 £	17 months ended 31 December 1999 (restated) £
Net cash outflow from operating activities	21	(1,868,265)	(168,947)
Returns on investments and servicing of finance			
Interest received		617,774	4,305
Net cash inflow from returns on investments and servicing of finance		617,774	4,305
Taxation		(20,682)	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(914,440)	(15,047)
Net cash outflow from capital expenditure and financial investment		(914,440)	(15,047)
Acquisitions			
Purchase of assets and trade		-	(200,966)
Net cash outflow for acquisitions		-	(200,966)
Net cash outflow before management of liquid resources and financing		(2,185,613)	(380,655)
Management of liquid resources			
Increase in short-term deposits with banks	23	(12,474,309)	-
Financing			
Issue of ordinary share capital		16,446,547	500,056
Expenses of share issue		(1,738,733)	(43,561)
Repayment of loan		(14,044)	-
New loan		-	14,044
Net cash inflow from financing		14,693,770	470,539
Increase in cash in the year	22	33,848	89,884

Notes to the financial statements

for the year ended 31 December 2000

1 PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. A summary of the more important accounting policies is set out below.

Restatement of comparatives

As described in the Chairman's statement, on 19 February 2001, the company issued a statement that it had reason to believe that the numbers for registered users, page impressions and revenues had been substantially overstated.

The company has undertaken a full investigation, together with its external advisers, which has identified evidence of collusion within the company connected with the overstatement of registered users and page impressions. The investigations have established that revenues were overstated by altering the company's internal monthly reports which showed the level of business conducted with the company's sales agencies. In addition, supporting documentation, both written and electronic, had been fabricated or altered.

Furthermore, a substantial majority of the monies received by the company's bankers and recorded in the company's records as being received from sales agencies was in fact received from bank accounts linked to Mr S Laitman with fabricated supporting documentation indicating that such receipts were from sales agencies.

The investigations show that the reported numbers for revenues have been substantially overstated. The revenues reported in the financial statements for the 17 months ended 31 December 1999 were £781,571. Based on the information received from the sales agencies, these revenues were in fact only £96,938. Accordingly the profit and loss account for the period ended 31 December 1999 and the balance sheet at that date have been restated to reflect the correction of these overstatements.

Additionally the comparative information in respect of cost of sales has been restated. Commissions on the revised turnover of £96,938 amount to £29,128.

The comparative figures for trade debtors, accrued income and creditors have been restated to reflect the reduced revenue level.

Cash received from Mr S Laitman has been recorded as exceptional receipts on the balance sheet (see note 13).

	As originally disclosed 1999 £	As restated 1999 £
Turnover	781,571	96,938
Cost of sales	(336,541)	(116,564)
Gross profit/(loss)	445,030	(19,626)
Tax on profit on ordinary activities	(20,000)	—
Profit/(loss) for the financial year	61,059	(383,597)
Trade debtors	11,064	42,110
Accrued income	371,007	—
Creditors (excluding exceptional receipts)	113,980	83,472
Exceptional receipts	—	140,828
Corporation tax	14,375	—
Deferred tax provision	5,625	—

The comparatives are for the 17-month period from 4 August 1998 (date of incorporation) to 31 December 1999. Active trading commenced on 1 March 1999.

Going concern

The company has been notified of an investigation by solicitors, being undertaken on behalf of certain specified shareholders, concerning the possibility of claims being made in relation to the events set out in page 1 of the Chairman's statement. The extent of any claims, which might arise and be successful, is unknown. The financial statements have been prepared on a going concern basis the validity of which depends on the lack of any significant, and successful, litigation against the company which might arise in respect of the matters referred to above, the outcome of which remains uncertain.

Notes to the financial statements

for the year ended 31 December 2000

Goodwill

Goodwill arises on the excess of the consideration over the fair value of the identifiable assets acquired. Goodwill is eliminated by amortisation through the profit and loss account over its useful economic life.

Tangible fixed assets

The cost of fixed assets is their purchase cost together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose, are:

Computer equipment	33%
Office equipment	33%
Fixtures and fittings	33%
Short leasehold improvements	20%

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Turnover

Turnover, which excludes value added tax, comprises mainly advertising revenues which were generated under several agency arrangements. Revenue is recognised in the period in which the advertisement is displayed on the basis of impressions or clicks delivered, as appropriate, at the agreed rate. Turnover is stated either gross or net of related agency commissions depending on the commercial substance of each underlying agency agreement.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Such foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Operating leases

Costs in respect of operating leases are charged to the profit and loss on a straight line basis over the lease term.

Development expenditure

Development expenditure is written off as incurred to the profit and loss.

Financial instruments

The company's financial instruments comprise cash and liquid resources together with debtors and creditors that arise directly from its operations.

The company does not enter into derivative or hedging transactions. It has been, throughout the period under review, the company policy that no trading in financial instruments shall be undertaken. The company does not have any committed borrowing facilities, because the cash balances held are adequate to fund its current activities. The company places the majority of its cash on short-term deposit. The company's objective is to minimise the risk of loss to the company by limiting the company's credit exposure to quality institutions maintaining a very high credit rating. The main risks arising from the company financial instruments are interest rate risks. Numerical disclosures relating to this risk are given in note 14 to the financial statements.

The company's policy in relation to interest rate risk is to monitor short and medium-term interest rates and to place cash on deposit for periods that optimise the amount of interest earned while maintaining access to sufficient funds to meet day to day cash requirements.

Movements in the exchange rates can affect the company's sterling balance sheet. The magnitude of this risk is not currently significant to the company and therefore no specific measures are currently undertaken to manage the risk.

Related party disclosures

FRS 8 'Related Party Disclosures' requires the disclosure of the details of material transactions between the reporting entity and any related parties. These are set out in Note 24.

Share options issued to employees

Under Urgent Issues Task Force Abstract 17 (UITF 17), the company is required to recognise as a charge to the profit and loss account the amount by which the fair market value of any share options issued to employees exceeds their respective exercise prices at the date of grant. These costs are

Notes to the financial statements

for the year ended 31 December 2000 – continued

recognised over the vesting period. The charge is notional in that there is no underlying cash flow or other financial liability associated with the charge, nor does it give rise to a reduction in assets or shareholders' funds. In addition there is no impact on distributable profits.

As a result of the grant of share options under unapproved schemes since 6 April 1999, the company will be obliged to pay National Insurance contributions on the difference between the market value of the underlying shares and their exercise price when the options are exercised.

The liability is calculated on the difference between the exercise price and the market value at the date the options are exercised. The liability is recalculated by reference to the market value at each balance sheet date and the charge is recognised over the performance period.

2 SEGMENTAL REPORTING

The company's turnover and loss on ordinary activities before taxation are derived entirely from its principal activity which arose mainly in the United Kingdom.

As set out in note 1 above the company's turnover and loss on ordinary activities for the 17 months ended 31 December 1999 have been restated. The restated amounts are derived entirely from its principal activity which arose mainly in the United Kingdom.

3 OPERATING EXPENSES

	Year ended 31 December 2000 £	17 months ended 31 December 1999 £
Sales and marketing expenses	368,557	14,639
Platform and development costs	391,167	116,754
Other administrative expenses before provision for NIC and UITF 17 charge on share options	1,615,462	236,883
Provision for NIC on share options	94,016	–
UITF 17 charge	156,928	–
Total administrative expenses	2,257,573	353,637
Total operating expenses	2,626,130	368,276

4 OPERATING LOSS

	Year ended 31 December 2000 £	17 months ended 31 December 1999 £
Operating loss is stated after charging		
Wages and salaries	1,054,416	184,036
Social security costs (including NIC on share options)	207,026	17,677
Staff costs	1,261,442	201,713
Depreciation of tangible fixed assets		
– owned assets	180,884	34,121
Amortisation of goodwill	28,989	24,158
Auditors' remuneration – audit services	55,000	3,000
– non-audit services (see also below)	101,613	15,000
Operating lease charges – other	123,460	15,136

Additionally in 2000, £399,044 of fees paid to PricewaterhouseCoopers are included within expenses of share issue, which has been charged to the share premium account.

Notes to the financial statements

for the year ended 31 December 2000 – continued

5 DIRECTORS' EMOLUMENTS

	Year ended 31 December 2000 £	17 months ended 31 December 1999 £
Aggregate emoluments	353,856	90,000
Sums paid to third parties for directors' services	14,167	7,664

No retirement benefits are accruing to any directors.

Emoluments payable to the highest paid director are as follows:

	Year ended 31 December 2000 £	17 months ended 31 December 1999 £
Aggregate emoluments	121,887	50,000

6 EMPLOYEE INFORMATION

The average monthly number of persons (including executive directors) employed by the company during the year was:

By activity	Year ended 31 December 2000 Number	17 months ended 31 December 1999 Number
Office and management	13	2
Platform and development	9	3
Sales and marketing	4	1
	26	6

7 INTEREST RECEIVABLE

	Year ended 31 December 2000 £	17 months ended 31 December 1999 £
Bank interest receivable	646,553	4,305

8 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no taxation charge in the year (period ended 31 December 1999: £nil). The company has unutilised tax losses of approximately £2,645,000 (period ended 31 December 1999: £355,000), which have yet to be agreed by the local tax authorities, available to be carried forward against future trading profits.

9 LOSS PER SHARE

The basic loss per share has been calculated by dividing the net loss for the year by the weighted average number of 76,056,035 shares in issue during the year (period ended 31 December 1999: 43,517,966, as restated for the bonus issues). The company had no dilutive potential ordinary shares in any of the periods, and therefore there is no difference between the loss per ordinary share and the diluted loss per ordinary share.

Notes to the financial statements

for the year ended 31 December 2000 – continued

10 INTANGIBLE ASSETS

	Goodwill £
Cost	
At 1 January 2000 and 31 December 2000	86,976
Accumulated amortisation	
At 1 January 2000	24,158
Charge for the year	28,989
At 31 December 2000	53,147
Net book amount	
At 31 December 2000	33,829
At 31 December 1999	62,818

Goodwill is eliminated by amortisation through the profit and loss account over its useful economic life, which the directors consider to be 3 years.

11 TANGIBLE FIXED ASSETS

	Short leasehold improvements £	Computer equipment £	Office equipment £	Fixtures & fittings £	Total £
Cost					
At 1 January 2000	–	87,408	31,539	10,090	129,037
Additions	11,552	250,622	254,369	397,897	914,440
At 31 December 2000	11,552	338,030	285,908	407,987	1,043,477
Depreciation					
At 1 January 2000	–	24,010	7,329	2,782	34,121
Charge for the year	1,155	77,040	51,239	51,450	180,884
At 31 December 2000	1,155	101,050	58,568	54,232	215,005
Net book value					
At 31 December 2000	10,397	236,980	227,340	353,755	828,472
Net book value					
At 31 December 1999	–	63,398	24,210	7,308	94,916

12 DEBTORS

	2000 £	1999 (restated) £
Amounts falling due within one year		
Trade debtors	22,951	42,110
Other debtors	327,439	1,200
Prepayments	69,641	6,270
Corporation tax recoverable	20,682	–
	440,713	49,580

Notes to the financial statements

for the year ended 31 December 2000 – continued

13 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 (restated) £
Trade creditors	86,817	67,012
Other taxation and social security	49,494	(906)
Other creditors	51,608	14,366
Accruals and deferred income	316,108	3,000
Exceptional receipts	558,226	140,828
	1,062,253	224,300

Included in other creditors at 31 December 1999 was a loan debt of £14,044, which was repaid during the year.

Exceptional receipts

A substantial proportion of the monies received by the company's bankers and recorded in the company's records as being received from sales agencies was in fact received from bank accounts linked to Mr S Laitman. These receipts have been recorded as exceptional receipts pending the outcome of any related legal action.

14 FINANCIAL INSTRUMENTS

Details of the company's objectives with respect to financial instruments are given in note 1 to the financial statements. There have been no significant changes in these objectives from the prior year and before the approval of the financial statements. The numerical disclosures in this note deal with the financial assets and liabilities defined in FRS13 as financial instruments.

Short-term debtors and creditors

Short-term debtors and creditors (other than the rent deposit) have been excluded from the disclosures. In the opinion of the directors, they contain no material financial risks for the company. There are no creditors due after more than one year.

Interest rate risk profile of financial assets

	Floating rate £	2000 Fixed rate £	Total £	Floating rate £	1999 Fixed rate £	Total £
Sterling	5,329,044	7,400,000	12,729,044	87,859	–	87,859
US dollars	3,828	–	3,828	2,025	–	2,025
	5,332,872	7,400,000	12,732,872	89,884	–	89,884
Of which:						
Cash at bank and in hand	123,732	–	123,732	89,884	–	89,884
Short-term deposits	5,074,309	7,400,000	12,474,309	–	–	–
Other debtors (rent deposit)	134,831	–	134,831	–	–	–
	5,332,872	7,400,000	12,732,872	89,884	–	89,884

Floating rate cash and rent deposits earn interest at prevailing bank rates.

Floating rate short-term deposits earn interest at 10 basis points below the prevailing bank rate.

The fixed rate short-term deposits in sterling are placed with banks for periods of up to two weeks. Contracts in place at 31 December 2000 had a weighted average annualised rate of interest of 5.43% (31 December 1999: nil) and weighted average period for which the rate is fixed is 14 days (31 December 1999: nil).

The directors are of the opinion that there is negligible exchange rate risk.

Notes to the financial statements

for the year ended 31 December 2000 – continued

Fair value

The directors consider that the fair values of the financial instruments of e-district.net plc are not materially different from their book value.

15 PROVISION FOR LIABILITIES AND CHARGES

	Employers National Insurance on share options £
At 1 January 2000	–
Transfer from profit and loss account	94,016
At 31 December 2000	94,016

Employers National Insurance on share options

On exercise of share options issued after 5 April 1999, under an unapproved executive option scheme, the company is required to pay National Insurance on the difference between the exercise price and market value at the exercise date of the shares issued. The company will become unconditionally liable to pay the National Insurance upon exercise of the options, which are exercisable over a period of 10 years from date of grant. The company therefore makes a provision following the grant of options as opposed to on vesting or on exercise. The amount of National Insurance payable will depend on the number of employees who remain with the company and exercise their options, the market price of the company's ordinary shares at the time of exercise and the prevailing National Insurance rates at that time.

The provision of £94,016 included in these financial statements has been calculated based upon the share price of £1.04 at the year end with reference to the total current number of options at 31 December 2000 which have been granted since 5 April 1999 and have not since lapsed.

The share price at the date the shares were suspended was £1.075.

Deferred taxation

The deferred tax asset which has not been recognised is:

	2000 £	1999 (restated) £
Accelerated capital allowances	78,233	3,499
Losses	(529,096)	(71,044)
Other	(2,000)	–
	(452,863)	(67,545)

16 CALLED UP SHARE CAPITAL

	2000 £	1999 £
Authorised		
100,000,000 ordinary shares of 10p each	10,000,000	–
3,000 'A' ordinary shares of 10p each	–	300
5,500 'B' ordinary shares of 10p each	–	550
1,500 'C' ordinary shares of 10p each	–	150
	10,000,000	1,000
Allotted, called up and fully paid		
76,758,071 ordinary shares of 10p each	7,675,807	–
300 'A' ordinary shares of 10p each	–	30
550 'B' ordinary shares of 10p each	–	55
10 'C' ordinary shares of 10p each	–	1
	7,675,807	86

Notes to the financial statements

for the year ended 31 December 2000 – continued

16 CALLED UP SHARE CAPITAL continued

On 26 January 2000 the Shareholders agreed to an increase in the authorised share capital from £1,000 to £601,000, consisting of 1,803,000 A ordinary 10p shares and 4,207,000 B ordinary 10p shares. On the same date, the C ordinary shares issued in March 1999 were redesignated as B ordinary shares. On 26 January 2000, the company applied part of the share premium account in issuing 516,000 fully paid bonus shares (with a total nominal value of £51,600) on the basis of 600 A or B ordinary shares for each existing A or B ordinary share held.

On 28 February 2000, the authorised share capital of the company was increased from £601,000 to £10,455,331 by the creation of 25,242,000 A ordinary shares, 47,118,400 B ordinary shares and 26,182,916 new ordinary shares. On the same date 4,553,316 A ordinary shares were converted into deferred shares at 10p each. The company applied part of the share premium account in issuing 72,360,400 fully paid bonus shares (with a total nominal value of £7,236,040) on the basis of 140 new A ordinary shares and B ordinary shares for each existing A or B ordinary share held, conditionally upon admission becoming effective on 7 March 2001.

On 7 March 2000, all remaining issued A and B ordinary shares were converted into ordinary shares of 10p each and the company bought the 4,553,316 deferred shares for a total of £1 out of distributable profits as reflected in the relevant financial statements at the time. On the same date, the company issued 8,434,127 ordinary shares of 10p each at £1.95 per share raising cash proceeds of £16,446,547 before expenses.

17 RESERVES

	Capital redemption reserve £	Share premium account £	Profit and loss account £
At 1 January 2000 (as previously reported)	–	456,409	61,059
Prior year adjustment	–	–	(444,656)
At 1 January 2000 (as restated)	–	456,409	(383,597)
Repurchase of deferred shares	455,331	–	(1)
Premium arising on issues of shares	–	15,603,135	–
Issue of bonus shares, fully paid	–	(7,287,640)	–
Expenses of share issue	–	(1,738,733)	–
UITF 17 charge	–	–	156,928
Loss for the financial year	–	–	(2,192,853)
At 31 December 2000	455,331	7,033,171	(2,419,523)

As referred to in the Chairman's statement, significant irregularities were discovered after the year end. Accordingly, the opening balance sheet has been restated to correct the effect of the irregularities. Revenue and cost of sales have been reduced by £684,633 and £219,977 respectively, together with a reduction of £20,000 in the related tax charge.

18 SHARE OPTIONS

The company has an approved and an unapproved executive option scheme. The unapproved executive option scheme relates to options granted to certain directors and senior management. The approved option scheme is an Inland Revenue approved scheme available to eligible directors and employees. The total number of options outstanding over ordinary shares of 10p each that had been granted at 31 December 2000 were as follows:

Number of shares	Exercise price	Grant date	Date from which exercisable	Expiry date
1,239,390 ¹	10p	28 January 2000	1 April 2001	28 January 2010
170,836 ²	68p	20 June 2000	20 June 2003	20 June 2010

¹ Of these options, over 195,990 ordinary shares of 10p at an exercise price of 10p each lapsed in February 2001 as a result of an employee leaving the company.

² Of these options, over 21,507 ordinary shares of 10p at an exercise price of 68p each lapsed in February 2001 as a result of an employee leaving the company.

Notes to the financial statements

for the year ended 31 December 2000 – continued

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £	1999 (restated) £
Loss for the year	(2,192,853)	(383,597)
Proceeds of ordinary shares issued	16,446,547	456,495
Expenses of share issue	(1,738,733)	–
UITF 17 charge	156,928	–
Repurchase of deferred shares	(1)	–
Net addition to shareholders' funds	12,671,888	72,898
Opening shareholders' funds (as restated)	72,898	–
Closing shareholders' funds	12,744,786	72,898

20 FINANCIAL COMMITMENTS

At 31 December 2000, the company had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings 2000 £	Land and buildings 1999 £
Within one year	–	6,966
Within two to five years	139,000	–
	139,000	6,966

21 CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating loss to net cash outflow from operating activities:

	Year ended 31 December 2000 £	17 months ended 31 December 1999 (restated) £
Continuing operations		
Operating loss	(2,839,406)	(387,902)
Depreciation charge	180,884	34,121
Amortisation of goodwill	28,989	24,158
UITF 17 charge	156,928	–
UITF 25 provision for National Insurance on share options	94,016	–
Increase in debtors	(341,672)	(49,580)
Increase in creditors	851,996	210,256
Net cash outflow from continuing operations	(1,868,265)	(168,947)

Notes to the financial statements

for the year ended 31 December 2000 – continued

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Year ended 31 December 2000 £	17 months ended 31 December 1999 £
Increase in cash in the period	33,848	89,884
Movement in deposits	12,474,309	–
Borrowings	14,044	(14,044)
Movement in net funds in the period	12,522,201	75,840
Net funds at beginning of the year	75,840	–
Net funds at end of the period	12,598,041	75,840

23 ANALYSIS OF NET FUNDS

	At 1 Jan 2000 £	Cash flow £	At 31 Dec 2000 £
Cash in hand and at bank	89,884	33,848	123,732
Loan debt due within 1 year	(14,044)	14,044	–
Liquid resources	–	12,474,309	12,474,309
Total	75,840	12,522,201	12,598,041

Liquid resources comprise short-term deposits with banks.

24 RELATED PARTY TRANSACTIONS

Sums paid to third parties for directors' services, as disclosed in note 5, include £14,167 in respect of amounts paid to VCF partners, advisers to Foresight Technology VCT PLC, a major shareholder, for the services of B Fairman.

S D Laitman and F Lewis, who served during the year as directors, and their relatives are amongst the beneficiaries of Clearsearch Limited and Swiftventure Limited, respectively, which held 25,277,300 and 8,329,100 ordinary shares of 10p each, respectively, on trust, in the company at 31 December 2000.

25 POST BALANCE SHEET EVENTS

Details of post balance sheet events are set out within the directors' report which refers to the Chairman's statement on page 1.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of e-district.net plc will be held at Hendon Hall Hotel, Ashley Lane, Hendon, London NW4 1HF on 25 July 2001 at 10.30am for the following purposes:

1. To receive and consider the financial statements for the year ended 31 December 2000, together with the reports of the directors and auditors thereon.
2. To re-appoint the director retiring by rotation, Frank Lewis, who being eligible, is offering himself for re-election.
3. To re-appoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration.
4. To transact any other ordinary business of the company.

By order of the Board

E A Abrams
Secretary

Registered office:
Hillgate House
26 Old Bailey
London EC4M 7HW

18 June 2001

Notes:

1. A member entitled to attend and vote at this meeting is entitled to appoint a proxy or proxies to attend and vote instead of him. A proxy need not be a member of the company. Proxy forms must be lodged with the Registrars not later than 48 hours before the time fixed for the meeting.
2. Copies of all directors' service contracts are available for inspection during business hours at the offices of the company's solicitors, Denton Wilde Sapte and on the day of the Annual General Meeting at Hendon Hall Hotel from 10.30am until the conclusion of the meeting.
3. Frank Lewis who is due to retire by rotation has offered himself for re-election.