

altodigital Networks Limited

Financial Statements

For the period ended

31 March 2003

Company No: 4436279

altodigital Networks Limited

Financial Statements

For the period ended 31 March 2003

Company Registration Number: 4436279

Registered Office: Universal House
294 - 304 St James' Road
London
SE1 5JX

Directors: J H Abrahart
J B G Tarrant

Secretary: J B G Tarrant

Bankers: National Westminster Bank plc
London

Solicitors: DLA
London

Auditors: Grant Thornton
Registered Auditors
Chartered Accountants
Central Milton Keynes

altodigital Networks Limited

Financial Statements

For the period ended 31 March 2003

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altodigital Networks Limited

Report of the Directors

The directors present their report together with financial statements for the period ended 31 March 2003.

Principal activities

The principal activities of the group are the provision of imaging products, network and internet infrastructure solutions. The company acts as a holding company.

Business review

The company was incorporated on 13 May 2002 as DWSCO 2298 Limited and changed its name on 21 August 2002.

On 20 August 2002 the company purchased various altodigital companies from the receiver of altodigital Limited. Details of the transaction are set out in note 20. These accounts reflect the results of the trade from that date to 31 March 2003.

The Group loss after taxation for the period to 31 March 2003 was £4,263,804, after charging a goodwill impairment provision of £4,195,010.

The Directors consider that the results for the period are satisfactory given the financing difficulties encountered over the last two years and are delighted that the final restructuring has been successful and has protected creditors and employees providing the group with a sound platform for growth. Current results are ahead of expectations following several major account wins and the Directors are confident that significant progress will be made in the current financial year.

On the 10 September 2003 the directors successfully completed a refinancing of the Group. The refinancing involved the capitalisation of £5,476,000 of loans and will be reflected in the 2004 financial statements in accordance with the provisions of United Kingdom accounting practice. The directors have however included an unaudited pro-forma balance sheet as if the refinancing had been completed on 31 March 2003 to assist the reader of the financial statements in understanding the effect of the refinancing.

The directors would like to thank the banks and their major suppliers for their support and the group's employees for their continuing loyalty and positive attitude.

Directors

The directors in office at the end of the period are set out below.

The interests of the directors in the shares of the company at 31 March 2003 were as follows:

	Number of shares			
	31 March 2003			
	Ordinary	'A' Ordinary	'B' Ordinary	'C' Ordinary
J H Abrahart	250	Nil	Nil	270
J B G Tarrant	Nil	Nil	Nil	Nil

J H Abrahart and J B G Tarrant were appointed as directors on 23 July 2002. DWS Directors Limited, the first director, resigned on 23 July 2002.

On 12 March 2003 an option to purchase 240 'A' Ordinary shares and 30 'B' Ordinary shares from the current shareholders was assigned to J H Abrahart. This option was exercised on 10 September 2003.

altodigital Networks Limited

Report of the Directors (continued)

Directors' responsibilities for the financial statements

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employee involvement

The group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group. This is achieved through consultations with employees and the group newsletter.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the group may continue.

It is the policy of the group that training, career development and promotion opportunities should be available to all employees.

Auditors

Grant Thornton offer themselves for re-appointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



J B G Tarrant
Secretary

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
ALTODIGITAL NETWORKS LIMITED**



We have audited the financial statements of altodigital Networks Limited for the period ended 31 March 2003 which comprise the statement of accounting policies, the principal accounting policies, the consolidated profit and loss account, consolidated statutory balance sheet, company statutory balance sheet, consolidated cash flow statement and notes 1 to 23. We have not audited the proforma information included within the balance sheets. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable law and United Kingdom 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.

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 regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2003 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'Grant Thornton', written over the printed name.

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Central Milton Keynes

28 January 2004

altodigital Networks Limited

Principal Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. They have been prepared on a going concern basis, notwithstanding the deficiency of net assets, for the reasons set out in note 1.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings except those held temporarily (see note 9) drawn up to 31 March 2003. The results of subsidiary undertakings acquired during the period are included from the date of acquisition. Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life of 20 years.

Goodwill is reviewed for impairment to the extent that the net carrying value is not recoverable.

Turnover

Turnover is the total amount receivable by the group for goods supplied and for services provided, net of VAT and trade discounts.

Depreciation

Depreciation is calculated to write down the cost of all fixed assets, with the exception of freehold property, by equal annual instalments over their expected useful lives.

The rates generally applicable are:

Freehold property	2% straight line
Motor vehicles	25% straight line
Other equipment	10 - 33 1/3% straight line

Stock

Stock is stated at the lower of cost and net realisable value.

Investments

Investments are included at cost less any amounts written off.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

altodigital Networks Limited

Principal Accounting Policies (continued)

Contributions to pension funds

Defined contribution schemes

The pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

Leases

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

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

Amounts receivable under finance leases (excluding income attributable to future periods) are included in debtors. Income from finance leases has been calculated to give a constant periodic rate of return on the net cash investment in the lease in each period.

All other leases are regarded as operating leases and the total payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

altodigital Networks Limited

Consolidated Profit and Loss Account

For the period ended 31 March 2003

	Note	Before goodwill amortisation and exceptional items £	Goodwill amortisation and exceptional items (Note 2) £	Total £
Turnover	2	14,037,563	-	14,037,563
Cost of sales		(6,995,317)	-	(6,995,317)
Gross profit		7,042,246	-	7,042,246
Administrative expenses		(6,793,077)	(4,576,405)	(11,369,482)
Other income	2	425,000	-	425,000
Operating loss	2	674,169	(4,576,405)	(3,902,236)
Net interest	3			(361,568)
Loss on ordinary activities before taxation				(4,263,804)
Tax on ordinary activities	5			-
Loss for the financial year, deducted from reserves	6			(4,263,804)

All of the activities during the period related to acquired operations, and relate to the period from 20 August 2002 to 31 March 2003.

There were no recognised gains or losses other than the loss for the financial period.

altodigital Networks Limited
Consolidated Balance Sheet at 31 March 2003

	Note	£	Statutory £	£	Unaudited Proforma £
Fixed assets					
Intangible assets	7		8,500,000		8,500,000
Tangible assets	8		296,444		296,444
Investments	9		151,288		151,288
			<u>8,947,732</u>		<u>8,947,732</u>
Current assets					
Stocks	10	1,694,579		1,694,579	
Debtors	11	3,848,065		3,848,065	
Cash at bank and in hand		7,330		7,330	
		<u>5,549,974</u>		<u>5,549,974</u>	
Creditors: amounts falling due within one year	12	(9,267,706)		(9,027,672)	
Net current (liabilities)/assets			<u>(3,717,732)</u>		<u>(3,477,698)</u>
Total assets less current liabilities			<u>5,230,000</u>		<u>5,470,034</u>
Creditors: amounts falling due after more than one year	13		(9,493,677)		(4,361,177)
			<u>(4,263,677)</u>		<u>1,108,857</u>
Capital and reserves					
Called up share capital	15		127		1,027
Share premium account	15		-		5,371,634
Profit and loss account			(4,263,804)		(4,263,804)
Shareholders' funds - equity	16		<u>(4,263,677)</u>		<u>1,108,857</u>

The unaudited proforma information above should be read in conjunction with Note 1 to the financial statements.

These financial statements were approved by the Board on 16 January 2004.


J B G Tarrant

Director

The accompanying accounting policies and notes form an integral part of these financial statements.

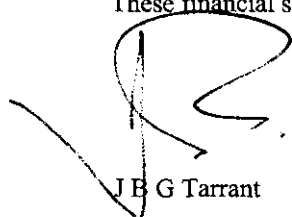
altodigital Networks Limited

Company Balance Sheet at 31 March 2003

	Note	£	2003 £	£	Unaudited Proforma £
Fixed assets					
Tangible assets	8		-		-
Investments	9		7,011,746		7,011,746
			<u>7,011,746</u>		<u>7,011,746</u>
Current assets					
Debtors	11	726,871		726,871	
		<u>726,871</u>		<u>726,871</u>	
Creditors: amounts falling due within one year	12	(2,360,588)		(2,120,554)	
Net current (liabilities)/assets			<u>(1,633,717)</u>		<u>(1,393,683)</u>
Total assets less current liabilities			<u>5,378,029</u>		<u>5,618,063</u>
Creditors: amounts falling due after more than one year	13		(9,487,500)		(4,355,000)
			<u>(4,109,471)</u>		<u>1,263,063</u>
Capital and reserves					
Called up share capital	15		127		1,027
Share premium account	15		-		5,371,634
Profit and loss account			(4,109,598)		(4,109,598)
Shareholders' funds	16		<u>(4,109,471)</u>		<u>1,263,063</u>

The unaudited proforma information should be read in conjunction with Note 1 to the financial statements.

These financial statements were approved by the Board on 16 January 2004.



J B G Tarrant

Director

The accompanying accounting policies and notes form an integral part of these financial statements.

altodigital Networks Limited

Consolidated Cashflow Statement

For the period ended 31 March 2003

	Note	£	£
Net cash inflow from operating activities	17		1,959,775
Returns on investments and servicing of finance			
Interest paid		(362,834)	
Interest received		1,266	
Net cash outflow from returns on investments and servicing of finance			(361,568)
Taxation paid			-
Capital expenditure			
Purchase of tangible fixed assets		(130,036)	
Sale of tangible fixed assets		92,572	
Net cash outflow from capital expenditure			(37,464)
Acquisition and disposals			
Purchase of subsidiary undertakings	20	(12,071,681)	
Net cash outflow from acquisitions and disposals			(12,071,681)
Net cash outflow before financing			(10,510,938)
Financing			
Issue of shares		127	
Capital element of finance lease rentals		(13,705)	
Loan advances		9,637,500	
Net cash (outflow)/inflow from financing			9,623,922
(Decrease)/increase in cash	18		(887,016)

The accompanying accounting policies and notes form an integral part of these financial statements.

altodigital Networks Limited

Notes to the Financial Statements

For the period ended 31 March 2003

1 Basis of preparation of financial statements on a going concern basis and including post balance sheet events

The initial acquisition of the altodigital group of companies on 20 August 2003, as detailed in note 20, was financed primarily by bank loans. Subsequent to the acquisition it became apparent that the level of trading profitability would not support the initial goodwill attributed to the acquisition nor the level of debt taken on. An impairment review was undertaken in respect of the goodwill, resulting in an impairment provision of £4,195,010 being charged to profit in the period ended 31 March 2003.

Following the year end the company commenced discussions with the providers of finance to renegotiate those finances.

The group had a long term loan from its bankers of £9,287,500, at 31 March 2003, due for repayment in bi-annual instalments to 30 April 2009. On 10 September 2003 the group completed negotiations to amend and restate their credit agreement with their bankers and enter into new financing arrangements with J H Abrahart, a director of the company.

The amendment and restatement of the original credit agreement involved the issue of 20,700 'B' Ordinary shares of £0.01 each, in satisfaction of a debt in the amount of £245,000 and the issue of 22,500 'A' Ordinary shares of £0.01 each, in satisfaction of a debt in the amount of £5,231,000.

The amount in excess of the nominal value of the shares has been credited to the share premium account. The amendment and restatement of the original credit agreements is referred to in more detail in note 14.

As part of the refinancing a number of shares held by the providers of finance were transferred to J H Abrahart. J H Abrahart also subscribed for 46,800 shares giving him a majority shareholding in the company on completion of the refinancing. As part of the refinancing of the company J H Abrahart has extended a loan to the company of £500,000.

Under the terms of United Kingdom accounting practice, whilst the goodwill impairment is charged to the profit and loss account for the period ended 31 March 2003, the effects of the refinancing will be included within the 31 March 2004 financial statements. Because the directors believe the transactions are important to a reader's understanding of the 2003 financial statements, unaudited proforma balance sheets are included within the 2003 financial statements as if the refinancing was completed on 31 March 2003.

The directors believe that sufficient funds are available to the group and therefore consider it appropriate to prepare the financial statements on the going concern basis.

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

2 Turnover and operating loss

The turnover and operating loss are attributable to the provision of reprographic, network and infrastructure solutions.

Loss on ordinary activities is stated after charging:

	2003 £
Auditors' remuneration	
- audit services	40,000
- non audit services	30,000
Operating leases	
- other operating leases	464,752
Depreciation	148,807

Included within cost of investment additions are fees paid to the group's auditors for non-audit services of £57,000.

Other operating income represents a management charge of £425,000 to altohiway Limited

Goodwill and exceptional costs are as follows:

	2003 £
Goodwill amortisation	381,985
Goodwill impairment	4,195,010
	<u>4,576,405</u>

3 Net interest

	2003 £
Interest payable on bank loans and overdrafts	360,745
Finance charges in respect of finance leases and hire purchase contracts	1,564
Other interest payable	525
	<u>362,834</u>
Interest receivable	(1,266)
	<u>361,568</u>

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

4 Directors and employees

Staff costs during the period amounted to:

	£
Wages and salaries	4,161,800
Social security costs	475,022
Other pension costs	22,545
	<u>4,659,367</u>

The average number of employees of the group during the period was as follows:

	Number
Sales	103
Service	159
Administration	54
	<u>316</u>

Remuneration in respect of directors was as follows:

	£
Aggregate emoluments	<u>93,100</u>

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

5 Tax on loss on ordinary activities

No current or deferred tax charge arises on the results for the period.

The tax assessed for the period is different to the standard rate of corporation tax in the UK. The differences are explained as follows:

	2003 £
Loss on ordinary activities before tax	<u>(4,263,804)</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(1,279,141)
Effect of:	
Expenses not deductible for tax purposes	18,368
Goodwill amortisation and impairment not allowable	1,372,922
Capital allowances for the period in excess of depreciation	(13,932)
Group relief	(54,366)
Losses brought forward	<u>(43,851)</u>
Current tax charge for period	<u>-</u>

The group has a potential unrecognised deferred tax asset of £600,000 in respect of trading losses and accelerated capital allowances.

6 Loss for the financial period

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The company loss for the period was £4,109,598.

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

7 Intangible fixed assets

The group	Purchased goodwill £
Cost	
Additions	13,076,405
At 31 March 2003	13,076,405
Amortisation	
Provided in the period	381,395
Impairment write down	4,195,010
At 31 March 2003	4,576,405
Net book amount at 31 March 2003	8,500,000

In calculating the impairment loss during the period, the group has used a discount rate of 10%.

8 Tangible fixed assets

The group	Leasehold Improvements £	Motor vehicles £	Other equipment £	Total £
Cost				
On acquisition	27,731	38,922	341,134	407,787
Additions	-	3,500	126,536	130,036
Disposals	-	(11,462)	-	(11,462)
Transfers to altohiway Limited	-	-	(95,000)	(95,000)
At 31 March 2003	27,731	30,960	372,670	431,361
Depreciation				
Provided in the period	3,690	18,279	126,838	148,807
Transfers to altohiway Limited	-	-	(13,890)	(13,890)
At 31 March 2003	3,690	18,279	112,948	134,917
Net book amount at 31 March 2003	24,041	12,681	259,722	296,444

Fixed assets held under finance leases are as follows:

	Other equipment £
Depreciation charge in period	4,971
Net book amount at 31 March 2003	Nil

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

8 Tangible fixed assets (continued)**The company**

	Plant & Machinery £
Cost	
Additions	95,000
Transfers to altohiway Limited	(95,000)
	<hr/>
At 31 March 2003	-
	<hr/>
Depreciation	
Charge for the period	13,890
Transfers to altohiway Limited	(13,890)
	<hr/>
At 31 March 2003	-
	<hr/>
Net book amount at 31 March 2003	<hr/> <hr/>

9 Fixed asset investments**The group**

	Shares in group undertaking £
Cost	
Additions	151,288
	<hr/>
At 31 March 2003	151,288
	<hr/> <hr/>

The company

	Shares in group undertakings £
Cost	
Additions	10,769,964
	<hr/>
At 31 March 2003	10,769,964
	<hr/>
Amortisation	
Impairment write down	3,758,218
	<hr/>
At 31 March 2003	3,758,218
	<hr/>
Net book amount at 31 March 2003	<hr/> <hr/>

In calculating the impairment loss during the period the group has used a discount rate of 10%.

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

9 Fixed asset investment (continued)

At 31 March 2003 the company had the following trading subsidiary undertakings:

	Nature of business	Proportion held
altodigital UK Limited	Reprographics	100%
altodigital Home Counties Limited	Reprographics	100%
Reprographic Leasing Limited *	Leasing	100%
altooffice.com Limited	Office Supplies	100%
altohiway Limited	Internet Solutions	100%

* held by subsidiary undertaking

All companies are registered in England and Wales.

All subsidiaries have been consolidated in the group financial statements other than altohiway Limited which has been treated as an investment on the grounds that control was held temporarily and a controlling interest has been sold since the year end.

The profit for the year ended 31 March 2003 after taxation of altohiway Limited was £22,993. Share capital and reserves at 31 March 2003 amounted to £(287,240) deficit.

10 Stocks

	The group £
Consumables	461,905
Goods for resale	1,232,674
	<u>1,694,579</u>

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

11 Debtors

	The group £	The company £
Amounts due within one year		
Trade debtors	3,144,617	-
Amounts owed by subsidiary undertakings	2,990	664,232
Investment in finance leases	34,657	-
Other debtors	203,657	25,127
Prepayments and accrued income	459,535	37,512
	<u>3,845,996</u>	<u>726,871</u>
Amounts falling due after more than one year		
Investment in finance leases	2,609	-
	<u>3,848,065</u>	<u>726,871</u>

12 Creditors: amounts falling due within one year

	The group £	The company £
Bank and other loans	150,000	150,000
Bank overdrafts	894,346	1,112,424
Trade creditors	4,333,753	-
Amounts due to subsidiary undertakings	431,237	369,312
Social security and other taxes	1,963,108	129,483
Current taxation	2,592	-
Other creditors	328,645	302,461
Accruals and deferred income	1,155,789	296,908
Amounts due under finance leases	8,236	-
	<u>9,267,706</u>	<u>2,360,588</u>

13 Creditors: amounts falling due after more than one year

	The group £	The company £
Bank and other loans	9,487,500	9,487,500
Amounts due under finance leases	6,177	-
	<u>9,493,677</u>	<u>9,487,500</u>

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2003

14 Borrowings

Borrowings are repayable as follows:

	The group £	The company £
Within one year		
Bank loans and overdrafts	894,346	1,112,424
Other borrowings	150,000	150,000
Finance leases	8,236	-
After one and within two years		
Bank loan	600,000	600,000
Other borrowings	180,000	180,000
Finance leases	6,177	-
After two and within five years		
Bank loan	4,200,000	4,200,000
Other borrowings	20,000	20,000
Finance leases	-	-
After five years		
Bank loan	4,487,500	4,487,500
	<u>10,546,259</u>	<u>10,749,924</u>

The terms of the loans are as follows:

	Amount £	Terms
Bank term loan	8,887,500	Repayable by equal bi-annual instalments of £600,000 from 1 November 2004 to 1 November 2008 inclusive, followed by a final payment of £3,487,500 on 30 April 2009. Interest accrues on a daily basis at a rate per annum of 2.5% over base rate.
Other Bank loan	400,000	Repayable in full on 30 April 2009. Interest accruing on a daily basis at a rate per annum of 2.5% over base rate from the date on which the Bank term loan reduces below £7 million
Other loans	350,000	Repayable by instalments of £10,000 per month for six months followed by instalments of £15,000 until fully repaid

The bank loans and overdrafts are secured by a fixed and floating charge over the assets of the group, and on assigned keyman insurance policies in respect of executive directors and four other key employees. Other loans are unsecured. Finance leases are secured on the assets to which they relate.

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the year ended 31 March 2003

14 Borrowings (continued)

The unaudited proforma borrowings shown in the unaudited balance sheet are repayable as follows:

	<i>The group</i> £	<i>The company</i> £
<i>Within one year</i>		
<i>Bank loans and overdrafts</i>	654,780	768,924
<i>Other borrowings</i>	150,000	150,000
<i>Finance leases</i>	8,236	-
<i>After one and within two years</i>		
<i>Bank loan</i>	208,857	208,857
<i>Other borrowings</i>	280,000	280,000
<i>Finance leases</i>	6,177	-
<i>After two and within five years</i>		
<i>Bank loan</i>	1,931,928	1,931,928
<i>Other borrowings</i>	420,000	420,000
<i>After five years</i>		
<i>Bank loan</i>	1,514,215	1,514,215
	<u>5,174,193</u>	<u>5,273,924</u>

The terms of the loans are as follows:

	<i>Amount</i> £	<i>Terms</i>
<i>Bank term loan</i>	3,656,500	<i>Repayable in equal bi-annual instalments from 31 October 2004 to 30 April 2009. Bi-annual instalments falling due in greater than 5 years are £450,000, £700,000 and £300,000 repayable respectively on 30 April 2008, 31 October 2008 and 30 April 2009. Interest accrues on a daily basis at a rate per annum of 2.5% over base rate.</i>
<i>Other Bank loan</i>	155,000	<i>Repayable in bi-annual instalments from 31 October 2004 to 30 April 2009. Bi-annual instalments falling due in greater than 5 years are £19,930, £31,000 and £13,285 repayable respectively. Interest accrues on a daily basis at a rate per annum of 2.5% over base rate.</i>
<i>Director's loan</i>	500,000	<i>Repayable in bi-annual instalments. Interest accrues on a daily basis at a rate per annum of 2.5% over base rate.</i>
<i>Other loans</i>	350,000	<i>Repayable by instalments of £10,000 per month for six months followed by installment of £15,000 until fully repaid.</i>

The bank loans and overdrafts and the directors loan are secured by a fixed and floating charge over the assets of the group, and on assigned keyman insurance policies in respect of executive directors and four other key employees. Other loans are unsecured. Finance leases are secured on the assets to which they relate.

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

15 Share capital

	Authorised 2003 £	Allotted, called up and fully paid 2003 £
250 Ordinary shares of 10p each	25	25
490 'A' Ordinary shares of 10p each	49	49
260 'B' Ordinary shares of 10p each	26	26
270 'C' Ordinary shares of 10p each	27	27
	<u>127</u>	<u>127</u>

Ordinary shares

The Ordinary shares, the 'A' Ordinary shares and the 'B' Ordinary shares are equity shares which carry entitlement to a dividend as recommended by the Board and carry the same rights and privileges and rank pari passu in all respects, but they shall constitute separate classes of shares. The holders of 'A' Ordinary shares, 'B' Ordinary shares and the Ordinary shares are entitled to receive notice of, attend and vote at general meetings of the company.

The 'C' Ordinary shares do not entitle the holders to participate in the profits or assets of the company nor do they give the holder entitlement to receive notice or vote at any general meeting of the company.

Allotments

The company made an allotment of 1 Ordinary share at £1 per share on incorporation. A further 470 'A' Ordinary shares, 260 'B' Ordinary shares, 240 Ordinary shares and 270 'C' Ordinary shares were allotted at £0.10 per share on 20 August 2002 following a sub-division of the existing authorised share capital on the same date.

Post balance sheet event and proforma balance sheet

Following a further sub-division on 10 September 2003, the company made an allotment of 22,500 'A' Ordinary shares of £0.01 each, 20,700 'B' Ordinary shares of £0.01 and 46,800 Ordinary shares of £0.01 each at £232.48, £11.80 and par respectively on the same date.

The difference between the total consideration of £5,476,468 and the total nominal value of £900, equalling £5,475,568, will be credited to the share premium account in the year ended 31 March 2004. Related costs of £103,934 will be debited to the share premium account in the year ended 31 March 2004.

16 Reconciliation of movements in shareholders' funds

	The group 2003 £	The company 2003 £
(Loss) for the financial period	(4,263,804)	(4,109,598)
Issue of shares	<u>127</u>	<u>127</u>
Net decrease in shareholders' funds and shareholders' funds at 31 March 2003	<u>(4,263,677)</u>	<u>(4,109,471)</u>

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

17 Net cash inflow from operating activities

	2003 £
Operating loss	(3,902,236)
Depreciation, amortisation and impairment loss	4,725,212
Change in stocks	367,955
Change in debtors	477,613
Change in creditors	291,231
Net cash inflow from operating activities	<u>1,959,775</u>

18 Reconciliation of net cashflow to movement in net debt

	2003 £
Increase/(decrease) in cash in the period	(887,016)
Cash inflow from financing	(9,637,500)
Cash outflow from finance leases	13,705
Change in net debt resulting from cash flows	(10,510,811)
Net (debt) on acquisitions	(1,329,834)
Included in cash cost of acquisition	1,301,716
Net debt at 31 March 2003	<u>(10,538,929)</u>

19 Analysis of changes in net debt

	On acquisition £	Included in cash cost of acquisition £	Cash flow £	At 31 March 2003 £
Cash at bank and in hand	947,397	(947,397)	7,330	7,330
Bank overdraft	(2,249,113)	2,249,113	(894,346)	(894,346)
	(1,301,716)	1,301,716	(887,016)	(887,016)
Debt	-	-	(9,637,500)	(9,637,500)
Finance leases	(28,118)	-	13,705	(14,413)
Net funds/(debt)	<u>(1,329,834)</u>	<u>1,301,716</u>	<u>(10,510,811)</u>	<u>(10,538,929)</u>

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

20 Acquisitions

On 20 August 2002 the company acquired various subsidiary undertakings of the altodigital group that were involved in reprographics and related businesses.

The total consideration for the subsidiaries and certain other non trading subsidiaries acquired at the same time including related costs was £10,618,677.

Goodwill arising on the acquisition of these subsidiary undertakings of £13,076,405 has been capitalised.

The summarised profit and loss accounts of the companies acquired is as follows:

	Year to 31 March 2002 £	Period to 20 August 2002 £
Turnover	27,870,038	9,264,070
Normal operating profit/(loss)	200,234	(25,526)
Exceptional items	(1,211,042)	(1,555,332)
Interest	(22,613)	(2,204)
Profit before tax	(1,033,421)	(1,583,062)
Taxation	(8,585)	-
Profit after tax	(1,042,006)	(1,583,062)

The net assets acquired are as follows:

	Book and fair values
Fixed assets	
Tangible	407,787
Intangible	-
Current assets	
Stock	2,062,534
Debtors	4,325,678
Bank and cash	947,397
Creditors	
Trade and other creditors	(7,923,893)
Bank overdrafts	(2,249,113)
Finance leases	(28,118)
Net assets	(2,457,728)
Goodwill on acquisitions	13,076,405
Consideration (satisfied by cash)	10,618,677

altodigital Networks Limited

Notes to the Financial Statements (continued)

For the period ended 31 March 2003

20 Acquisitions (continued)

In addition on 20 August 2002 the company purchased altohiway Limited for a net cost of £151,288 settled by cash.

The cash outflow in respect of acquisitions was

	£
Cost of acquisition of altodigital reprographics business	10,618,677
Cost of acquisition of altohiway Limited	151,288
Net cash acquired	(947,397)
Bank overdrafts acquired	2,249,113
	<u>12,071,681</u>

All acquisitions with the exception of altohiway Limited have been accounted for by the acquisition method of accounting. Altohiway Limited has been treated as an investment on the grounds that a controlling interest has been sold since the year end.

21 Pensions

Defined contribution schemes

The group operates several defined contribution pension schemes for the benefit of certain employees. The assets of the schemes are administered by trustees in funds independent from those of the group.

22 Leasing commitments

The group has commitments to make operating lease payments in the next year as follows:

The group	Land and buildings £	Other £
On leases expiring:		
Within one year	21,750	70,270
In two to five years	292,030	106,146
	<u>313,780</u>	<u>176,416</u>

23 Related party transactions

A subsidiary company rents premises at 294-304 St. James's Road, London from a business partly owned by J H Abrahart as a director of the company. Rent paid during the period was £50,750.