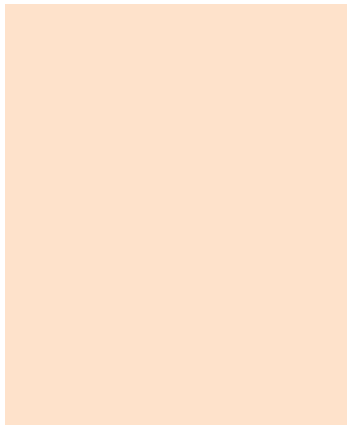


 **QXLricardo**

Europe's online auctionplace  
Annual report 2003



**Continuing growth  
in transactions**



**Helping to bring  
people together**



**Building a solid  
platform for  
future growth**



**Continuing to  
drive down costs**



**Developing strategic  
marketing partnerships**



**Leading the way  
with robust technology**



**Creating outstanding  
customer service**



**Continuously looking at ways  
to improve the product**



# 2%

Increase in gross profit to £5.0m

# 59%

Decrease in trading loss to £10.3m

# 49%

Reduction in operating expenses to £15.2m (before goodwill and exceptional items)

# 53%

Reduction in loss on ordinary activities to £18.7m

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## Chairman's statement

### Continued progress

The past year has seen the Group make continued progress towards profitability in an uncertain economic environment. Cash burn and operating losses have continued to reduce dramatically as we have finalised the restructuring of our technology operations and other overheads. Country operations have begun to turn profitable.

Once again our employees have been our main strength. They have risen to the challenges of the past year and their commitment has enabled us to grow the business at the same time as restructuring it. The cornerstone of our culture is our local approach – combined with an entrepreneurial spirit, this allows us to operate a lean and efficient network of operations, which leverages central resources and skills. I would like to thank all our employees for the tremendous dedication and enthusiasm they continue to show towards our business.

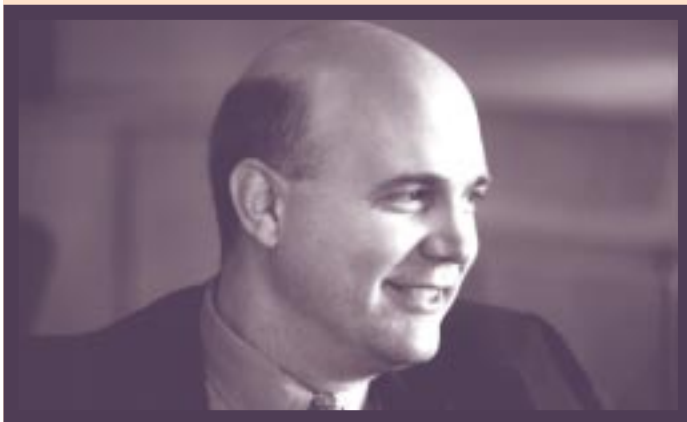
### Improvements in trading results

This year we have made substantial progress towards profitability. A number of countries have now achieved local operating profitability and overall we reduced our loss on ordinary activities by 53%. At the same time, we have seen growth in a number of our key operating metrics – the number of transactions during the year increased by 53% despite the deconsolidation of the results of QXL Poland Sp z.o.o., one of our most important operations, in the last quarter.

### Poland

Progress in recent months has been made significantly harder by the fraudulent third party claim to ownership of 92% of our Polish subsidiary. The Company is aggressively pursuing those responsible through the civil and criminal authorities in Poland. Despite some notable successes, we have not yet succeeded in recovering operational control. We recognise that the outcome of any litigation is uncertain and that proceedings are likely to be protracted in any event.

**Jonathan Bulkeley**  
Chairman



### **Board and corporate governance**

I would like to take this opportunity to thank Jan Gesmar-Larsen who left the board in June 2003, for his contribution to the development of the Company during the year.

There have been a number of developments in corporate governance regulation and best practice during the past year in the UK and elsewhere. We have reviewed the composition and operation of the board in the light of these developments. We will seek to do as much as we can to comply with best practice in this area provided that this does not hinder our progress towards profitability or create an unwieldy management structure.

### **Share price and stock market listings**

In the context of another difficult year in the stock market generally, our own share price continued to suffer. However, the directors have remained focused on increasing long-term shareholder value through continued efforts to move the business towards an operating profit.

As part of this process, we have delisted from the Frankfurt Amtlicher Handel and the Nasdaq National Market. The delisting from Frankfurt was completed at the end of November 2002 and the delisting from Nasdaq on 31 March 2003. The Nasdaq delisting was facilitated by a 1-for-1,000 share consolidation which also enabled us to deregister from SEC reporting requirements and avoid the costs of complying with the new corporate governance provisions of the US Sarbanes-Oxley Act. This will save us significant management time going forward as well as enabling us to achieve significantly lower insurance and compliance costs.

I would like to thank Mark Zaleski and the management team for continuing to drive the business forward through a difficult year. Subject to our ability to meet our short-term cash projections, we remain cautiously optimistic about the prospects for the business for the coming year.

### **Jonathan Bulkeley**

Chairman

**The past year has seen the Group make continued progress towards profitability in an uncertain economic environment.**

## Chief Executive Officer's review

### Business performance

The last 12 months have been both challenging and rewarding and I am pleased to report that we have continued to make significant progress across the business. During the year we have consolidated our position as the leading player in several European markets, improved our customer offering and restructured our technology operations. Our sales and marketing and other operating costs have been substantially reduced to meet the needs of a fundamentally different business. Above all, we are progressing towards profitability, using our resources more effectively than ever before to achieve more gross profit with far less cost.

A number of countries, notably Switzerland, Denmark and Norway have achieved local operating profitability and most other country operations are now close to profitability. We have continued to see progress in a number of key operating metrics – the number of transactions completed across our sites grew 53% year-on-year and gross profit increased 2% (even after the exclusion of the results of our Polish subsidiary for the last quarter). At the same time, we have made huge progress in reducing our cost base with a 49% reduction in operating expenses year-on-year, helping to contribute to a 59% reduction in our trading loss, all excluding exceptional items and goodwill. With continued growth expected and some

further benefits of our cost reduction programme yet to flow through, we are cautiously optimistic about the prospects for the business for the coming year.

### Aucland acquisition

In July 2002, we acquired the business of Aucland, an online auction business operating in France, Spain and Italy. The acquisition was driven by the belief that we needed to strengthen our position in these markets as well as the desire to obtain access to Aucland's sophisticated auction technology and user interface. The business was ultimately acquired for nominal consideration and its technology has since played a pivotal role in our technology restructuring.

Another result of the Aucland acquisition is that we now operate in France and Spain under the Aucland brand, while choosing to retain the QXL brand in Italy.

### Site and community development

At the start of the financial year we took the decision to consolidate our technology operations further, combining the best features of the various technology platforms within the Group to make the consumer experience faster and more intuitive. We have recently completed the migration of most of our sites to this enhanced platform resulting in a faster, more streamlined customer experience, an improved billing engine and a significant reduction in technology costs for the Group.

**During the year we have consolidated our position as the leading player in several European markets, improved our customer offering and restructured our technology operations.**

New features available to our trading community include a simpler to use 'Superlister' for those sellers listing multiple auctions, the ability to promote auctions by sending people directly to a seller's own Personal Auction Pages, a message board for each individual auction, 'Wanted Lists' for buyers and a reward system for members for recommending their friends.

The improved platform also allows us greater flexibility on fee programmes. We have introduced listing fees to more countries partly at the request of our communities, to ensure greater visibility for sellers with quality products that sell.

Our Swiss site now operates in French as well as German, helping to extend our customer base there.

Our philosophy has always been to put control in the hands of our community. With the successful migration of more countries to our improved platform, our members now have more tools at their disposal to trade more successfully. Our enhanced site also provides a higher degree of safety and security with a new member vetting procedure.

We believe our improved, safer auction experience will encourage members to refer friends as will our programme rewarding members for doing so. This will also improve our return on our marketing

spend as we continue to target new members and build on our leadership position in several countries across Europe.

As with any change of this significance, it will take some time for our communities to get used to the enhanced site and features. We expect trading levels to be impacted in the short term while members become accustomed to the changes. Over time however, we are convinced that the improvements they see in their buying and selling experiences will stimulate strong transactional revenue growth.

### **Marketing initiatives**

We have continued to make great progress in optimising our marketing spend in the past year. Overall, sales and marketing expenses decreased by 52% from £16.0 million to £7.6 million as we dropped or revised marketing relationships which gave us a poor return and invested instead in those which delivered us more. This ongoing tuning of our marketing operations allowed us to grow our transaction volumes significantly in the year despite reducing costs. We expect to achieve more of the same in the future.

### **Yahoo! partnerships**

A major marketing coup for us in the year was our agreement to provide a co-branded on-line auction service to Yahoo! in Denmark, Norway and Sweden. Under the terms of the multi-year agreement, we host

**Mark Zaleski**  
Chief Executive Officer



and maintain a co-branded auction site accessed via a jump-page off the Yahoo! home page in these three countries. The initial response to these auctions has been very strong and we expect to build on this success in the coming year.

In addition, we have continued to work with numerous partners to reduce marketing costs or enhance the customer experience. Examples include:

- In Switzerland, we teamed up with the number one internet portal, Bluewin.
- In the UK, we have partnered with NatWest Bank to promote FastPay, their personal electronic payment system and have extended our agreement with Premium TV under which Nationwide league football clubs list official auctions on QXL.
- In Germany, we built partnerships with relevant partners such as Moneybookers, Iloxx.de, tradedoubler.de and adbutler.de. We were also the first company to operate binding online auctions for real estate, in conjunction with DGA, the largest offline auctioneer of real estate in Germany.
- In France, we have developed joint marketing programmes with Aufeminin.com and Ibase.
- In Norway and Denmark we have built strong co-branded sites with the leading portals Sol.no and Sol.dk.
- In Sweden we have built a networking partnership with the leading shopping portal Kelkoo.se as well as a partnership with internet provider Glocalnet.

- In the Netherlands we are now the official auction partner of leading football club, NAC Breda and have developed a marketing relationship with Startpagina.nl.

## **Technology and overhead restructuring**

One reason for consolidating our technology operations was the significant cost savings that could be achieved by doing so. This process continued throughout the year and helped contribute to the continued reduction in operating costs, which has now continued for 10 consecutive quarters. Notwithstanding the additional expense involved in pursuing our legal claims in Poland, we are pleased to say that we have reduced general and administrative operating expenses by 22% compared to last year. Our cost restructuring programme is now largely complete, although we expect to see some further benefits of the actions we have already taken in the next few quarters.

## **Poland**

Progress in recent months has been made significantly harder by the fraudulent claim of NIAA Sp z.o.o. ('NIAA') to ownership of 92% of our Polish subsidiary. The Company is aggressively pursuing those responsible through the civil and criminal authorities in Poland. Despite some notable successes – in particular the granting of a broad-ranging injunction in our favour on 26 March 2003 – we have not yet succeeded in reversing the issue of shares to NIAA or in recovering operational control of QXL Poland. The ongoing validity of the 26 March injunction has recently also been brought

into question. The first open hearings in some of the civil actions are expected to take place in July 2003. We are hopeful for a swift and successful resolution of the matter, but we recognise that litigation is inherently uncertain and it is more likely that proceedings will be protracted and that the damage to our investment in the business will be correspondingly greater.

Due to this current lack of day-to-day control of QXL Poland, neither the Company nor its auditors have been able to obtain sufficient information and explanations regarding the results and the financial position of this subsidiary for the period while it was under the control of the Company. Our auditors have qualified their report as a result of this limitation on the scope of their work. In addition QXL Poland has been deconsolidated from our results for the fourth quarter and treated as a deemed disposal for accounting purposes only.

### **People**

Once again we have relied on the strength of our people to build the business and to achieve more gross profit than in previous years, but with a leaner team. We have been fortunate to be able to retain their commitment to meet the changing demands of our business. Our people remain our greatest asset and I am confident will be the driving force for the business in the year ahead.

### **Outlook**

We are pleased with the progress we have made in a difficult year, with a number of countries now operating profitably. The illegal activities of the local management in Poland have caused significant distraction in the last quarter and given the inherent uncertainty of litigation are likely to continue to do so for some time.

Since the year end, site migrations and fee introductions have also significantly impacted the transactional growth experienced in previous quarters. However, we are pleased that the Group has maintained its revenue levels through these changes and continues to reduce its operating cash-burn. We remain very focused on our cash position and are conscious that in the next few months we are dependent on a number of planned tax-related cash receipts that are outside our direct control. Despite the inherent uncertainty in our cash flow projections, the directors believe that the underlying business remains strong and subject to these uncertainties expect it to continue to progress towards profitability.

### **Mark Zaleski**

Chief Executive Officer

**The Group is pleased with the progress it has made in a difficult year, with a number of countries now operating profitably.**

## Financial review

### Key operating metrics

For the year ended 31 March 2003, transaction volumes increased by approximately 53% year-on-year despite the deconsolidation of QXL Poland's numbers in the last quarter. In the same period, the aggregate gross auction value of auctions remained steady at approximately £102 million as a result of a 34% decline in the average selling price of items sold on our sites to £29.

### Financial statements

#### Turnover

Despite the increase in transaction volumes, turnover for the year ended 31 March 2003, decreased by 7% to £5.0 million from £5.4 million for the year ended 31 March 2002. This decrease in turnover was due to a combination of weaker advertising revenues, a small residual benefit to the Group's turnover in the year ended 31 March 2002 from auctions conducted on a principal basis and the decline in average selling price. The impact of these effects was partially offset by increases in transaction charges that were facilitated by improvements to our billing systems.

#### Cost of sales

Cost of sales for the year ended 31 March 2003 decreased 87% to £68,000 from £540,000 for the year ended 31 March 2002. The higher figure in the year ended 31 March 2002 was due to a number of auctions conducted on a principal basis during that period.

#### Gross profit

As a consequence, gross profit for the year ended 31 March 2003 including acquisitions increased 2% to £5.0 million from £4.9 million in the year ended 31 March 2002 despite deconsolidation of the figures of our Polish business in the final quarter.

#### Operating expenses

Sales and marketing expenses (excluding exceptional items and goodwill) for the year ended 31 March 2003 decreased 52% to £7.6 million from £16.0 million for the year ended 31 March 2002. This significant decrease resulted from the continued focus on cost-effective marketing and the renegotiation of a number of marketing contracts. Bad debt provisions decreased 54% from £1.6 million in the year ended 31 March 2002 to £749,000 in the year ended 31 March 2003.

Technology and development costs (excluding exceptional items and goodwill) for the year ended 31 March 2003 decreased 63% to £2.6 million from £7.0 million for the year ended 31 March 2002. These decreased costs resulted from the fundamental restructuring and consolidation of the Group's technology operations to lower cost and more flexible platforms. This restructuring was completed shortly after the end of the financial year and should allow further year-on-year savings to be realised in the forthcoming year.

General and administrative costs (excluding exceptional items and goodwill) for the year ended 31 March 2003 decreased 22% to £4.3 million from £5.5 million in the year ended 31 March 2002 as the Group focused on reducing overhead costs. This reduction was despite the legal costs associated with the ongoing claims to recover full ownership and control of our Polish subsidiary.

Trading loss (Operating loss before exceptional items and goodwill) in the year ended 31 March 2003 decreased 59% to £10.3 million compared to £25.2 million in the year ended 31 March 2002.

In the year to 31 March 2003 the Group recorded the following exceptional and goodwill related charges:

- Goodwill amortisation of £7.2 million.
- An exceptional restructuring charge of £1.3 million primarily relating to restructuring in sales and marketing costs and technology operations.
- The reversal of £431,000 of an exceptional provision for irrecoverable French VAT made in the previous year.
- An exceptional write down of £221,000 for irrecoverable Italian VAT.
- An exceptional charge of £311,000 relating to the deemed disposal of QXL Poland.

Note 2 to the accounts provides an analysis of operating loss.

Losses on ordinary activities before taxation in the year ended 31 March 2003 were £18.7 million compared to losses of £39.9 million in the year ended 31 March 2002.

#### Interest

Net interest receivable and similar income of £68,000 was earned primarily on bank deposits in the year ended 31 March 2003 compared to a figure of £716,000 for the year ended 31 March 2002.

	<b>31 March 2003 £'000</b>	31 March 2002 £'000
<b>Reconciliation of trading loss to loss on ordinary activities</b>		
Trading loss	<b>(10,273)</b>	(25,225)
Goodwill amortisation	<b>(7,151)</b>	(7,849)
Exceptional goodwill impairment	–	(4,508)
Exceptional fixed asset impairment	–	(2,526)
Reversal of provision for irrecoverable French VAT	<b>431</b>	(538)
Write down of Italian VAT receivable	<b>(221)</b>	–
Exceptional restructuring costs	<b>(1,258)</b>	–
<b>Total operating (loss)</b>	<b>(18,472)</b>	(40,646)
Exceptional loss arising on deemed disposal of subsidiary	<b>(311)</b>	–
Net interest receivable	<b>68</b>	716
<b>(Loss) on ordinary activities before taxation</b>	<b>(18,715)</b>	(39,930)

### Tax

As of 31 March 2003, we had at least £195 million of carry forward tax losses within the Group to offset against future taxable income.

### Loss per ordinary share

On 28 March 2003, shareholders approved a 1-for-1,000 consolidation of the Company's ordinary shares which had the effect of reducing the number of shares in issue to 915,263. The Group's loss per ordinary share for the year ended 31 March 2003 was £21.06, compared to a loss of £53.17 per ordinary share (restated for the effects of the share consolidation) for the year ended 31 March 2002.

### Financing and treasury

In November 2000, the Company announced that it had agreed a financing facility of up to £30 million. Under the terms of the agreement, which were amended in January 2001, the Company agreed to issue convertible bonds in three tranches of £5 million (the 'Convertible Bonds'). The Company also secured up to a further £15 million through an Equity Commitment, under which the Company would issue new ordinary shares.

No shares were issued in connection with the Equity Commitment in the year ended 31 March 2003 and the directors believe that it is now no longer feasible to raise any further financing from the Equity Commitment. However, 78,714 shares (adjusted for the effects of the 1-for-1,000 share consolidation in March 2003) were issued as a result of three separate bond conversions during the year.

Our cash and cash equivalents position at 31 March 2003 was £2.7 million.

The bulk of the Group's financial assets are held in Sterling and Euro denominated floating rate deposits.

### Cash flow

As a result of our operating losses and investments in our systems, our cash outflow before management of liquid resources and financing was £11.5 million (2002: £23.7 million).

### Net assets

In accordance with Section 142 of the Companies Act 1985, shareholders will be asked to consider at the Company's forthcoming annual general meeting what steps (if any) should be taken in view of the fact that the Company's net assets are now less than half the nominal value of its called-up share capital. The situation has arisen because the 2% Convertible Bonds are treated in the Company's balance sheet as a liability even though these bonds are in the normal course of events mandatorily convertible into ordinary shares. The directors are not required to take any further action regarding this and do not propose to do so, particularly as Section 142 does not take into account the consolidated assets of the Group but only the assets of the Company.

### Acquisitions and disposals

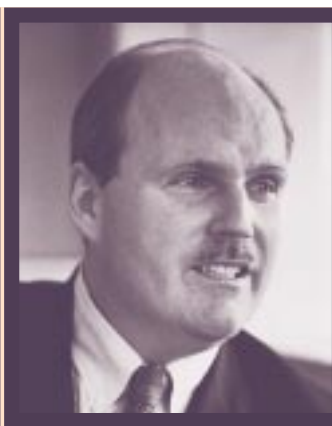
In July 2002 QXL France Sarl acquired the operations of Aucland.fr from Auction Land SA for a nominal sum representing the fair value of the net assets acquired.

In May 2003, the Company sold its Italian subsidiary, QXL Italia srl, to Timalina Trading International Ltda for £280,000, representing the fair value of the net assets disposed of. The consideration is payable in tranches with the final payment due on or before 10 August 2003. The subsidiary was not a trading entity since the Group's Italian website is operated by its French subsidiary.

In January 2003 the Company was informed that 92% of the shares its in Polish subsidiary QXL Poland Sp. z.o.o. had been issued to a third party, NIAA Sp. z.o.o. Subsequent investigations have shown that NIAA was effectively controlled by the General Manager of QXL Poland, Arjan Bakker, and his common law wife. Various civil and criminal proceedings have been commenced in Poland regarding this matter. In particular, the Company is seeking to annul the share issue to NIAA on the basis that it was carried out fraudulently.

### Qualified opinion

Due to the current lack of day-to-day control of QXL Poland, neither the Company nor its auditor have been able to obtain sufficient information and explanations regarding the results and the financial position of this subsidiary for the period while it was under the control of the Company. Our auditors have therefore qualified their report with respect to this limitation of scope.



## Directors' biographies

### Jonathan Brereton Bulkeley

Chairman (42)  
Jonathan Bulkeley has served as the non-executive Chairman of the board of QXL ricardo plc since February 1998. He is also currently the non-executive Vice Chairman of Edgar Online (NASDAQ: EDGR). He was the Chairman and Chief Executive Officer of Lifeminders Inc., from February 2001 to October 2001, and Chief Executive Officer of barnesandnoble.com Inc. from January 1999 to January 2000. From July 1995 to December 1998, he was Managing Director of America Online Inc.'s joint venture with Bertelsmann AG Online to provide interactive online services in the United Kingdom. From March 1993 to June 1995, Mr Bulkeley was Vice President of Business Development at America Online in the United States. He was also General Manager of Media, responsible for the development and production of all America Online media partnerships. Before joining America Online, Mr Bulkeley was director of marketing and development for Money Magazine and held sales and marketing positions at Time and Discover Magazines. Mr Bulkeley received a BA from Yale University.

### James Malcolm Rose

Deputy Chairman (42)  
James Rose has served as non-executive Deputy Chairman since November 2001 and from May 1999 to November 2001 served as Chief Executive Officer. He is currently Chief Executive Officer of Media Planning Group, a full service buying and media planning agency, based in New York. From August 1998 to May 1999, he served as Chief Executive Officer of United Information Group, the marketing subsidiary of United Business Media. From November 1996 to August 1998, Mr Rose served as Chief Executive Officer of Blackwell Information Services, a global provider of academic and professional information. At Blackwell, he was responsible for all internet development, including the launch of the Blackwell Online Bookshop. From December 1993 to November 1996, he was Managing Director in the United Kingdom, Ireland and South Africa for Dun & Bradstreet/AC Nielsen. He was previously with Deloitte & Touche as a management consultant. He received an MBA at the Kellogg School of Management at Northwestern University, Chicago. Mr Rose is also currently a non-executive director of MORI (Market & Opinion Research International Ltd).

### Mark Xavier Zaleski

Chief Executive Officer (40)  
Mark Zaleski was appointed Chief Executive Officer in November 2001 after joining QXL as Chief Operating Officer in October 2000 from Webvan Group, Inc., where he was President of Webvan Operations Inc. and Senior Vice President of Area Operations for Webvan Group. He was a key member of the senior management team that launched the company's operations and led the company's initial public offering in 1999. Prior to joining Webvan in December 1998, Mr Zaleski served as Senior Vice President/Group Managing Director Central Europe, and earlier for Western Europe, for ACNielsen Corporation. From September 1985 to July 1994, he held a variety of senior management positions in the European operations of the Federal Express Corporation.



### **Robert Simon Dighero**

Chief Financial Officer (37)  
Robert Dighero has served as Chief Financial Officer of QXL ricardo plc since June 1998 and as a director since August 1999. From October 1995 to June 1998, Mr Dighero was Chief Financial Officer of AOL UK. From January 1995 to October 1995, Mr Dighero worked for Bertelsmann, focusing on acquisition strategies in the new media sector. He had also previously worked as a management consultant at Bain and Company. Mr Dighero received an MA (Hons) and an M Eng (Hons) from Cambridge University and received an MBA with Dean's List honours from INSEAD in France.



### **Thomas Peter Power**

Non-executive Director (39)  
Thomas Power was appointed a non-executive director in February 2002. He is the Chairman and founder of The Ecademy, the E-business Network, which has over 20,000 members globally. An author of the Financial Times report, 'From Supply Chain to Value Chain' and former managing director of the TDS Group, Thomas founded The Ecademy in 1998. In addition to his responsibilities with The Ecademy, he provides strategic consulting to many FTSE chief executives, carries out numerous public speaking engagements and is contracted to write e-business books for various publishers. Thomas has published five books to date on the subject of e-business.

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2003.

### Principal activity

The principal activity of the Group is and is expected to continue to be the provision of a European online auction service. The activities of the Group are set out in more detail in the Chairman's and Chief Executive Officer's reports and in the Financial review.

### Directors and directors' interests

The directors of the Company who served throughout the year (except as stated) were:

Director	Role
Mr J B Bulkeley	Chairman and independent non-executive director
Mr J M Rose	Deputy Chairman and non-executive director
Mr M X Zaleski	Chief Executive Officer
Mr R S Dighero	Chief Financial Officer
Dr P D Englander	Independent non-executive director (until 3 May 2002)
Mr J Gesmar-Larsen	Independent non-executive director (from 3 May 2002 until 25 June 2003)
Mr T P Power	Independent non-executive director

Details of the directors' membership of the Audit, Remuneration and Nomination Committees are set out on page 14.

Biographical details of the current directors are set out on pages 10 and 11.

Under the Company's articles of association, all directors are subject to re-election every three years. The Combined Code also effectively require a third of the directors to be subject to re-election every year.

Mr Bulkeley was subject to re-election at the 2000 annual general meeting, Messrs Rose and Dighero were subject to re-election at the 2001 annual general meeting and Messrs Zaleski and Power were subject to re-election at the 2002 annual general meeting. Messrs Bulkeley and Dighero will retire by rotation at the 2003 annual general meeting and offer themselves for re-election.

Details of the directors' individual remuneration, service contracts and interests in shares and share options are shown in the Directors' remuneration report on page 16.

The directors had no material interests, directly or indirectly in any contracts significant to the business of the Group during the year.

### Health and safety

It is the Company's policy that its work will be carried out in accordance with the relevant statutory provisions and the Company's health and safety policy. The Company takes all reasonable practical measures to avoid risk to its employees.

### Dividends

The directors do not recommend the payment of a dividend.

### Corporate governance

A report on corporate governance is set out on page 14.

All directors, managers and employees have responsibility for implementing the Company's policy, which is distributed through the Company's Employee Handbook, and for ensuring that health and safety considerations are always given due regard.

### Insurance

The Company maintains insurance in respect of its directors and officers against any such liabilities as are referred to in Section 310 of the Companies Act 1985.

### Employees

The Company recognises the importance of communicating with its employees to motivate them and fully involve them in the business. It does so through different media, including regular briefings and e-mail updates on major developments. All employees have access to the internet and the Company's website where the Company's quarterly results and business news are posted.

Employees are also regularly invited to become stakeholders in the Company by joining the Company's share option schemes. Equal opportunities for training, career development and promotion are available to all employees regardless of disability, age, sex, race, religion, colour, nationality or sexual orientation.

## Environment

The Company recognises its responsibility to minimise the impact of its business activities on the environment, which complements the Company's position as a provider of online services. The Company is seeking to implement electronic rather than paper invoicing wherever reasonably practicable and to minimise wastage and encourage recycling where possible.

## Substantial shareholdings

The following shows substantial shareholdings (i.e. 3% or greater) in the issued ordinary share capital of QXL ricardo plc as notified to the Company at 26 June 2003.

Name of shareholder	Number of ordinary shares	Percentage of share capital
Apax UK VI LP	60,997	6.6%
Mr Jonathan Bell	50,685	5.5%
AXA S.A.	36,352	4.0%

## Post balance sheet events

Post balance sheet events are detailed in note 30 of the financial statements.

## Share purchases

The Company is seeking shareholder authorisation at the 2003 annual general meeting to buy in the market up to 5% of the Company's issued shares. A similar authority was granted at the 2002 annual general meeting but no shares were purchased during the year.

## Annual general meeting

The next annual general meeting of the Company will be held on 3 September 2003. The notice of the meeting, which includes special as well as ordinary business, is set out at the end of this document.

## Donations

The Company did not make any charitable donations during the year (2002: £nil). No political donations were made (2002: £nil).

## Policy and practice on payment of creditors

It is the Company's policy to abide by the payment terms set by suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The average time taken by the Company to pay suppliers was 63 days (2002: 65 days). The Company does not presently follow any specific code or standard on payment practice.

## Auditors

Following the conversion of our auditor PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 19 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Group will be proposed at the annual general meeting.

By order of the board

**T T Parkinson**  
Company Secretary

London  
26 June 2003

## Corporate governance

The Company is headed by its board of directors. The board is committed to ensuring a high level of business integrity and professionalism. It is also committed to the Principles of Good Governance and the Code of Best Practice encompassed in the Combined Code (the 'Combined Code') appended to the Financial Service Authority's Listing Rules and for which the board is accountable to shareholders.

The directors are assisted in complying with the internal control requirements of the Combined Code by the Institute of Chartered Accountants in England and Wales' publication 'Internal Control: Guidance for Directors on the Combined Code' (the 'Turnbull guidance').

The board believes that throughout the year ended 31 March 2003, the Company has substantially complied with the provisions set out in the Combined Code and the related Financial Services Authority Listing Rule disclosure requirements. Principal areas of non-compliance are referred to below.

The board has also given consideration to the recommendations of the Higgs report on the role of non-executive directors and the Smith report on the responsibilities of audit committees. The board expects to comply with most of the changes that are scheduled to be made to the Combined Code later this year as a result of these reports. However the board also believes that the cost of implementing all the changes is likely to be inappropriate for a company that is currently focused on achieving profitability. The Company's 2004 annual report will contain details of the principal areas of non-compliance arising from these changes.

### Board of directors

Biographical details of the directors can be found on pages 10 and 11 and further details of the directors are shown on pages 17 and 18 and in the director's report on page 12. The Chairman is responsible for running the board, which currently comprises five directors; two executive directors, two independent non-executive directors and one further non-executive director. Jan Gesmar-Larsen was appointed senior independent non-executive director on 3 May 2002 following the resignation of Peter Englander and Thomas Power took over this role when Jan Gesmar-Larsen resigned as a director on 25 June 2003. None of the non-executive directors is involved in the day-to-day management of the business. The Deputy Chairman is not considered independent for the purposes of the Combined Code because of his recent executive position with the Company. The other two non-executive directors are considered independent for the purposes of the Combined Code on the grounds that they are not reliant on the Company for income, have not held an executive position within the Group, and are not in any relationship with any party that might undermine their independence.

The directors receive advice on their responsibilities as necessary. The need for appropriate training is reviewed regularly and some directors have attended or will attend training and other information sessions on latest corporate governance issues at the expense of the Company.

All directors also have full access to the advice and services of the Company Secretary and procedures are in place to allow them to seek independent professional advice at the Company's expense, should the need arise.

The board meets on a regular basis. A formal schedule of board meetings is agreed at the beginning of each calendar year but additional meetings are held (and have been held during the year) as circumstances require.

The board is supplied with detailed monthly management accounts and summary presentations. These include financial data, cash flows and non-financial metrics and are compared with the board-approved budget and latest expectations. The board regularly requests and reviews further information as it considers necessary. The board has a formal schedule of matters reserved specifically for its decision, including the review of acquisition and disposal opportunities.

The Group maintains a clear division of responsibility between its Chairman and Chief Executive Officer. While the overall strategy is decided on by the board, day-to-day management of the business is delegated to the Chief Executive Officer and the Chief Financial Officer. These directors carry out their responsibilities with the help of a small executive team (including the Company Secretary) who report regularly on day-to-day issues and who meet together monthly with the executive directors to discuss and implement the Group's strategy.

### Committees

In addition to the main board, there are three standing board committees: the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Audit Committee currently only comprises Jonathan Bulkeley. Jan Gesmar-Larsen also served on the Committee from 3 May 2002 (when he replaced Peter Englander) until his resignation as a director on 25 June 2003. The Chief Executive Officer and the Chief Financial Officer attend the Audit Committee meetings by invitation. The Audit Committee meets shortly prior to the announcement of each quarter's results and more frequently if necessary.

The Remuneration Committee is responsible for setting remuneration and benefits policies for the Group generally and the executive directors in particular. The Committee currently comprises Jonathan Bulkeley and Thomas Power. Mr Gesmar-Larsen also served on the Committee from 3 May 2002 (when he replaced Peter Englander) until his resignation as a director on 25 June 2003. Mr Bulkeley chairs the Committee which meets at least twice a year and more frequently if necessary. The Directors' remuneration report on page 16 contains details of the directors' compensation packages.

The Nomination Committee comprises Jonathan Bulkeley, Thomas Power and Jim Rose and is also chaired by Mr Bulkeley. Mr Rose was appointed to the Committee on 3 May 2002 in place of Peter Englander who was a member until his resignation as a director on that date. The Nomination Committee meets when required and in principal at least twice a year. Its terms of reference are to ensure there is independence and transparency of the appointments process and proposals to nominate or re-elect directors to the board. Appointments to the board are to be made demonstrably on merit alone.

### Shareholder relations

The board considers communications with its shareholders and the market generally to be of significant importance, but are very conscious of the increasing emphasis on ensuring equality of material information. Subject to these constraints, the Company Secretary, Chief Executive Officer and Chief Financial Officer all respond to shareholders queries on a personal basis when time allows and are available to speak with institutional shareholders and analysts as necessary.

The annual general meeting provides an opportunity for private shareholders to meet with members of the board and senior executives. The Company will indicate the level of proxies lodged at the annual general meeting. Certain events (such as the recent consolidation of the Company's share capital) require the Company to hold extraordinary general meetings and when these are held the Company takes the opportunity of updating shareholders on the business.

Results are published on a quarterly and annual basis and copies of these results are available on the Company's website. The Company also issues Stock Exchange announcements regarding significant matters relating to the development of the business on an ongoing basis. Copies of all of these are accessible by shareholders and the general public from the Company's website. Interested parties can also obtain copies of all such reports by writing to the Company Secretary.

### Audit and internal control

The Audit Committee operates under terms of reference approved by the board. Its main functions are to:

- recommend and review the appointment of the Company's auditors; their fees, any questions of or relating to their resignation or removal, independence and the nature and extent of non-auditing services;
- review the quarterly and annual preliminary announcement and financial statements before submission to the board;
- discuss the results of the audit and any problems and reservations arising from the preparation and audit of such financial statements, and any other matters which the auditors may wish to discuss;
- review the auditors' management letters and the response thereto of the management of the Company or any of its subsidiaries;
- review the Company's statements on internal control systems prior to endorsement by the board;
- review the internal financial control systems of the Company.

The Company will review the terms of reference of its Audit Committee this year in light of the changes made to the Combined Code following the recommendations of the recent Smith report.

The board is responsible for the Company's system of internal controls, evaluating the major business risks faced by the Company and deciding on appropriate action to manage these risks. The Audit Committee reviews the Company's internal controls procedures and reports its conclusions to the Board at least once per year. This ongoing system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives and cannot provide absolute assurance against such failure. The board recognises that the Company is inherently exposed to a relatively high level of risk due to the rapidly evolving nature of the industry in which it operates, its dependence on technology and the spread of its operations across multiple countries. The directors are acutely sensitive to the importance of effective internal control procedures as a result of the registration in January 2003 of a third party as the majority shareholder in QXL Poland Sp z o.o without the Company's knowledge or consent (which is the subject of ongoing litigation). A number of additional internal policies and procedures are being introduced in the light of these events to increase central control over the Company's subsidiaries and their intellectual property

assets. However the board does not consider it practical to entirely remove local decision-making autonomy or possible to eliminate the risk of fraud at a local subsidiary level (especially when carried out in concert with external legal counsel as was the case in Poland).

The board is currently reviewing the effectiveness of the Company's system of internal controls in accordance with the requirements of the Combined Code and the Turnbull guidance and recent events in Poland. The key elements of internal control within the Group currently include:

- the establishment of clear management responsibilities for maintaining an adequate control environment;
- an organisational structure designed to allow rapid response to developments in the business and changes in the control environment;
- annual formal reviews at board level of risks and their mitigation;
- the assessment of key business risks as an integral part of the board and executive team meetings on an ongoing basis;
- documentation and communication of organisational policies and procedures;
- regular review of security and integrity of key systems, personnel and intellectual property assets;
- preparation of detailed budgets for board review;
- regular review of results against budgets and latest forecasts.

The board has considered the need for an internal audit function during the year and concluded that such a function is not appropriate for the Company at the present time.

### Compliance with the Combined Code

Although the number of non-executive directors comprises a majority of the board, the Company does not comply with the provisions of the Combined Code insofar as the Audit Committee currently only comprises one director and prior to Jan Gesmar-Larsen's resignation only comprised two non-executive directors. The directors are currently considering the composition of the Audit Committee to address this issue. The directors also believe that it has appropriate systems and procedures in place to satisfy the Turnbull guidance on internal control. As mentioned above, the effectiveness of current internal control procedures is currently being reviewed. This review is expected to be completed in August 2003. The previous review was carried out as part of the year end audit process in May 2002.

### Going concern

Under company law the Company's directors are responsible for considering whether it is appropriate to prepare financial statements on a going concern basis. The directors fully appreciate the importance of sufficient cash resources in the industry in which the Company operates. This, together with a lack of borrowing facilities, has meant that throughout the life of the Company significant resource has been expended on cash flow forecasting. A more detailed discussion of the going concern assumption is outlined in Principal accounting policies on page 26.

On this basis, the directors believe that it is reasonable to assume that the Company and Group will be able to continue in business for the foreseeable future. Consequently these financial statements have been prepared on a going concern basis.

## Directors' remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations') which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principle of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the annual general meeting of the Company.

The Regulations require the auditors to report to the Company's shareholders on the 'auditable part' of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). This report has therefore been divided into separate sections for audited and unaudited information.

### Unaudited information

#### Composition of the Remuneration Committee

Remuneration for executives is reviewed by the Remuneration Committee, constituted in accordance with the recommendations of the Combined Code. The Committee is chaired by Jonathan Bulkeley and also comprises Thomas Power, both of whom are independent non-executive directors. Jan Gesmar-Larsen also served on the committee from 3 May 2002 (when he replaced Peter Englander) to 25 June 2003.

None of the Committee has any personal financial interest (other than as shareholders or optionholders), conflicts of interest arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the board. No director takes part in any Committee or board decision regarding his own remuneration.

#### Remuneration policy

The Company's policy is to provide the remuneration package required to attract, retain and motivate its executive directors and management team. This primarily consists of a basic salary and benefit package appropriate to the individual's responsibilities having regard to the salary levels of comparable posts. Contributions equal to 5% of the basic salary of the executive directors are made on their behalf to money-purchase pension schemes. Executive directors are also included in the Company's permanent health and death-in-service insurance arrangements. Remuneration packages for most members of the senior executive management team (but not the executive directors) also contain provisions for a bonus of up to 20% of basic salary. These bonuses are awarded on the achievement of specified performance targets that are set at the start of each year and reviewed (and if necessary revised) each quarter by the executive directors in accordance with key financial and other targets. The Remuneration Committee is considering including a performance-related bonus element in executive directors' packages to ensure that the total reward packages are better aligned with the performance of the Company and the interests of shareholders.

The executive directors' remuneration packages were considered by the Remuneration Committee in December 2002. The Remuneration Committee's review is considered by the board and adopted if approved. The remuneration packages of the executive directors have remained unchanged throughout the financial year ended 31 March 2003 and since that date.

### Share options

The board believes that the grant of share options can be an important and effective way of attracting, motivating and retaining senior executives and key employees. However the sharp decline in share prices in the past couple of years (especially in the technology sector) has limited the effectiveness of share options for the Company in this respect. Despite this, the Remuneration Committee is keen to ensure that share option packages granted to executive directors and other employees constitute a significant proportion of overall remuneration so as to appropriately align management's interests with those of shareholders.

The Company operates two share option schemes. One is approved by the Inland Revenue under the Income and Corporation Taxes Act 1988 and the other scheme is not Inland Revenue approved. Both schemes have been approved by shareholders and a number of amendments were also approved by shareholders at the last annual general meeting held on 1 August 2002.

All employees are offered a grant of options under one or both schemes (as appropriate) on the date they join the Group or on the date they take up permanent terms of employment (if later). In general, options begin to vest one year after the option grant date and thereafter vest in quarterly increments up to the fourth anniversary of the option grant date.

By constructing the share option agreements so that shares vest gradually, the Remuneration Committee believes that executives are focused on sustaining the performance of the Company in the long term.

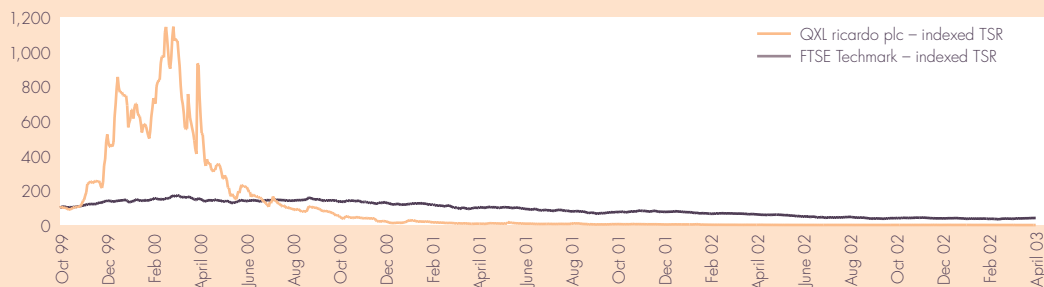
It is the Company's policy to grant new options on an annual basis in order to reward ongoing performance and to ensure employee motivation. Provisions to make the vesting of new options subject to the satisfaction of performance conditions were included as part of the amendments to the schemes approved by shareholders on 1 August 2002.

No options were granted to executive directors during the year to 31 March 2003. Options were granted to Mr Gesmar-Larsen and Mr Power on 6 August 2002. The Company believes that the awards to Mr Gesmar-Larsen and Mr Power did not affect their independence and were appropriate given the Company's desire to limit the cash remuneration payable whilst still recruiting and retaining non-executives of suitable experience, status and expertise. These options do not have any vesting period and are exercisable by the relevant director at any time during their appointment and for three months after they cease to be a director.

Share options are not granted at a discount and none of the options granted to date contains any performance conditions. As at 26 June 2003, options had been granted to directors and employees (and remained subsisting) over 59,013 ordinary shares in the Company, equivalent to 6.4% of the total issued ordinary share capital of the Company at that date. Option prices under those grants varied from £4.30 to £4,483.30.

### Performance graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Techmark/Fledgling Index also measured by total shareholder return since the date of the Company's flotation on the London Stock Market on 14 October 1999. The Techmark/Fledgling Index has been chosen as the most readily available comparison of the performance of the Company and its peers.

**Total shareholder return** Indexed total shareholder return**Service contracts**

The executive directors have terms of service, which can be terminated by the Company on not less than 12 months' notice (in the case of Mr Dighero) and six months' notice (in the case of Mr Zaleski) and by the individual on not less than six months' notice.

Non-executive directors are subject to letters of appointment. Their terms of office last for no more than three years and can be terminated by either party on six months' notice.

Copies of the executive directors' service contracts and the appointment letters of the non-executive directors will be available for inspection at the annual general meeting.

Directors are subject to re-election on a regular basis that does not exceed three years. Details of directors subject to re-election at the next annual general meeting are contained in the directors' report.

**Audited information****Directors' reward package information**

Details of the current and former directors' individual remuneration (which cover the period during the financial year whilst they were directors as set out on page 12) are as follows:

<b>Directors' remuneration</b>	Basic salary £'000	Benefits <sup>(1)</sup> £'000	Fees £'000	<b>Total remuneration excluding pensions 31 March 2003 £'000</b>	Total remuneration excluding pensions 31 March 2002 £'000
J B Bulkeley (Chairman)	–	–	15	<b>15</b>	15
J M Rose <sup>(2)</sup>	50	–	15	<b>65</b>	253
M X Zaleski	250	6	–	<b>256</b>	99
R S Dighero	165	1	–	<b>166</b>	164
T P Power	–	–	13	<b>13</b>	2
J Gesmar-Larsen	–	–	11	<b>11</b>	–
P D Englander	–	–	1	<b>1</b>	15
S M A Laurent <sup>(3)</sup>	–	–	–	<b>–</b>	116
P U Sederowsky <sup>(4)</sup>	–	–	–	<b>–</b>	25
<b>Total</b>	465	7	55	<b>528</b>	689

<sup>(1)</sup>Directors' benefits comprise permanent health insurance and life assurance.

<sup>(2)</sup>Mr Rose resigned from his position as Chief Executive Officer on 9 November 2001 but has remained on the board as a non-executive director. He continued to receive cash and non-cash benefits under the terms of his contract of employment for the period to 13 June 2002. These payments were fully provided for in the Company's accounts for the period to 31 March 2002 on the basis that the Company had received substantially all of the benefits provided by Mr Rose's executive contract by that date.

<sup>(3)</sup>Mr Laurent resigned as a director on 31 December 2001 but continued to receive cash and non-cash benefits under the terms of his contract of employment for the period to 12 December 2002. The figures above do not include the estimated money value of these benefits to Mr Laurent for the period after the date of his resignation, which total approximately £149,000 (and of which approximately £113,000 relates to the financial year ending 31 March 2003). All these payments were fully provided for in the Company's accounts for the period to 31 March 2002 on the basis that the Company had received substantially all of the benefits provided by Mr Laurent's executive contract by that date.

<sup>(4)</sup>Mr Sederowsky resigned as a director on 5 February 2002 but continued to receive an amount equivalent to the fees payable under his letter of appointment for the six-month period following his date of resignation. The figures above do not include the amounts paid to Mr Sederowsky for this period, which total £15,000 (of which approximately £10,000 relates to the financial year ending 31 March 2003).

	<b>Payments made into a money purchase scheme 31 March 2003 £'000</b>	Payments made into a money purchase scheme 31 March 2002 £'000
<b>Directors' pension entitlements</b>		
J M Rose <sup>(1)</sup>	<b>2</b>	10
M X Zaleski	<b>10</b>	4
R S Dighero	<b>8</b>	8
S M A Laurent <sup>(2)</sup>	<b>-</b>	5
	<b>20</b>	27

<sup>(1)</sup> Payments into a money purchase scheme continued to be made on behalf of Mr Rose following his resignation as Chief Executive Officer on 9 November 2001 under the terms of his contract of employment for the period to 13 June 2002. All these payments were fully provided for in the Company's accounts for the period to 31 March 2002.

<sup>(2)</sup> Payments into a money purchase scheme continued to be made on behalf of Mr Laurent following his resignation as a director on 31 December 2001 under the terms of his contract of employment for the period up to 12 December 2002. The figures above do not include the value of these benefits to Mr Laurent for the period since the date of his resignation which total approximately £7,000 (and of which approximately £5,000 relates to the financial year ending 31 March 2003). All these payments were fully provided for in the Company's accounts for the period to 31 March 2002.

### Directors' interests in shares

The beneficial interests of the directors in the shares of the Company as disclosed by the register maintained pursuant to Section 325 of the Companies Act 1985 as at 31 March 2003, together with such person's interests at 31 March 2002 were:

	<b>Number of ordinary shares</b>	
	<b>At 31 March 2003 Ordinary shares</b>	At 31 March 2002 Ordinary shares
J B Bulkeley	<b>1,501</b>	3,754

<sup>(1)</sup> All share numbers have been restated to reflect the effect of the 1-for-1,000 share consolidation which was approved by shareholders and became effective on 28 March 2003.

<sup>(2)</sup> Mr Bulkeley is also a beneficiary of the Fenwick Trust, which held 6,368 ordinary shares in the Company at 31 March 2003, (2002: 7,407 shares).

There have been no changes in any of the directors' interests in shares in the Company between 31 March 2003 and 26 June 2003, save that Mr Bulkeley transferred the 1,501 ordinary shares held in his name to the Fenwick Trust on 6 May 2003.

The interests of directors in options over shares of the Company as at the end of the financial year were as follows:

	<b>Number of ordinary shares</b>					
	1 April 2002 or date of appointment	Granted during year	Surrendered or lapsed during year	31 March 2003	Exercise price	Exercise period
J B Bulkeley	1,125	–	–	1,125	£14.00	Mar 99–Mar 05
	4,000	–	–	4,000	£16.00	Feb 03–Feb 12
	<b>5,125</b>	<b>–</b>	<b>–</b>	<b>5,125</b>		
J M Rose	3,000	–	–	3,000	£16.00	Feb 03–Feb 12
	<b>3,000</b>	<b>–</b>	<b>–</b>	<b>3,000</b>		
M X Zaleski	307*	–	–	307	£97.50	Feb 02–Feb 11
	5,692	–	–	5,692	£97.50	Feb 02–Feb 11
	10,000	–	–	10,000	£16.00	Feb 03–Feb 12
	<b>15,999</b>	<b>–</b>	<b>–</b>	<b>15,999</b>		
R S Dighero	5,052	–	–	5,052	£15.00	Apr 99–Apr 08
	307*	–	–	307	£97.50	Feb 02–Feb 11
	2,735	–	–	2,735	£97.50	Feb 02–Feb 12
	7,000	–	–	7,000	£16.00	Feb 03–Feb 12
	<b>15,094</b>	<b>–</b>	<b>–</b>	<b>15,094</b>		
T P Power	–	2,000	–	2,000	£4.30	Aug 03–Aug 12
	<b>–</b>	<b>2,000</b>	<b>–</b>	<b>2,000</b>		
J Gesmar-Larsen	–	2,000	–	2,000	£4.30	Aug 03–Aug 12
	<b>–</b>	<b>2,000</b>	<b>–</b>	<b>2,000</b>		
<b>Total</b>	<b>39,218</b>	<b>4,000</b>	<b>–</b>	<b>43,218</b>		

\*Denotes options held under the 1999 Approved Employee Share Option Scheme. All other options held by executive directors are held under the 1999 Unapproved Employee Share Option Scheme. Options granted to non-executive directors are granted under separate deeds.

All option numbers have been restated to reflect the effect of the 1-for-1,000 share consolidation, which was approved by shareholders and became effective on 28 March 2003.

The market price of the Company's ordinary shares at the end of the financial year was 280p and the range of market prices during the year (adjusted for the 1-for-1000 share consolidation on 28 March 2003) was between 260p and 1,150p.

### Compliance

The Remuneration Committee believes that it has complied throughout the year with the best practice provisions annexed to the Listing Rules of the Financial Services Authority.

### Jonathan Bulkeley

Chairman of the Remuneration Committee

## Statement of directors' responsibilities

The following statement sets out the responsibilities of the directors in relation to the financial statements.

The report of the auditors, shown on page 21, sets out their responsibilities in relation to the financial statements.

Company law 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 Company and the Group as at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements, the directors are required to:

- select appropriate accounting policies and 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 being disclosed and explained; and
- prepare the financial statements on the going concern basis, unless they consider it to be inappropriate.

The directors confirm that the financial statements comply with the above requirements.

The maintenance and integrity of the Company's website is the responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the Company and the Group, and in that context must have proper regard to the establishment of appropriate systems of internal control with a view to the prevention and detection of fraud, theft and other irregularities.

## Independent auditors' report to the members of QXL ricardo plc

We have audited the financial statements which comprise the consolidated profit and loss account, the Group and Company balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses and the related notes 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. The directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' remuneration report in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' remuneration report 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 misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Chief Executive Officer's review, the Financial review, the Directors' remuneration report and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 or Group'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 except that the scope of our work was limited as explained below. 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 Group's circumstances, consistently applied and adequately disclosed.

We planned 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. However, the evidence available to us was limited because we have been unable to obtain sufficient information and explanations regarding the results and the financial position of QXL Poland Sp z.o.o. up to the date that effective control was lost (see note 16).

Accordingly, we have been unable to satisfy ourselves that the amounts included in turnover, operating loss and cash outflow attributed to QXL Poland Sp z.o.o. and the amount provided for losses on the deemed disposal of this company are fairly stated. In addition, we have been unable to obtain sufficient information regarding the Company's obligations in respect of its Polish interests to satisfy ourselves that all such obligations are correctly reflected in the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Fundamental uncertainty – going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the uncertainty surrounding the future level of cash generation and the possibility of additional funding. The financial statements have been prepared on a going concern basis, the validity of which depends on the level of future cash generation. The financial statements do not include any adjustments that would result from the Company not being able to continue as a going concern. Details of the circumstances relating to this fundamental uncertainty are described in 'Principal accounting policies' on page 26. Our opinion is not qualified in this respect.

### Qualified opinion arising from limitation on audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the results and financial position of QXL Poland Sp z.o.o. up to 6 January 2003, the date of loss of effective control, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2003 and of the loss, total recognised losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect of the limitation on our work relating to QXL Poland Sp z.o.o. referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper accounting records had been kept.

### PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London  
26 June 2003

## Consolidated profit and loss account

for the year ended 31 March 2003

	Notes	Year ended 31 March 2003 Excluding exceptional items £'000	Year ended 31 March 2003 Exceptional items £'000	Year ended 31 March 2003 Total £'000	Year ended 31 March 2002 Excluding exceptional items £'000	Year ended 31 March 2002 Exceptional items £'000	Year ended 31 March 2002 Total £'000
<b>Turnover</b>	1						
Operations before acquisitions		<b>3,984</b>	–	<b>3,984</b>	4,819	–	4,819
Acquisitions	15	<b>286</b>	–	<b>286</b>	–	–	–
Continuing operations		<b>4,270</b>	–	<b>4,270</b>	4,819	–	4,819
Discontinued operations	16	<b>770</b>	–	<b>770</b>	596	–	596
Total turnover		<b>5,040</b>	–	<b>5,040</b>	5,415	–	5,415
Cost of sales	2	<b>(68)</b>	–	<b>(68)</b>	(540)	–	(540)
<b>Gross profit</b>		<b>4,972</b>	–	<b>4,972</b>	4,875	–	4,875
Distribution costs	2,3	<b>(15,545)</b>	<b>(739)</b>	<b>(16,284)</b>	(27,322)	(4,508)	(31,830)
Administrative expenses	2,3	<b>(6,851)</b>	<b>(309)</b>	<b>(7,160)</b>	(10,627)	(3,064)	(13,691)
<b>Operating expenses</b>		<b>(22,396)</b>	<b>(1,048)</b>	<b>(23,444)</b>	(37,949)	(7,572)	(45,521)
<b>Operating (loss)/profit</b>	2,4						
Operations before acquisitions		<b>(16,818)</b>	<b>(941)</b>	<b>(17,759)</b>	(32,680)	(7,564)	(40,244)
Acquisitions		<b>(642)</b>	<b>(107)</b>	<b>(749)</b>	–	–	–
Continuing operations		<b>(17,460)</b>	<b>(1,048)</b>	<b>(18,508)</b>	(32,680)	(7,564)	(40,244)
Discontinued operations		<b>36</b>	–	<b>36</b>	(394)	(8)	(402)
<b>Total operating (loss)</b>		<b>(17,424)</b>	<b>(1,048)</b>	<b>(18,472)</b>	(33,074)	(7,572)	(40,646)
Exceptional loss arising on disposal of subsidiary				<b>(311)</b>			–
<b>(Loss) before interest and taxation</b>				<b>(18,783)</b>			(40,646)
Interest receivable and similar income	7			<b>361</b>			989
Interest payable and similar charges	8			<b>(293)</b>			(273)
<b>(Loss) on ordinary activities before taxation</b>				<b>(18,715)</b>			(39,930)
Tax on loss on ordinary activities	9			–			–
<b>(Loss) on ordinary activities after taxation</b>				<b>(18,715)</b>			(39,930)
Equity minority interest				<b>133</b>			2,000
<b>(Loss) for financial year</b>				<b>(18,582)</b>			(37,930)
<b>(Loss) per ordinary share</b>							
– basic and diluted	11			<b>(£21.06)</b>			(£53.17)

## Statement of Group total recognised gains and losses

for the year ended 31 March 2003

	31 March 2003 £'000	31 March 2002 £'000
Loss attributable to shareholders	<b>(18,582)</b>	(37,930)
Exchange adjustments offset to reserves	<b>57</b>	(233)
<b>Total recognised loss for the year</b>	<b>(18,525)</b>	(38,163)

## Group balance sheet

as at 31 March 2003

	Notes	31 March 2003 £'000	31 March 2002 £'000
<b>Fixed assets</b>			
Intangible assets	12	3,576	10,727
Tangible assets	13	171	1,050
Investments	14	–	25
		<b>3,747</b>	11,802
<b>Current assets</b>			
Stock	17	–	34
Debtors – due after more than one year	18	321	321
Debtors – due within one year	18	2,368	3,335
Cash at bank and in hand		2,658	14,093
		<b>5,347</b>	17,783
<b>Creditors: amounts due within one year</b>	19	<b>(2,752)</b>	(5,200)
<b>Net current assets</b>		<b>2,595</b>	12,583
<b>Total assets less current liabilities</b>			
		<b>6,342</b>	24,385
<b>Creditors: amounts falling due after one year</b>	20	<b>(62)</b>	(91)
2% Convertible Bonds due 2004	21	(14,509)	(14,632)
Provisions for liabilities and charges	22	(200)	–
<b>Net (liabilities)/assets</b>		<b>(8,429)</b>	9,662
<b>Capital and reserves</b>			
Called up share capital	23	915	837
Share premium account	25	225,956	225,637
Merger reserve	25	9,137	9,137
Profit and loss account	25	(243,741)	(225,216)
<b>Total equity shareholders' (deficit)/funds</b>	26	<b>(7,733)</b>	10,395
Equity minority interests		(696)	(733)
<b>(Deficit)/capital employed</b>		<b>(8,429)</b>	9,662

## Company balance sheet

as at 31 March 2003

	Notes	31 March 2003 £'000	31 March 2002 £'000
<b>Fixed assets</b>			
Intangible assets	12	–	–
Tangible assets	13	–	627
Investments	14	<b>10,313</b>	9,619
		<b>10,313</b>	10,246
<b>Current assets</b>			
Stock	17	–	–
Debtors – due after more than one year	18	<b>7,731</b>	321
Debtors – due within one year	18	<b>591</b>	7,748
Cash at bank and in hand		<b>1,865</b>	10,927
		<b>10,187</b>	18,996
<b>Creditors: amounts due within one year</b>	19	<b>(1,139)</b>	(3,847)
<b>Net current assets</b>		<b>9,048</b>	15,149
<b>Total assets less current liabilities</b>		<b>19,361</b>	25,395
<b>Creditors: amounts falling due after one year</b>	20	<b>(6,223)</b>	(59)
2% Convertible Bonds due 2004	21	<b>(14,509)</b>	(14,632)
Provisions for liabilities and charges	22	<b>(200)</b>	–
<b>Net (liabilities)/assets</b>		<b>(1,571)</b>	10,704
<b>Capital and reserves</b>			
Called up share capital	23	<b>915</b>	837
Share premium account	25	<b>225,956</b>	225,637
Merger reserve	25	<b>2,520</b>	2,520
Profit and loss account	25	<b>(230,962)</b>	(218,290)
<b>Total equity shareholders' (deficit)/funds</b>	26	<b>(1,571)</b>	10,704

These financial statements which comprise the consolidated profit and loss account, the Group and Company balance sheets, the consolidated cash flow statement, the statement of Group total recognised gains and losses and related notes including the directors' remuneration disclosures were approved by the board of directors on 26 June and were signed on its behalf by:

**R S Dighero**

Director

## Consolidated cash flow statement

for the year ended 31 March 2003

	Notes	31 March 2003 £'000	31 March 2002 £'000
<b>Net cash (outflow) from operating activities</b>	29	<b>(11,646)</b>	(24,468)
<b>Returns on investments and servicing of finance</b>			
Interest received		360	1,005
Interest paid		(10)	(3)
<b>Net cash inflow from returns on investment and servicing of finance</b>		<b>350</b>	1,002
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(184)	(301)
Sale of tangible fixed assets		11	92
<b>Net cash (outflow) for capital expenditure and financial investment</b>		<b>(173)</b>	(209)
<b>Acquisitions &amp; disposals</b>			
Net cash balances disposed of with Polish subsidiary (exceptional)	16	(61)	-
<b>Net cash (outflow) for acquisitions</b>		<b>(61)</b>	-
<b>Cash (outflow) before management of liquid resources* and financing</b>		<b>(11,530)</b>	(23,675)
<b>Management of liquid resources</b>			
Reduction in short-term deposits with banks		-	13,042
<b>Financing</b>			
Gross receipts from issuing shares and warrants		-	4,341
Issue costs of equity shares and warrants		(79)	(570)
Capital element of finance lease repaid		(23)	(253)
Gross receipts from issue of 2% Convertible Bonds		-	10,000
<b>Net cash (outflow)/inflow from financing</b>		<b>(102)</b>	13,518
<b>(Decrease)/increase in cash in the year</b>	29	<b>(11,632)</b>	2,885

\*Liquid resources comprise short-term deposits with banks, which mature within 12 months from the date of inception.

## Principal accounting policies for the year ended 31 March 2003

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

### Basis of preparing the financial statements – going concern assumption

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future.

The directors have prepared financial projections which assume, amongst other things, that current trading trends continue, that further benefits from restructuring will be realised and that the Group will receive within the next few months various VAT refunds as well as a significant UK tax credit for research and development carried out in previous years. These cash flow forecasts indicate that the Group will have sufficient funds to support its operations. The validity of this assumption depends on the ability of the Group to generate adequate cash through the implementation of its business plan. The directors believe that the projected growth rates for revenue generation are reasonably achievable and that further reorganisations will reduce both direct and overhead costs within the business.

Due to a combination of contractual and market-related issues, the directors believe that it is now no longer feasible to raise any further financing from the equity commitment with Credit Suisse First Boston Equities and others and the directors' assumptions do not include any funding from this arrangement. The directors are reviewing alternative financing arrangements and the possible sale of assets to cover the risk of current assumptions not being met.

If the Group was unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise, and to reclassify fixed assets and long-term liabilities as current assets and liabilities.

Whilst the directors recognise the present uncertainty as to the outcome of the matters mentioned above, they believe that it is appropriate for the financial statements to be prepared on the going concern basis.

### Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to the year end. The results of subsidiaries acquired or disposed of are included in or excluded from the consolidated profit and loss account from the date control passes to or away from the Company. Intra-group sales and profits are eliminated fully on consolidation.

On the acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities and the resulting gains and losses that arise after the Group has gained control of the subsidiary are charged to the post acquisition profit and loss account or statement of total recognised gains and losses.

The Company has complied with the merger relief provisions of Section 131 of the Companies Act 1985 and accordingly has credited the premium arising on the issue of shares in the year ended 31 March 2001 to the former owners of Idefi SA to the merger reserve.

### Turnover

Turnover represents amounts receivable for services, advertising revenue and merchandise net of VAT, returns and refunds.

The Group recognises listing and related fees on listing of an item for auction and success fees and any other relevant commission on the completion of the auction.

The Group recognises advertising revenue when the relevant advertising service has been delivered.

### Intangible fixed assets

Intangible fixed assets are included at cost or fair value on acquisition. Amortisation is calculated to write off the cost of intangible assets on a straight-line basis over their expected useful economic life. The useful economic life is the period over which each asset is estimated to be capable of earning revenue. The carrying value of intangible assets is assessed annually and any impairment value is charged to the profit and loss account.

### Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable assets acquired. Goodwill arising on each acquisition is annually reviewed separately for impairment, and where appropriate, charged to the profit and loss account.

Capitalised goodwill is amortised on a straight-line basis over its expected useful economic life. The expected useful economic life is up to 39 months from the date of acquisition based on future expected earnings.

### Tangible fixed assets

Tangible fixed assets are stated at cost or fair value on acquisition less depreciation. Depreciation is provided at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life.

The residual value is estimated taking into account obsolescence, technological developments and expected proceeds on disposal. The principal annual rates for this purpose are:

- Furniture and Office Equipment at 33% per annum on a straight-line basis.
- Computer Systems and Equipment (including computer servers) at 25% or 33% per annum on a straight-line basis.
- Internal and External Computer Software at 33% or 50% per annum on a straight-line basis.

The Group selects its depreciation rates carefully and reviews them regularly to take into account any changes in circumstances. When setting useful economic lives, the principal factors the Group takes into account are the expected rate of technological developments, expected market requirements for the equipment and the intensity at which the assets are to be used. The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the profit and loss account.

### Development expenditure

Development expenditure includes expenses incurred by the Group to develop and improve the current functionality of the Group's websites. Development costs are expensed through administrative costs as incurred except where separately identifiable expenditure has been incurred on bringing specific projects into use.

## Finance leases

Where assets are financed by leasing agreements that give rights and obligations approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments during the lease term. The corresponding lease commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. Depreciation on the relevant assets and interest are charged to the profit and loss account.

## Operating leases

Amounts payable under operating leases are charged to profit and loss on a straight-line basis over the lease term.

## Convertible Bonds

Convertible Bonds, which are convertible into ordinary shares at the option of the holder, are stated at net proceeds after deducting issue costs. The interest due on the bonds is charged to the profit and loss account on a monthly basis and an equal amount credited to the carrying value of the bond. The initial carrying value of the bonds is determined by reference to the initial proceeds and the market value of the associated warrants. The bonds will convert automatically into ordinary shares at various dates in 2004 unless converted before this date.

## Warrants issued in association with the Convertible Bonds

The warrants are stated separately from the bonds and are included as part of shareholders' funds. The warrants are valued based on the market price of the Company's ordinary shares at the time of issue taking into account the exercise price of the warrants.

## Issue and finance costs

Issue costs relating to debt are recognised in the profit and loss account on a systematic basis taking into account the terms of the outstanding obligations.

## Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction.

Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the year, and results of foreign subsidiaries are translated at the average rate of exchange ruling throughout the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies are taken to reserves and reported in the statement of total recognised gains and losses.

All other exchange differences are taken to the profit and loss account as they arise.

## Related party transactions

Financial Reporting Standard 8, 'Related Party Transactions', requires the disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of exemptions under Financial Reporting Standard 8 not to disclose transactions between Group companies.

## National Insurance

Employers' National Insurance Contributions become payable on exercise of unapproved share options issued after 5 April 1999 on the difference between the market value of the Company's ordinary shares at the date of exercise and the exercise price of the underlying options. Provision for this liability is made based upon the market value of options at the balance sheet date and spread over the vesting period of the options.

With effect from 1 January 2001, all options granted to UK employees under the Unapproved Employee Share Option Scheme have been granted on the basis that the employee is liable for the employer's National Insurance Contributions.

## Pension costs

The Group pays defined contributions to personal money purchase pension schemes for some employees. The charge in the financial statements represents contributions payable in the year.

## Deferred tax

Deferred taxation arises as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more, or a right to pay less taxation in future. The deferred tax liability that is the result of timing differences is recognised in full. Deferred tax assets are only recognised to the extent that, on the basis of all available evidence, they are recoverable. Deferred tax assets and liabilities recognised have not been discounted.

## Financial instruments

The Group's financial assets and liabilities are recorded at historical cost, other than the net assets and liabilities of subsidiaries, which are translated into sterling at rates of exchange at the balance sheet date.

The Group does not use or trade in derivatives financial instruments. Capital instruments that contain an obligation to transfer economic benefit, such as debt issues, are classified as liabilities and are recorded at their net proceeds. The finance costs in respect of such liabilities recognised in the profit and loss account are allocated over the term of the instruments at a constant rate on the carrying amount. Financial assets are recorded at cost and the return on such assets is accrued in the period to which they relate.

## Notes to the financial statements

for the year ended 31 March 2003

### 1 Segmental reporting

	(Loss) before tax			(Loss) before tax		
	Turnover Year ended 31 March 2003 £'000	Before exceptional items	After exceptional items	Turnover Year ended 31 March 2002 £'000	Before exceptional items	After exceptional items
		Year ended 31 March 2003 £'000	Year ended 31 March 2003 £'000		Year ended 31 March 2002 £'000	Year ended 31 March 2002 £'000
<b>Geographical analysis</b>						
United Kingdom	910	(14,148)	(14,636)	1,498	(13,622)	(16,148)
Europe	3,360	(3,555)	(3,804)	3,321	(18,342)	(23,380)
Continuing operations	4,270	(17,703)	(18,440)	4,819	(31,964)	(39,528)
Discontinued operations	770	36	(275)	596	(394)	(402)
<b>Total</b>	<b>5,040</b>	<b>(17,667)</b>	<b>(18,715)</b>	<b>5,415</b>	<b>(32,358)</b>	<b>(39,930)</b>

In the period under review materially all turnover and loss by origin and destination was generated from the single activity of providing online auctions. There was no material difference between turnover by origin and turnover by destination.

Costs related to the amortisation of goodwill arising on consolidation are shown as belonging to the United Kingdom.

Turnover and costs relating to QXL Poland Sp z.o.o. are included for the nine months ended 31 December 2002.

	31 March 2003 £'000	31 March 2002 £'000
<b>Net assets</b>		
United Kingdom	(1,904)	(3,781)
Europe	(6,524)	13,490
Continuing operations	(8,428)	9,709
Discontinued operations	-	(47)
<b>Total</b>	<b>(8,428)</b>	<b>9,662</b>

Net assets at 31 March 2003 excludes the deemed disposal of net assets related to QXL Poland as detailed in note 16.

### 2 Operating loss analysis

	Ongoing operations	Acquisitions	Discontinued operations	Total	Ongoing operations	Acquisitions	Discontinued operations	Total
	31 March 2003 £'000	31 March 2003 £'000	31 March 2003 £'000	31 March 2003 £'000	31 March 2002 £'000	31 March 2002 £'000	31 March 2002 £'000	31 March 2002 £'000
Turnover	3,984	286	770	5,040	4,819	-	596	5,415
Cost of sales	(66)	-	(2)	(68)	(530)	-	(10)	(540)
<b>Gross profit</b>	<b>3,918</b>	<b>286</b>	<b>768</b>	<b>4,972</b>	<b>4,289</b>	<b>-</b>	<b>586</b>	<b>4,875</b>
Sales and marketing	6,143	890	612	7,645	15,105	-	908	16,013
Bad debt provision	696	-	53	749	1,597	-	45	1,642
Goodwill amortisation - sales and marketing	7,151	-	-	7,151	9,667	-	-	9,667
Exceptional goodwill impairment	-	-	-	-	4,508	-	-	4,508
Restructuring costs	739	-	-	739	-	-	-	-
<b>Distribution costs</b>	<b>14,729</b>	<b>890</b>	<b>665</b>	<b>16,284</b>	<b>30,877</b>	<b>-</b>	<b>953</b>	<b>31,830</b>

**2 Operating loss analysis (continued)**

	Ongoing operations	Acquisitions	Discontinued operations	Total	Ongoing operations	Acquisitions	Discontinued operations	Total
	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March
	2003	2003	2003	2003	2002	2002	2002	2002
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General and administrative	4,279	-	-	4,279	5,500	-	-	5,500
Technology and development	2,360	145	67	2,572	7,006	-	35	7,041
Goodwill amortisation – technology and development	-	-	-	-	(1,187)	-	-	(1,187)
Exceptional fixed asset impairment	-	-	-	-	2,526	-	-	2,526
Share based compensation	-	-	-	-	(97)	-	-	(97)
Release of provision for irrecoverable French VAT	(431)	-	-	(431)	538	-	-	538
Write-down of Italian VAT receivable	221	-	-	221	-	-	-	-
Restructuring costs – technology and development	519	-	-	519	-	-	-	-
<b>Administrative expenses</b>	<b>6,948</b>	<b>145</b>	<b>67</b>	<b>7,160</b>	13,656	-	35	13,691
<b>Operating (loss)/profit</b>	<b>(17,759)</b>	<b>(749)</b>	<b>36</b>	<b>(18,472)</b>	(40,244)	-	(402)	(40,646)

**3 Exceptional items**

	Notes	31 March 2003 £'000	31 March 2002 £'000
<b>Distribution costs</b>			
Goodwill impairment provision		-	4,508
Restructuring costs	(i)	739	-
		<b>739</b>	4,508
<b>Administrative expenses</b>			
Fixed asset impairment		-	2,526
Restructuring costs – technology and development	(i)	519	-
Reversal of provision for irrecoverable French VAT	(ii)	(431)	538
Write-down of Italian VAT receivable	(iii)	221	-
		<b>309</b>	3,064

**(i) Restructuring costs**

During the year ended 31 March 2003, the Group incurred exceptional restructuring costs amounting to £1,258,000 relating to cost rationalisation and the restructuring of its technology operations to a lower cost operating environment.

**(ii) Reversal of provision for irrecoverable French VAT**

During the year ended 31 March 2002, the Group provided for irrecoverable VAT of £538,000 relating to a dispute with the VAT authorities in France. However, during the year ended 31 March 2003, the Group recovered £431,000 of VAT from the French VAT authorities and this amount has been credited back into the profit and loss account.

**(iii) Write-down of Italian VAT receivable**

During the year ended 31 March 2003, the Group wrote down its VAT receivable in Italy by an amount of £221,000.

The impact of the exceptional items on the carried forward tax loss is £1,048,000 which increases the unprovided deferred tax asset by £314,000.

#### 4 Operating loss

	<b>31 March 2003 £'000</b>	31 March 2002 £'000
<b>The operating loss is stated after charging</b>		
Exchange gains	<b>44</b>	(599)
Amortisation of intangible fixed assets	<b>7,151</b>	8,340
Exceptional write off of goodwill	<b>-</b>	4,508
Depreciation of tangible fixed assets – owned assets	<b>968</b>	2,147
Depreciation of tangible fixed assets – under finance leases	<b>52</b>	521
Fixed asset impairment	<b>-</b>	2,526
(Profit)/loss on disposal of fixed assets	<b>56</b>	265
(Profit)/loss on disposal of investments	<b>25</b>	-
Operating lease rentals – land & buildings	<b>731</b>	1,272
Auditors' remuneration – audit (Company: £75,000)	<b>149</b>	196
Auditors' remuneration – other services	<b>58</b>	343
Development expenditure (excluding exceptional item in note 3)	<b>1,148</b>	2,521

#### 5 Directors and employees

	<b>31 March 2003 Number</b>	31 March 2002 Number
<b>The average monthly number of persons (including directors) employed by the Group during the year was</b>		
Sales and marketing	<b>117</b>	208
Technical	<b>18</b>	25
General and administration	<b>20</b>	24
	<b>155</b>	257

	<b>31 March 2003 £'000</b>	31 March 2002 £'000
<b>Staff costs for the above persons</b>		
Wages and salaries	<b>7,155</b>	10,810
Social security costs	<b>687</b>	1,064
Pension costs*	<b>217</b>	308
	<b>8,059</b>	12,182

\*The Group contributes to a defined contribution personal pension scheme for certain of its employees.

#### 6 Directors' emoluments

Details of directors' emoluments are shown in the Directors' remuneration report on page 16.

#### 7 Interest receivable and similar income

All interest receivable and similar income consisted of interest earned on bank and money market deposits.

**8 Interest payable and similar charges**

	<b>31 March 2003 £'000</b>	31 March 2002 £'000
Finance leases	<b>7</b>	21
Interest and issue costs on 2% Convertible Bonds	<b>283</b>	252
Bank loans and overdrafts	<b>3</b>	–
	<b>293</b>	273

**9 Taxation**

No taxation charge has arisen for the year. The Group has accumulated estimated tax losses of approximately £195 million, (2002: £174 million) available to carry forward and offset against future trading profits. This represents an unprovided deferred tax asset of approximately £54 million, (2002: £48 million). Included within this balance are delayed capital allowances of £9.4 million (2002: £9 million). Comparative figures have been adjusted to reflect finalised calculations of tax losses.

	<b>31 March 2003 £'000</b>	31 March 2002 £'000
(Loss)/profit on ordinary activities before tax	<b>(18,715)</b>	(39,930)
Tax on the above at average rate for the Group (28%)	<b>(5,240)</b>	(11,979)
Effect of:		
Deferred tax asset not provided in respect of losses	<b>3,103</b>	6,060
Expenses not deducted for tax purposes	<b>2,137</b>	5,919
	<b>–</b>	–

**10 Loss for the year**

As permitted by Section 230(1) of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements.

The Company's loss after taxation for the financial year was £12,672,000 (2002: £43,306,000).

**11 Loss per ordinary share**

	<b>31 March 2003</b>	31 March 2002
Loss attributable to ordinary shareholders (£'000)	<b>(18,582)</b>	(37,930)
Weighted average number of shares	<b>882,361</b>	713,374
Per share amount (pounds)	<b>(21.06)</b>	(53.17)

In accordance with UK GAAP the number of shares is based on the weighted average number of shares after taking account of the share consolidation of 28 March 2003 (note 23). Prior year comparisons have been restated.

The Company has share options, warrants and convertible bonds which are potential ordinary shares. However, the impact on the net loss of these potential ordinary shares is anti-dilutive.

**12 Intangible fixed assets**

Group	Goodwill £'000	Other £'000	Total £'000
Cost at 1 April 2002	139,759	631	140,390
<b>31 March 2003</b>	<b>139,759</b>	<b>631</b>	<b>140,390</b>
Amortisation at 1 April 2002	129,032	631	129,663
Charge for the year	7,151	-	7,151
<b>31 March 2003</b>	<b>136,183</b>	<b>631</b>	<b>136,814</b>
<b>Net book value at 31 March 2003</b>	<b>3,576</b>	<b>-</b>	<b>3,576</b>
Net book value at 31 March 2002	10,727	-	10,727
			Goodwill and other £'000
<b>Company</b>			
Cost at 1 April 2002			3,247
<b>31 March 2003</b>			<b>3,247</b>
Amortisation at 1 April 2002			3,247
<b>31 March 2003</b>			<b>3,247</b>
<b>Net book value at 31 March 2003</b>			<b>-</b>
Net book value at 31 March 2002			-

Other intangible assets include capitalised website development costs.

**13 Tangible fixed assets**

Group	Furniture and office equipment £'000	Computer systems and equipment £'000	Internal computer software capitalised £'000	External computer software capitalised £'000	Total £'000
Cost at 1 April 2002	489	8,352	2,727	1,512	13,080
Exchange movement	30	91	184	(42)	263
Additions	16	141	15	56	228
Disposals	(153)	(1,793)	-	(287)	(2,233)
<b>31 March 2003</b>	<b>382</b>	<b>6,791</b>	<b>2,926</b>	<b>1,239</b>	<b>11,338</b>
Depreciation at 1 April 2002	340	7,631	2,649	1,410	12,030
Exchange movement	11	70	165	(40)	206
Charge for the year	130	675	86	129	1,020
Disposals	(109)	(1,693)	-	(287)	(2,089)
<b>31 March 2003</b>	<b>372</b>	<b>6,683</b>	<b>2,900</b>	<b>1,212</b>	<b>11,167</b>
<b>Net book value at 31 March 2003</b>	<b>10</b>	<b>108</b>	<b>26</b>	<b>27</b>	<b>171</b>
Net book value at 31 March 2002	149	721	78	102	1,050

Included within 'Computer systems and equipment' are assets held under finance leases with a net book value of £nil (2002: £52,000).

Depreciation charged during the year to these assets was £52,000 (2002: £521,000).

Included within disposals are assets belonging to QXL Poland Sp z.o.o. at the date of disposal with a gross cost of £142,370 and accumulated depreciation of £65,700.

**13 Tangible fixed assets (continued)**

<b>Company</b>	Furniture and office equipment £'000	Computer systems and equipment £'000	Internal computer software capitalised £'000	External computer software capitalised £'000	Total £'000
Cost at 1 April 2002	148	6,528	2,467	765	9,908
Additions	–	–	–	44	44
Disposals	–	(1,805)	–	(15)	(1,820)
<b>31 March 2003</b>	<b>148</b>	<b>4,723</b>	<b>2,467</b>	<b>794</b>	<b>8,132</b>
Depreciation at 1 April 2002	128	6,031	2,434	688	9,281
Charge for the year	20	495	33	121	669
Disposals	–	(1,803)	–	(15)	(1,818)
<b>31 March 2003</b>	<b>148</b>	<b>4,723</b>	<b>2,467</b>	<b>794</b>	<b>8,132</b>
<b>Net book value at 31 March 2003</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
Net book value at 31 March 2002	20	497	33	77	627

Included within 'Computer systems and equipment' are assets held under finance leases with a net book value of £nil (2002: £52,000).

Depreciation charged during the year to these assets was £52,000 (2002: £521,000).

**14 Investments**

<b>Group</b>	<b>31 March 2003 £'000</b>
At 1 April 2002	25
Disposal	(25)
<b>At 31 March 2003</b>	<b>–</b>

<b>Company</b>	<b>31 March 2003 £'000</b>
At 1 April 2002	9,619
Additions through acquisition/capital contributions	6,537
Disposal	(38)
Impairment provision	(5,805)
<b>At 31 March 2003</b>	<b>10,313</b>

**14 Investments (continued)**

The following subsidiary undertakings have been included in these consolidated financial statements using acquisition accounting:

<b>Name of undertaking</b>	Country of incorporation	Ordinary shares held 31 March 2003	Book value 31 March 2002 £'000	Acquisitions/ capital contributions £'000	Disposal £'000	Impairment provision £'000	<b>Book value 31 March 2003 £'000</b>
QXL France Sarl	France	100%	6	–	–	–	<b>6</b>
QXL GmbH	Germany	100%	–	–	–	–	–
QXL Italia Srl	Italy	95% <sup>(1)</sup>	–	–	–	–	–
QXL Nederland BV	Netherlands	100%	–	–	–	–	–
QXL Spain SL	Spain	100%	2	586	–	(588)	–
QXL ricardo OY	Finland	100%	5	–	–	(5)	–
Bidlet AB	Sweden	100%	–	–	–	–	–
QXL Marketing e Projectos Lda	Portugal	100%	–	–	–	–	–
Quixell Ltd	UK	100%	–	–	–	–	–
QXL.com Ltd	UK	100%	–	–	–	–	–
QXL Aukstjon Norge AS	Norway	100%	–	–	–	–	–
QXL Denmark ApS	Denmark	100%	–	4,182	–	(2,152)	<b>2,030</b>
QXL Poland Sp z.o.o.	Poland	8% <sup>(3)</sup>	38	–	(38)	–	–
QXL Allegro	Poland	100%	–	8	–	–	<b>8</b>
QXL Greece	Greece	–	2	–	–	(2)	–
Idefi SA	Luxembourg	100%	–	–	–	–	–
ibidlive NV	Netherlands	62%	–	–	–	–	–
ricardo.ch AG	Switzerland	100%	1,854	–	–	–	<b>1,854</b>
QXL Sweden AB	Sweden	99.6%	3,311	740	–	–	<b>4,051</b>
ricardo.nl BV	Netherlands	100%	–	–	–	–	–
ricardo.de AG	Germany	92% <sup>(2)</sup>	4,401	1,021	–	(3,058)	<b>2,364</b>
<b>At 31 March 2003</b>			<b>9,619</b>	<b>6,537</b>	<b>(38)</b>	<b>(5,805)</b>	<b>10,313</b>

<sup>(1)</sup>The other 5% is owned by Quixell Limited.

<sup>(2)</sup>QXL ricardo plc holds 2.0% of ricardo.de AG's share capital directly, the remainder is held by its subsidiary QXL GmbH.

<sup>(3)</sup>Change in shareholding in QXL Poland Sp z.o.o. is detailed in note 16.

**Impairment provision**

UK GAAP prescribes that the carrying value of an investment should be no more than the higher of its value in use and its net realisable value. An impairment review of each of the Group's investments was performed on the basis of the present value of discounted future cash flows. A discount rate of 23% was used, which was the risk-free discount rate adjusted for uncertainties of future earnings.

**15 Acquisitions****Acquisition of Aucland (France)**

On 16 July 2002 QXL France Sarl acquired the operations of Aucland.fr from Auction Land SA for the sum of 2 Euros, representing the fair value of the net assets acquired.

## 16 Disposals

### Deemed disposal of QXL Poland Sp z.o.o.

In January 2003 the Company was informed that 92% of the shares in its Polish subsidiary, QXL Poland Sp z.o.o., had been issued to a company called NIAA Sp z.o.o. Various civil and criminal proceedings have been commenced in Poland regarding the registration and the Company is seeking to annul the share issue to NIAA on the basis that it was carried out fraudulently.

Pending any annulment of the fraudulent share issue, the Company will show the loss of its investment in QXL Poland Sp z.o.o. as a deemed disposal. The overall impact on the Group's consolidated profit and loss account is detailed below.

	<b>31 March 2003 £'000</b>
Fixed assets	<b>77</b>
Cash	<b>61</b>
Stock	<b>6</b>
Amounts receivable	<b>292</b>
Amounts payable	<b>(125)</b>
<b>Polish net assets lost (excluding intercompany debt)</b>	<b>311</b>

Included in the consolidated profit and loss account for the year is £36,000 of operating profit for the nine months to 31 December 2002 relating to QXL Poland.

## 17 Stock

	<b>Group 31 March 2003 £'000</b>	Group 31 March 2002 £'000	<b>Company 31 March 2003 £'000</b>	Company 31 March 2002 £'000
<b>Goods for resale</b>	<b>-</b>	34	<b>-</b>	-

## 18 Debtors

	<b>Group 31 March 2003 £'000</b>	Group 31 March 2002 £'000	<b>Company 31 March 2003 £'000</b>	Company 31 March 2002 £'000
<b>Amounts due within one year</b>				
Trade debtors	<b>642</b>	910	<b>73</b>	324
Other debtors	<b>1,199</b>	1,302	<b>178</b>	191
Prepayments and accrued income	<b>527</b>	1,123	<b>340</b>	887
Amounts due from subsidiary undertakings	<b>-</b>	-	<b>-</b>	6,346
	<b>2,368</b>	3,335	<b>591</b>	7,748
<b>Amounts due after more than one year</b>				
Prepayments	<b>321</b>	321	<b>321</b>	321
Amounts due from subsidiary undertakings	<b>-</b>	-	<b>7,410</b>	-
	<b>321</b>	321	<b>7,731</b>	321

Intra-group fundings are repayable on demand and interest is charged at a rate of 2% over Sterling LIBOR.

## 19 Creditors: amounts falling due within one year

	<b>Group 31 March 2003 £'000</b>	Group 31 March 2002 £'000	<b>Company 31 March 2003 £'000</b>	Company 31 March 2002 £'000
Trade creditors	<b>1,278</b>	1,201	<b>461</b>	873
Other taxation and social security	<b>359</b>	597	<b>47</b>	315
Other creditors	<b>95</b>	412	<b>97</b>	-
Accruals	<b>992</b>	2,967	<b>506</b>	1,155
Finance lease obligations	<b>28</b>	23	<b>28</b>	23
Amounts due to subsidiary undertakings	<b>-</b>	-	<b>-</b>	1,481
	<b>2,752</b>	5,200	<b>1,139</b>	3,847

**20 Creditors: amounts falling due after one year**

	<b>Group 31 March 2003 £'000</b>	Group 31 March 2002 £'000	<b>Company 31 March 2003 £'000</b>	Company 31 March 2002 £'000
Finance lease obligations	<b>31</b>	59	<b>31</b>	59
Other creditors	<b>31</b>	32	<b>-</b>	-
Amounts due to subsidiary undertakings	<b>-</b>	-	<b>6,192</b>	-
	<b>62</b>	91	<b>6,223</b>	59

**Maturity of financial liabilities**

<b>Future minimum payments under finance leases are as follows:</b>	<b>Group 31 March 2003 £'000</b>	Group 31 March 2002 £'000	<b>Company 31 March 2003 £'000</b>	Company 31 March 2002 £'000
Due within one year	<b>28</b>	23	<b>28</b>	23
Due in more than one year but not more than two years	<b>31</b>	28	<b>31</b>	28
Due in more than two years but not more than five years	<b>-</b>	31	<b>-</b>	31
	<b>59</b>	82	<b>59</b>	82

The weighted average fixed interest rate implicit on the finance leases is 11.35%.

**21 2% Convertible Bonds and associated Warrants**

On 18 January 2001, the Company entered into an agreement under which it secured £15 million before expenses, by way of a private placement of three series of unsecured convertible bonds (the 'Convertible Bonds') and related Warrants ('Warrants') exercisable into new ordinary shares in the Company. The Warrants are separate from the Convertible Bonds and are non callable.

The Company had received the £15 million due in respect of the Convertible Bonds and has issued all the Convertible Bonds and Warrants in relation to such funding before the start of the financial year ended 31 March 2003.

The Convertible Bonds issued in relation to the first £5 million instalment (the 'A Bonds') are convertible into a maximum of 116,133 ordinary shares at a price equal to the lower of £126.192 and the average of the three highest of the five lowest daily volume weighted average prices during the 15 trading days prior to the date of delivery of the relevant conversion notice (the 'Floating Conversion Price'). The A Bonds can be converted by the holder into ordinary shares at any time until 13 February 2004. 26,187 ordinary shares were issued to some of the subscribers on 11 February 2002 following the receipt by the Company of a conversion notice in respect of £600,000 of the A Bonds. The Warrants issued to the subscribers in relation to this instalment of the funding are in respect of 19,811 ordinary shares at an exercise price of £157.740 per share.

The Convertible Bonds issued in relation to the second £5 million instalment (the 'B Bonds') are convertible into a maximum of 128,155 ordinary shares at a price equal to the lower of £73.154 and the Floating Conversion Price. The B Bonds can be converted by the holder into ordinary shares at any time until 30 May 2004. 30,876 ordinary shares were issued to some of the subscribers on 5 July 2002 following the receipt by the Company of a conversion notice in respect of £180,000 of the B Bonds. The Warrants issued to the subscribers in relation to this instalment of the funding are in respect of 35,793 ordinary shares at an exercise price of £87.308 per share.

The Convertible Bonds issued in relation to the third £5 million instalment (the 'C Bonds') are convertible into a maximum of 308,871 ordinary shares at a price equal to the lower of £33.936 and the Floating Conversion Price. The C Bonds can be converted by the holder into ordinary shares at any time until 8 November 2004. 23,900 and 23,938 ordinary shares were issued to some of the subscribers on 15 August 2002 and 4 February 2003 respectively following the receipt by the Company of conversion notices in respect of £98,000 and £120,000 respectively of the C Bonds. The Warrants issued to the subscribers in relation to this instalment of the funding are in respect of 73,668 ordinary shares at an exercise price of £42.420 per share.

All share and price data has been restated for the effect of the 1-for-1000 share consolidation effected on 28 March 2003.

Each tranche of Convertible Bonds converts automatically three years after the relevant issue date to the extent not already redeemed or converted ('maturity').

Interest is payable on the Convertible Bonds at a rate of 2% per annum up to the date of conversion or maturity, either in cash or shares of the Company at the Company's discretion. All interest paid to date on converted Bonds has been paid in shares at the time of conversion and is included in the share numbers outlined above.

The ordinary shares into which the Convertible Bonds convert will rank pari passu with all the other ordinary shares of the Company and as such will rank equally for any dividends.

No value was assigned to any of the Warrants because the exercise price was higher than the market value of the Company's ordinary shares at the time of issue.

## 22 Provisions for liabilities and charges

	Group and Company 31 March 2003 £'000	Group and Company 31 March 2002 £'000
<b>Provision for property dilapidations</b>		
At 1 April 2002	-	-
Charged during the year	200	-
<b>At 31 March 2003</b>	<b>200</b>	-

### Deferred Tax

The Group has adopted FRS 19.

A deferred tax asset for losses available to carry forward of £54 million against future taxable profit of £195 million has not been recognised in respect of the trading losses in the Group. This is because UK GAAP requires that deferred tax assets are only recognised to the extent that the transfer of economic benefit in the foreseeable future has reasonable probability.

## 23 Share capital

	Group and Company 31 March 2003 £	Group and Company 31 March 2002 £
<b>Authorised</b>		
2,200,000,000 ordinary shares of £0.001 each	-	2,200,000
3,200,000 ordinary shares of £1 each	3,200,000	-
Six (2002: six) special shares of £1 each	6	6
	<b>3,200,006</b>	2,200,006
<b>Allotted, called up and fully paid</b>		
836,549,112 ordinary shares of £0.001 each	-	836,549
915,263 ordinary shares of £1 each	915,263	-
Six (2002: six) special shares of £1 each	6	6
	<b>915,269</b>	836,555

At the Company's annual general meeting on 1 August 2002, shareholders approved an increase in the Company's authorised share capital from £2,200,006 to £3,200,006.

### Share issues

The following shares were issued/(cancelled) during the year:	Group and Company			Reason for issue
	Number of shares	Share capital £	Share premium £	
5 July 2002	30,875,564	30,876	152,834	Conversion of 2% convertible bonds
15 August 2002	23,900,068	23,900	75,476	Conversion of 2% convertible bonds
4 February 2003	23,938,296	23,938	98,889	Conversion of 2% convertible bonds
28 March 2003 <sup>(1)</sup>	(915,263,040)	-	-	Cancellation of existing ordinary shares
	915,263	-	-	Issue of new ordinary shares
	<b>(835,633,849)</b>	<b>78,714</b>	<b>327,199</b>	<b>Movement for the year</b>
	836,549,112	836,549		Ordinary shares outstanding at 1 April 2002
	6	6		Special shares outstanding at 1 April 2002
	<b>915,263</b>	<b>915,263</b>		<b>Ordinary shares outstanding at 31 March 2003</b>
	<b>6</b>	<b>6</b>		<b>Special shares outstanding at 31 March 2003</b>

<sup>(1)</sup> On 28 March 2003 shareholders approved a 1-for-1000 share consolidation.

## 23 Share capital (continued)

### Ordinary shares

Ordinary shares are equal in value and have an equitable interest in the Company. The holders of ordinary shares are entitled to any dividends declared in relation thereto by the directors. Each holder of an ordinary share is entitled to one vote at general meetings of the Company. The holders of ordinary shares, upon the liquidation of the Company are entitled to a share of the surplus assets of the Company.

### Special shares

Pending full exercise of their exchange rights granted at the time of the acquisition of ricardo.de AG, the former majority shareholders of ricardo.de AG were issued in total six special shares in QXL ricardo plc. These special shares gave the holder substantially the same rights they would have had if they had fully exercised their exchange rights over ordinary shares in QXL ricardo plc. As all of the exchange rights have now been exercised, the rights attaching to the special shares have effectively lapsed.

## 24 Options and warrants in shares

Option holder	At 31 March 2002	Granted during year	Exercised during year	Lapsed during year	At 31 March 2003	Exercise price	Exercise period
Directors in total	46,787	4,000	–	7,569	<b>43,218</b>	<b>£4.30 – £97.50</b>	1999 to 2012
Staff in total	51,850	8,299	–	39,031	<b>21,118</b>	<b>£4.30 – £4,483.30</b>	1999 to 2012
A Warrants	19,810	–	–	–	<b>19,810</b>	<b>£158.00</b>	2001 to 2004
B Warrants	35,792	–	–	–	<b>35,792</b>	<b>£87.00</b>	2001 to 2004
C Warrants	73,667	–	–	–	<b>73,667</b>	<b>£42.00</b>	2001 to 2004

Options issued to directors and staff are in respect of ordinary shares. Employee options normally vest over a four year period from the date on which the option is granted.

### Options granted to directors

Year of grant	Number of options	Exercise price	Exercise period
2002 to 2003	<b>4,000</b>	£4.30	2003 to 2012
2001 to 2002	<b>24,000</b>	£16.00	2003 to 2012
2000 to 2001	<b>9,041</b>	£97.50	2002 to 2011
1999 to 2000	–	–	–
1998 to 1999	<b>5,052</b>	£14.90	1999 to 2008
1997 to 1998	<b>1,125</b>	£14.90	1999 to 2005
	<b>43,128</b>		

### Options granted to staff

Year of grant	Number of options	Exercise price	Exercise period
2002 to 2003	<b>5,281</b>	£4.30 – £7.50	2003 to 2012
2001 to 2002	<b>12,364</b>	£13.80 – £75.00	2002 to 2012
2000 to 2001	<b>3,142</b>	£60.00 – £2,220.00	2001 to 2011
1999 to 2000	<b>96</b>	£113.00 – £4,483.30	2000 to 2010
1998 to 1999	<b>277</b>	£68.00 – £112.66	1999 to 2009
	<b>21,160</b>		

**25 Share premium and reserves**

Group and Company	Group			Company		
	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
Balance at 1 April 2002	225,637	9,137	(225,216)	225,637	2,520	(218,290)
Retained loss for the financial year	-	-	(18,582)	-	-	(12,672)
Premium on shares issued as per note 23	327	-	-	327	-	-
Cost of issue of shares	(8)	-	-	(8)	-	-
Exchange adjustment	-	-	57	-	-	-
<b>Balance at 31 March 2003</b>	<b>225,956</b>	<b>9,137</b>	<b>(243,741)</b>	<b>225,956</b>	<b>2,520</b>	<b>(230,962)</b>

**26 Reconciliation of movement in equity shareholders' funds**

	Group 31 March 2003 £'000	Group 31 March 2002 £'000	Company 31 March 2003 £'000	Company 31 March 2002 £'000
Loss for the year	(18,582)	(37,930)	(12,672)	(43,306)
Issue of capital to former owners of ricardo.de AG	-	2,328	-	2,328
Equity commitment drawdown	-	4,330	-	4,330
Conversion of 2% Convertible Bonds	406	600	406	600
Shares issued to CSFB in lieu of fees	-	410	-	410
Options exercised	-	10	-	10
Cost of issue of shares	(8)	(695)	(8)	(695)
Exchange adjustment	57	(233)	-	-
Net decrease in shareholders' funds	(18,128)	(31,180)	(12,275)	(36,323)
Opening shareholders' funds	10,395	41,575	10,704	47,027
<b>Closing shareholders' (deficit)/funds</b>	<b>(7,733)</b>	10,395	<b>(1,571)</b>	10,704

**27 Financial commitments**

	31 March 2003 £'000	31 March 2002 £'000
<b>Annual commitments under non-cancellable operating leases expiring</b>		
Within one year	30	263
Within two to five years	643	528
After five years	-	-
	<b>673</b>	791

**28 Financial instruments****Financial instruments and risk management**

The Group invests surplus funds in floating rate high interest deposits. Throughout the period under review it has been the Group's policy that no trading in financial instruments shall be undertaken. Similarly the Group did not undertake any financial hedging arrangements during this period. The year end position reflects these policies and there have been no changes in policies or risks since year end.

The main risks arising from the Group's financial instruments are interest risk and foreign currency risk. Interest rates are monitored to ensure best available returns are achieved. The Group's principal exposure to exchange rate fluctuations arises on the translation of overseas net assets and losses into sterling for reporting purposes and on the translation of intercompany balances which fund overseas subsidiaries. On an operating basis funds are exchanged monthly into Euros or other European currencies at spot rates to meet the cash needs of the non-UK subsidiaries.

**Short-term debtors and creditors**

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

**28 Financial instruments (continued)****Interest rate profile of financial assets**

The interest rate profile of the Group's financial assets at 31 March 2003 was:

Currency	Cash at bank and in hand	Total	Cash at bank and in hand	Total
	31 March 2003 £'000	31 March 2003 £'000	31 March 2002 £'000	31 March 2002 £'000
Euro/Euro denominated	427	427	2,509	2,509
Sterling	1,865	1,865	10,927	10,927
Swiss Franc	157	157	220	220
Other	209	209	437	437
	<b>2,658</b>	<b>2,658</b>	14,093	14,093
Floating rate	<b>2,658</b>	<b>2,658</b>	14,093	14,093
Fixed rate	-	-	-	-
	<b>2,658</b>	<b>2,658</b>	14,093	14,093

Interest rates on floating rate financial assets are linked to base rates.

Funds are held in Euros and other foreign currency accounts to enable the Group to trade and settle its debts in the local currency in which they occur in order to mitigate the Group's exposure to foreign exchange fluctuations.

**Interest rate profile and maturity of financial liabilities**

the maturity profile of the carrying amount of the Group's financial liabilities, other than short-term trade creditors and accruals, at 31 March was as follows:

	Debt	Finance leases	Other financial liabilities	Total	Debt	Other financial leases	liabilities	Total
	31 March 2003 £'000	31 March 2003 £'000	31 March 2003 £'000	31 March 2003 £'000	31 March 2002 £'000	31 March 2002 £'000	31 March 2002 £'000	31 March 2002 £'000
In one year or less, or on demand	4,597	28	-	4,625	-	23	-	23
In more than one year but not more than two years	9,912	31	200	10,143	4,509	28	-	4,537
In more than two years but not more than five years	-	-	-	-	10,123	31	-	10,154
	<b>14,509</b>	<b>59</b>	<b>200</b>	<b>14,768</b>	14,632	82	-	14,714

Debt comprises the 2% Convertible Bonds (note 21).

**Borrowing facilities**

The Group does not have any borrowing facilities excluding the 2% Convertible Bonds.

**Currency exposures**

At year end, the Group's currency exposures relate cash and cash equivalents and payables translated at the rate of exchange at that date analysed as follows:

Foreign currency monetary assets/(liabilities)	US Dollar	Euro	Other	Total	US Dollar	Euro	Other	Total
	31 March 2003 £'000	31 March 2003 £'000	31 March 2003 £'000	31 March 2003 £'000	31 March 2002 £'000	31 March 2002 £'000	31 March 2002 £'000	31 March 2002 £'000
Functional currency of operation								
Sterling	2,243	6,325	4,191	12,759	2,440	5,749	8,017	16,206
	<b>2,243</b>	<b>6,325</b>	<b>4,191</b>	<b>12,759</b>	2,440	5,749	8,017	16,206

## 29 Notes to the cash flow statement

	31 March 2003 £'000	31 March 2002 £'000
<b>Reconciliation of operating profit to net cash outflow from operating activities</b>		
Continuing operating activities		
Operating loss	<b>(18,472)</b>	(40,646)
Depreciation of fixed assets	<b>1,020</b>	2,668
Fixed asset impairment	-	2,526
(Profit)/loss on disposal of fixed assets	<b>56</b>	265
(Profit)/loss on disposal of investments	<b>25</b>	-
Goodwill impairment provision	-	4,508
Amortisation of intangible fixed assets	<b>7,151</b>	8,340
Non cash marketing costs	<b>138</b>	421
Decrease/(increase) in stocks	<b>28</b>	261
Decrease/(increase) in debtors	<b>537</b>	5,583
(Decrease)/increase in creditors	<b>(2,329)</b>	(8,394)
(Decrease)/increase in provisions	<b>200</b>	-
<b>Net cash outflow from operating activities</b>	<b>(11,646)</b>	(24,468)

	31 March 2003 £'000	31 March 2002 £'000
<b>Reconciliation of net cash flow to movement in net deficits</b>		
(Decrease)/increase in net cash	<b>(11,632)</b>	2,885
Movements in deposits	-	(13,042)
Movements in finance leases	<b>23</b>	253
Movements in convertible bonds	<b>123</b>	(9,621)
Movement in net deficits for the year	<b>(11,486)</b>	(19,525)
Translation differences	<b>197</b>	(35)
Deficits at 31 March 2002	<b>(621)</b>	18,939
<b>Deficits at 31 March 2003</b>	<b>(11,910)</b>	(621)

	31 March 2002 £'000	Cash flows £'000	Non-cash movements £'000	Exchange movement £'000	31 March 2003 £'000
<b>Reconciliation of movement in net deficits</b>					
Cash in bank and in hand	14,093	(11,632)	-	197	<b>2,658</b>
Finance leases due after one year	(59)	28	-	-	<b>(31)</b>
Finance leases due within one year	(23)	(5)	-	-	<b>(28)</b>
Convertible bonds	(14,632)	-	123	-	<b>(14,509)</b>
<b>Total</b>	(621)	(11,609)	123	197	<b>(11,910)</b>

## 30 Post balance sheet events

In May 2003, the Company sold its Italian subsidiary, QXL Italia srl, to Timalina Trading International Ltda for £280,000, representing the fair value of the net assets disposed of. The consideration is payable in tranches with the final payment due on or before 10 August 2003.

## Company Information

### Directors

Mr J B Bulkeley (Chairman, non-executive director)  
Mr J M Rose (Deputy Chairman, non-executive director)  
Mr M X Zaleski (Chief Executive Officer)  
Mr R S Dighero (Chief Financial Officer)  
Mr T P Power (Non-executive director)

### Company secretary

Mr T T Parkinson

### Company registration number

3430894

### Registered office

Landmark House  
Hammersmith Bridge Road  
London W6 9EJ

### Trading address

Landmark House  
Hammersmith Bridge Road  
London W6 9EJ

### Auditors

PricewaterhouseCoopers LLP  
No. 1 Embankment Place  
London WC2N 6RH

### Solicitors

Shaw Pittman LLP  
Tower 42, Level 23  
25 Old Broad Street  
London EC2N 1NQ

### Bankers

National Westminster Bank plc  
PO Box 12258  
1 Princes Street  
London EC2R 8PB

### Financial advisers

Altium Capital Limited  
30 St James's Square  
London SW1Y 4AL

Credit Suisse First Boston  
1 Cabot Square  
London E14 4QJ

### Broker

Credit Suisse First Boston de Zoete & Bevan Limited  
1 Cabot Square  
London E14 4QJ

### Registrars

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex BN99 6DA

### Depository

The Bank of New York  
101 Barclay Street  
New York NY 10286

### Listings

The ordinary shares of QXL ricardo plc are listed on the London Stock Exchange under the symbol 'QXL'. American Depository Shares (each representing 250 ordinary shares), as evidenced by an American depository receipt ('ADR') are traded in the United States of America on the so-called OTC market.

### Investor relations

QXL ricardo plc  
Landmark House  
Hammersmith Bridge Road  
London W6 9EJ  
Telephone: +44 20 8962 7100  
Fax: +44 20 8962 7335  
E-mail: [investorrelations@qxl.com](mailto:investorrelations@qxl.com)

### Annual general meeting

The annual general meeting of the Company will be held on 3 September 2003 at 4 pm at:

Express by Holiday Inn (London-Hammersmith)  
124 King Street  
Hammersmith  
London W6 0QU

This Annual Report is available in electronic format on the Company's website at [www.qxl.com](http://www.qxl.com)

### Group websites

Denmark – [www.qxl.dk](http://www.qxl.dk)  
France – [www.aucland.fr](http://www.aucland.fr)  
Germany – [www.ricardo.de](http://www.ricardo.de)  
Italy – [www.qxl.it](http://www.qxl.it)  
Netherlands – [www.ricardo.nl](http://www.ricardo.nl)  
Norway – [www.qxl.no](http://www.qxl.no)  
Poland – [www.allegro.pl](http://www.allegro.pl)  
Spain – [www.aucland.es](http://www.aucland.es)  
Sweden – [www.qxl.se](http://www.qxl.se)  
Switzerland – [www.ricardo.ch](http://www.ricardo.ch)  
United Kingdom – [www.qxl.com](http://www.qxl.com)

## Forward-looking statements

This document may contain forward-looking statements that relate to the Group's plans, objectives, estimates and goals. The Group's business is subject to numerous risks and uncertainties, including risks associated with: funding requirements; acquisitions; litigation; only having a limited operating history; regulation of auctions and the Internet; probable variability in the Group's quarterly operating results; the Group's results of operations not being indicative of future performance; significant losses being incurred as a result of expansion of the Group's business; dependence on growth of online commerce market; risks associated with development and growth of the Group's foreign language websites; intense competition; failure to develop the Group's brands; failure to expand the Group's systems; risks associated with managing internal growth and retaining and recruiting personnel; international expansion; online commerce security; risks associated with not developing new services, features and functions; risks associated with intellectual property rights; fraudulent activity of our members and suppliers; and seasonality. These and other risks and uncertainties, which are described in more detail in the Group's Registration Statement dated 7 October 1999, in the Group's prospectuses and listing particulars filed with the UK Listing Authority and the Registrar of Companies in England and Wales (the most recent being dated 11 March 2002) and in other documents filed with the US and German regulatory authorities, could cause the Group's actual results and developments to be materially different from those expressed or implied by any of these forward-looking statements.

## Notice of annual general meeting

Notice is hereby given that the annual general meeting of QXL ricardo plc (the 'Company') will be held at the Express by Holiday Inn (London-Hammersmith), 124 King Street, Hammersmith, London W6 0QU on Wednesday 3 September 2003 at 4 pm:

(a) to consider, and if thought fit, pass the following resolutions:

### Ordinary business

1. To receive the Company's accounts for the year ended 31 March 2003, and the reports of the directors and auditors thereon.
2. To approve the directors' remuneration report contained in the Company's accounts for the year ended 31 March 2003.
3. To reappoint Mr Jonathan B Bulkeley (who is retiring by rotation) as a director of the Company.
4. To reappoint Mr Robert S Dighero (who is retiring by rotation) as a director of the Company.
5. To reappoint PricewaterhouseCoopers LLP as auditors for the period prescribed by Section 385(2) of the Companies Act 1985 and to authorise the directors to determine their remuneration for such period.

### Special business

To consider and, if thought fit, to pass the following resolutions, of which Resolution 6 will be proposed as an ordinary resolution of the Company and Resolutions 7 and 8 will be proposed as special resolutions of the Company:

6. For the purposes of Section 80 of the Companies Act 1985 (the 'Act'), the directors be and they are hereby generally and unconditionally authorised (in addition to the existing authority pursuant to Section 80 of the Act given to directors by ordinary resolutions passed by shareholders on 13 February 2001, 6 September 2001 and 1 August 2002 insofar as such authority relates to the issue of ordinary shares resulting from the conversion of the convertible bonds, the exercise of the warrants and the subscription of ordinary shares pursuant to the arrangements described in the Company's circular to shareholders dated 19 January 2001, but otherwise in substitution for all other existing authorities pursuant to Section 80 of the Act to the extent not utilised at the date this Resolution is passed) to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) of the Company up to an aggregate nominal amount of £305,000, such authority to expire (unless previously revoked, varied or renewed) on the earlier of 15 months after the passing of this Resolution or the conclusion of the annual general meeting of the Company to be held in 2004, provided that the Company may before such expiry make any offer, agreement or other arrangement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer, agreement or other arrangement as if the authority conferred hereby had not expired.
7. That subject to the passing of Resolution 6 above, the directors be and they are hereby empowered to allot equity securities (within the meaning of Section 94(2) of the Companies Act 1985 (the 'Act') of the Company (in addition to the existing authority pursuant to Section 95 of the Act given to directors by special resolutions passed by shareholders on 13 February 2001, 6 September 2001 and 1 August 2002 insofar as such authority relates to the issue of ordinary shares resulting from the conversion of the convertible bonds, the exercise of the warrants and the subscription of ordinary shares pursuant to the arrangements described in the Company's circular to shareholders dated 19 January 2001, but otherwise in substitution for all other existing authorities pursuant to Section 95 to the extent not utilised at the date this Resolution is passed) for cash pursuant to the authority conferred on the directors pursuant to Resolution 6 above as if Section 89(1) of the Act or any pre-emption provisions contained in the articles of association of the Company or otherwise did not apply to such allotment, provided that this power shall be limited to:
  - (i) any allotment of equity securities where such securities have been offered (whether by way of rights issue, open offer or otherwise) to holders of equity securities in proportion (as nearly as practicable) to their then holdings of such securities but subject to such exclusions or other arrangements as the directors may deem necessary or desirable in relation to fractional entitlements or legal or practical problems arising in, or pursuant to, the laws of any territory, or the requirements of any regulatory body or stock exchange in any territory or otherwise howsoever; and
  - (ii) any other allotment (otherwise than pursuant to sub-paragraph (i) of this Resolution) of equity securities up to an aggregate nominal amount of £45,763,

such power to expire (unless previously revoked, varied or renewed) on the earlier of 15 months after the passing of this Resolution or the conclusion of the annual general meeting of the Company to be held in 2004, provided that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer, agreement or other arrangement as if the power conferred hereby had not expired.

8. That the Company is generally and unconditionally hereby authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985 (the 'Act') of any of its ordinary shares on such terms and in such manner as the directors may from time to time determine provided that:
  - (i) the maximum nominal value of ordinary shares hereby authorised to be purchased is £45,763, representing approximately 5% of the issued share capital of the Company as at 14 July 2003;
  - (ii) the minimum price which may be paid for any ordinary share is £1, exclusive of the expenses of purchase (if any) payable by the Company;
  - (iii) the maximum price, exclusive of the expenses of purchase (if any) payable by the Company, which may be paid for any such ordinary share under this authority is an amount equal to 105% of the average of the middle market quotations for such an ordinary share as derived from the Daily Official List of the United Kingdom Listing Authority for the five business days immediately preceding the day of purchase; and
  - (iv) unless previously renewed, revoked or varied, the authority hereby conferred shall expire on the earlier of 15 months after the passing of this Resolution or at the conclusion of the annual general meeting of the Company to be held in 2004, but a contract for purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of ordinary shares may be made in pursuance of any such contract.
  
- (b) to consider whether any, and if so what, steps should be taken to deal with the situation which has arisen in which the net assets of the Company are less than half the nominal value of the Company's called up share capital.

By order of the board

**Tom Parkinson**  
Company Secretary

Registered Office  
Landmark House  
Hammersmith Bridge Road  
London W6 9EJ

14 July 2003

## Notes

1. As provided by Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company as at 6 pm on 2 September 2003 shall be entitled to attend and vote at the annual general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 2 September 2003 shall be disregarded in determining the rights of any person to attend or vote at the annual general meeting.
2. A form of proxy is enclosed for use in connection with the annual general meeting to which this notice relates and any adjournment thereof. A shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a shareholder of the Company. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the annual general meeting in person.
3. To be effective the form of proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power of authority), must be received at the offices of the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL, 48 hours before the time for holding the meeting or any adjournment thereof or (in the case of a poll taken otherwise than at the annual general meeting or any adjournment thereof) for the taking of the poll at which it is to be used.

## Explanation of the resolutions

### Annual report and accounts (Resolution 1)

The Directors of the Company are required by the Act to lay the accounts, the report of the directors on those Accounts and the report of the auditors of the Company on those accounts, before shareholders at the annual general meeting.

### Approval of Remuneration Report (Resolution 2)

In accordance with the Directors' Remuneration Report Regulations 2002, the directors present to the annual general meeting the directors' report on remuneration contained in the accounts.

### Election of directors (Resolutions 3 and 4)

Under the provisions of the Combined Code, all directors shall be required to submit themselves for re-election at regular intervals and at least every three years. Mr Bulkeley was last re-elected as a director at the 2000 annual general meeting, Messrs. Rose and Dighero at the 2001 annual general meeting and Messrs. Zaleski and Power at the 2002 annual general meeting. Messrs. Bulkeley and Dighero retire by rotation at this annual general meeting and, being eligible, offer themselves for re-election under Resolutions 3 and 4.

Biographies and the age of each of the directors seeking re-election are set out on pages 10 and 11 of the Company's Annual Report 2003.

### Reappointment and remuneration of auditors (Resolution 5)

The Company is required to appoint auditors at each general meeting at which accounts are laid, to hold office until the conclusion of the next such meeting. Resolution 5 proposes the reappointment of PricewaterhouseCoopers LLP as auditors of the Company and authorises the directors to fix the auditors' remuneration for such period.

### Authority to allot ordinary shares (Resolution 6)

Under Section 80 of the Act, the directors require shareholders' authority for the allotment of shares. Shareholders last granted that authority to the directors at the 2002 annual general meeting, extending the initial authority granted at an extraordinary general meeting held on 13 February 2001.

Resolution 6 will authorise the directors to allot relevant securities up to a maximum aggregate nominal value of £305,000. This figure represents approximately one-third of the total issued ordinary share capital of the Company as at the date of this document. This authority will expire on the earlier of 15 months after the passing of the resolution or on the conclusion of the annual general meeting of the Company to be held in 2004.

Other than in respect of the grant of options pursuant to the option schemes or the allotment of shares in relation to the Bond Issue, the directors have no present intention of allotting shares or of using the authority proposed to be granted by Resolution 6.

### Disapplication of pre-emption rights (Resolution 7)

Under Section 89 of the Act, if the directors wish to allot any of the unissued ordinary shares in the Company for cash they must in the first instance offer them to existing shareholders in proportion to their ordinary shareholdings. There may be occasions however, when the directors will need the flexibility to finance business opportunities by the issue of ordinary shares for cash without a pre-emption offer to existing shareholders. Shareholders last granted such general authority at the Company's 2002 annual general meeting.

Resolution 7 seeks a disapplication of the pre-emption rights on a rights issue where the directors consider it appropriate to make exclusions from the Act's pre-emption requirements to resolve legal or practical problems that, for example, might arise with overseas shareholders. In addition, the directors are seeking a general disapplication of the statutory pre-emption requirements for the issue of shares with a nominal value of £45,763. This figure represents approximately 5% of the total issued ordinary share capital of the Company as at the date of this document. This authority will expire on the earlier of 15 months after the passing of the Resolution or on the conclusion of the annual general meeting of the Company to be held in 2004.

**Authority for the Company to purchase its own shares (Resolution 8)**

In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 8 seeks authority from Shareholders to renew the authority granted at the 2002 annual general meeting up to a maximum of 5% of the Company's issued ordinary share capital as at the date of this document. The price for shares purchased will not exceed 5% above the average of the middle market quotations for an ordinary share as derived from the Daily Official List for the five business days immediately preceding the day of purchase, nor will it be less than the nominal value of the shares (currently £1). If granted the authority will expire on the earlier of 15 months after the passing of this Resolution or at the conclusion of the annual general meeting of the Company to be held in 2004.

The directors intend to seek renewal of these powers at subsequent annual general meetings. The directors do not currently intend to utilise such power, if granted, and only intend to exercise this power in the future when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before deciding upon this course of action. Any shares purchased in this way will be cancelled and the number of shares in issue will be accordingly reduced.


As at 14 July 2003, there were options over 57,247 ordinary shares under the option schemes, and Warrants over 129,269 ordinary shares, representing 20.4% of the issued share capital of the Company. If the authority sought by Resolution 8 were exercised in full, these options and Warrants would represent 21.5% of the issued share capital of the Company as at 14 July 2003.

**Serious loss of capital**

Section 142 of the Act requires the Directors to convene an extraordinary general meeting of the Company in circumstances where the Company's net assets are half or less of its called-up share capital to consider whether any, and if so what, steps should be taken to deal with the situation. The situation has arisen because the 2% Convertible Bonds are treated in the Company's balance sheet as a liability even though these bonds are in the normal course of events mandatorily convertible into ordinary shares. The Act does not require any further specific action to be taken and the directors do not propose to take any further action at this time, particularly as Section 142 does not consider the consolidated assets of the Group, only the Company's own net asset position.




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