

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2001.

Principal activity

The principal activity of the Group is the provision of a pan-European online auction service. The activities of the Group have been discussed in more detail in the Chairman's and Chief Executive Officer's reports and in the Financial review.

On 28 November 2000 the Company changed its name to QXL ricardo plc as a result of the business combination with ricardo.de AG. On 7 December 2000 the Company's shares were listed for trading on the Amtlicher Handel at the Frankfurt Stock Exchange.

Directors and directors' interests

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

Director	Role at 31 March 2001	Date of appointment
Mr J B Bulkeley	Chairman and non-executive director	–
Mr J M Rose	Chief Executive Officer	–
Mr R S Dighero	Chief Financial Officer	–
Mr S M A Laurent	President Strategic Development	–
Dr P D Englander	Independent non-executive director	–
Mr A N Singer	Independent non-executive director	9 January 2001
Mr P U Sederowsky	Independent non-executive director	23 August 2000

All directors are subject to re-election every three years.

Mr Rose and Mr Dighero retire by rotation and being eligible offer themselves for re-election.

As Mr Sederowsky and Mr Singer were appointed as directors during the year, they hold office until the annual general meeting and being eligible, offer themselves for election.

Dividends

The directors do not recommend the payment of a dividend.

Corporate governance

A report on corporate governance is set out on pages 26 and 27.

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.

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.

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

Biographical details of the directors are shown on page 23.

Details of the directors' individual remuneration, service contracts, interests in shares and share options are shown in the Report of the Remuneration Committee on page 28.

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

Employees

The Company communicates with its employees through different media. These include regular team briefings, the employee bulletin and via the internet. All employees have access to the internet and the Company's website where the Company's quarterly results and business news are posted.

The Company attaches considerable importance to retaining staff and keeping them informed with the progress of the business. This includes regular presentations of business results and the results of the annual employee satisfaction surveys by the directors to all staff members.

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 and has started to look at minimising wastage and recycling where possible.

Donations

The Company did not make any charitable donations during the year (2000: £6,875). No political donations were made (2000: Enil).

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 28 days (2000: 35 days). The Company does not presently follow any specific code or standard on payment practice.

Substantial shareholdings

The following shows substantial shareholdings (i.e. 3% or greater) in the issued ordinary share capital of OXL ricardo plc. The information below is at 26 June 2001.

Name of shareholder	Note	Number of shares	Percentage of shares
Apax UK VI	1	60,997,440	8.87
AXA Investment Managers UK Limited		36,112,500	5.25
Dr Stefan Wiskemann		27,568,374	4.01

Directors' interests in the above holdings are as follows:

1. Dr P D Englander has a pecuniary interest in Apax UK VI.

Post balance sheet events

Post balance sheet events are detailed in note 31 of the financial statements.

Share purchases

The Company seeks to be authorised at the annual general meeting to buy in the market up to 5% of the issued shares. No such authority was sought last year and no shares were purchased during the year.

Annual general meeting

The next annual general meeting of the Company will be held on 6 September 2001. The notice of the meeting, which includes special as well as ordinary business, is given in the accompanying circular.

Auditors

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

By order of the board

G Brown

Company Secretary
6 July 2001
London

Corporate governance

The Company is headed by an effective board which leads and controls the Company.

The board is committed to ensuring a high level of business integrity and professionalism and fully endorses the Principles of Good Governance and the Code of Best Practice encompassed in the Combined Code appended to the Listing Rules by the UKLA.

The Company believes it has substantially complied with the provisions of the Combined Code save as described below and has progressed towards compliance with Turnbull guidance on internal controls.

Board of directors

The Chairman is responsible for running the board which currently comprises seven directors of whom four are non-executive. Biographical details of the directors and their roles can be found on page 23. None of the non-executive directors is involved in the day-to-day management of the business. The board has carried out a review of various issues and considers three of the four non-executive directors to be independent 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.

Adam Singer was appointed a non-executive director and as senior independent non-executive director on 9 January 2001. Until then, the Company did not have the number of independent non-executives required by the Combined Code or an appointed senior independent non-executive director.

The board meets on a regular basis and has a formal schedule of matters reserved specifically for its decision. A schedule of board meetings is agreed at the beginning of each calendar year. Due to the high level of corporate activity during the year, there were a significantly higher number of meetings of the directors than had been originally planned.

The board is supplied with detailed management accounts. 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 analysis as it considers necessary.

The day-to-day management of the business has been delegated to an executive team that meets weekly. The team comprises the executive directors and certain senior staff and is run by the Chief Executive Officer. The Company maintains a clear division of responsibility between its Chairman and Chief Executive Officer. During the year the Company appointed Adam Singer as senior independent non-executive director.

In addition the directors have access to the advice and services of the Company Secretary and should the need arise procedures are in place for them to seek professional advice at the Company's expense. The directors receive training and advice on their responsibilities as necessary. In May 2001 a board training day was conducted on behalf of the Company by the Institute of Directors.

Committees

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

The Remuneration Committee comprises Dr P D Englander, Mr A N Singer and Mr J B Bulkeley and meets twice a year or more frequently if necessary. The Remuneration Committee composition does not meet the guidelines set out in the Combined Code. Although all its members are non-executive directors, Mr Bulkeley is not an independent non-executive director. The Report of the Remuneration Committee is given on page 28 and contains details of directors' reward packages.

The Audit Committee comprises the Chairman, Mr J B Bulkeley, and two independent non-executives, namely Dr P D Englander and Mr P U Sederowsky. Mr J M Rose and Mr R S Dighero attend the Audit Committee meetings by invitation. The Audit Committee meets quarterly.

In February 2001 a Nomination Committee was set up comprising Mr J B Bulkeley, Dr P D Englander and Mr P U Sederowsky. The Nomination Committee will meet when required but intends to meet at least twice per year. Its terms of reference will ensure there is independence and transparency of the appointments process which will result in proposals to nominate or re-elect directors to the board. Appointments will be made demonstrably on merit alone. Prior to February 2001, the board fulfilled the role of the Nomination Committee.

Shareholder relations

The board considers communications with its shareholders to be of significant importance. The Chief Executive Officer and Chief Financial Officer in particular liaise with institutional shareholders and analysts on a regular basis.

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.

Results are published on a quarterly and annual basis and copies of these results are available on the Company's website along with up to date company news and details of shareholder meetings. Additionally, shareholders and other interested parties can obtain copies of all reports by writing to the Company Secretary.

Certain events require the Company to hold extraordinary general meetings. As these are held the Company will take the opportunity of updating shareholders on additional current events.

On an ongoing basis the Company issues Stock Exchange announcements of significant matters relating to the development of the business. Copies of all of these are accessible by anyone from the Company's website.

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, and any questions of or relating to their resignation or removal, and review the nature and extent of non-auditing services;
- review the quarterly and annual 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 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 other subsidiary of the Company;
- 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 board is responsible for the Company's system of internal controls. This system provides reasonable but not absolute assurance against loss or misstatement.

The directors have reviewed the effectiveness of the Company's system of internal control in accordance with the requirements of the Combined Code.

The board recognises that the Company is inherently exposed to a high level of risk due to the rapidly evolving nature of the industry in which it operates.

The key elements of internal control within the Group 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;
- twice yearly formal reviews of internal controls and other risks at board level;
- 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 Human Resource policies and procedures;
- regular review of security and integrity of key systems;
- preparation of detailed budgets for board review;
- regular review of results against budgets and latest forecasts.

Compliance with the Combined Code

The Company is actively applying the Combined Code and has made significant progress towards full compliance during the year. Following the appointments of Peter Sederowsky and Adam Singer, the Company now has the number of independent non-executive directors required by the Code and an appointed senior independent non-executive director.

Currently, the directors believe that the only area of non-compliance relates to the composition of its Remuneration Committee, which includes the Chairman who is not classified by the board as an independent non-executive director.

The directors also believe that sufficient procedures to satisfy the Turnbull guidance on internal control had been established by the year end until when the Company, while not fully in compliance with the Turnbull guidance, continued to comply with previous guidance in respect of internal financial controls. A review of the effectiveness of internal controls in the UK was performed in October 2000. A further full review of internal controls has been conducted more recently.

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 that the Company operates in. 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.

On 22 May 2001, the Company issued Listing Particulars and as required by the Listing Rules made certain statements concerning working capital requirements and funding. The directors confirmed that, taking into account the funding facilities available to the Company, the working capital of the Group was sufficient for at least 12 months from the date of that document. The directors also stated that, although the Company had no immediate requirements to raise any additional equity funding, in the event that it was unable to draw down sufficient funding under the Equity Commitment component of its funding facility, it may be required to seek additional funding within 24 months of that date. In the event that the Company were only to draw the minimum available under the Equity Commitment, it would need to seek additional funding within 24 months of that date. The statement in the Listing Particulars confirmed that if this were the case, the directors would reassess plans and, if necessary, develop revised proposals which could include, for example, an equity issue to a strategic investor or partner.

The directors have therefore been able to satisfy themselves 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.

Report of the Remuneration Committee

Composition of the Remuneration Committee

Remuneration for executives is reviewed by the Remuneration Committee, which is chaired by Mr A N Singer. The other committee members are Dr P Englander and Mr J B Bulkeley. Prior to the appointment of Mr Singer, Mr Bulkeley chaired the Remuneration Committee.

Remuneration policy

The Company's policy is to provide the remuneration package required to attract, retain and motivate its executive directors. This includes a basic salary and benefit package appropriate to the individual's responsibilities having regard to the salary levels of comparable posts.

The Remuneration Committee seeks to ensure that the total reward packages are aligned with the performance of the Company and the interests of the shareholders.

Salary and benefit packages are reviewed by the Remuneration Committee on an annual basis in April in conjunction with professional third party advice. The Remuneration Committee's review is considered by the board and adopted if approved.

No bonuses have been paid to directors in the year.

The board has invited shareholders at the forthcoming annual general meeting to review this policy.

Share options

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. All employees are offered a grant of options on their date of joining or on the date they take up permanent terms of employment if later. These options begin to vest one year after the option grant date.

It is the Company's policy to grant new options on an annual basis in order to continue to ensure employee motivation. Due to the relatively high exercise price of most options, many employees, at the time of the annual review, chose to surrender some of their existing options, thereby losing all accumulated vesting, in return for new option grants. It is not the Company's policy to re-price existing options.

Share options are not granted at a discount.

By constructing the share option agreements so that shares vest between the first and fourth anniversary of their grant dates the Remuneration Committee believes that the current share option schemes focus the executive directors on sustaining the performance of the Company into the long term. Additional options can be granted at the annual review. These grants are made if the individual has demonstrated an ongoing commitment and contribution to the growth of the Company.

Service contracts

All full time working directors have terms of service which can be terminated by the Company on not less than 12 months (Mr J M Rose, six months) notice 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.

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.

Directors' reward package information

Details of the directors' individual remuneration and interests in shares and share options are on pages 29 and 30.

All share information in this report is stated (comparatives restated) after the effects of the 2 for 1 bonus issue on 6 April 2000.

	Basic salary £'000	Benefits ⁽¹⁾ £'000	Fees £'000	Total remuneration excluding pensions 31 March 2001 £'000	Total remuneration excluding pensions 31 March 2000 £'000
Directors' remuneration					
Mr J B Bulkeley (Chairman)	-	-	15	15	7
Mr R S Dighero	111	1	-	112	61
Dr P D Englander	-	-	15	15	7
Mr S M A Laurent	110	1	-	111	61
Mr J M Rose	210	1	-	211	175
Mr T D A Jackson (resigned 26 March 2000)	-	-	-	-	20
Mr P U Sederowsky	-	-	18	18	-
Mr A N Singer	-	-	-	-	-
Mr F Tison (resigned 25 November 1999)	-	-	-	-	2
	431	3	48	482	333

⁽¹⁾ Directors' benefits comprised permanent health insurance and life assurance.

⁽²⁾ Directors' emoluments in aggregate including gains on share options as detailed on page 30, were £1.6 million.

	Payments made into a money purchase scheme 31 March 2001 £'000	Payments made into a money purchase scheme 31 March 2000 £'000
Directors' pension entitlements		
Mr R S Dighero	4	1
Mr S M A Laurent	2	-
Mr J M Rose	4	-
Mr T D A Jackson	-	12
	10	13

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 2001, together with their interests at 31 March 2000 were:

	Number of shares of £0.001 each	
	At 31 March 2001 Ordinary shares	At 31 March 2000 Ordinary shares
Mr J B Bulkeley	3,754,080	4,504,080

⁽¹⁾ Mr J B Bulkeley is also a beneficiary of the Fenwick Trust which held 17,406,850 ordinary shares in the Company at 31 March 2001, (2000: 19,104,580). At 26 June 2001, the Fenwick Trust's holding was 15,656,850 ordinary shares.

⁽²⁾ Dr P D Englander does not hold shares in his own right but is interested in the shares held by Apax UK VI LP. At 31 March 2001 60,997,440 ordinary shares (2000: 60,997,440 ordinary shares) were held by the Apax UK VI LP fund, of which Apax Partners & Co. Ventures Limited is the manager. Dr Englander is a director of Apax Partners & Co. Ventures Limited. There has been no change in the shares held by Apax UK VI LP since the year end.

⁽³⁾ Save as mentioned above, there have been no changes in any of the directors' interests in shares in the Company between 31 March 2001 and 26 June 2001.

Directors' interests in share options	Number of ordinary shares					Exercise price	Market price on date of exercise	Gain made on exercise £'000	Earliest exercise date	Expiry date
	1 April 2000 or date of appointment	Granted during year	Exercised during year	Surrendered and lapsed during year	31 March 2001 or date of resignation					
Mr J B Bulkeley	1,125,000	-	-	-	1,125,000	£0.015		-	Mar 99	Mar 05
Mr J M Rose	8,000,310	-	833,333	-	7,166,977	£0.12	£0.50	310	Apr 00	Apr 09
	2,666,790	-	-	-	2,666,790	£0.12		-	Apr 00	Apr 09
	-	4,950,000	-	4,950,000	-	£2.12		-	Apr 01	Apr 10
	-	307,692*	-	-	307,692	£0.10		-	Feb 02	Feb 11
	-	4,642,308	-	-	4,642,308	£0.10		-	Feb 02	Feb 11
	10,667,100	9,900,000	833,333	4,950,000	14,783,767			310		
Mr R S Dighero	5,885,880	-	833,334	-	5,052,546	£0.01	£0.50	404	Apr 99	Apr 08
	1,177,170	-	-	1,177,170	-	£0.53		-	Jul 00	Jul 09
	-	1,866,000	-	1,866,000	-	£2.12		-	Apr 01	Apr 10
	-	307,692*	-	-	307,692	£0.10		-	Feb 02	Feb 11
	-	2,735,268	-	-	2,735,268	£0.10		-	Feb 02	Feb 11
	7,063,050	4,908,960	833,334	3,043,170	8,095,506			404		
Mr S M A Laurent	3,750,000	-	833,333	-	2,916,667	£0.03	£0.50	394	Sep 99	Sep 08
	2,135,880	-	-	-	2,135,880	£0.07		-	Sep 99	Sep 08
	588,600	-	-	588,600	-	£0.64		-	Sep 00	Sep 09
	-	1,926,000	-	1,926,000	-	£2.12		-	Apr 01	Apr 10
	-	307,692*	-	-	307,692	£0.10		-	Feb 02	Feb 11
	-	2,206,908	-	-	2,206,908	£0.10		-	Feb 02	Feb 11
	6,474,480	4,440,600	833,333	2,514,600	7,567,147			394		
Mr P U Sederowsky	-	50,000	-	50,000	-	£0.55		-	Aug 01	Aug 10
Totals	25,329,630	19,299,560	2,500,000	10,557,770	31,571,420			1,108		

The market price at the end of the financial year was 6.5p and the range of market prices during the year was between 5.75p and 60p. All share numbers have been quoted post the 2 for 1 bonus issue on 6 April 2000.

*Denotes options held under the 1999 Approved Employee Share Option Scheme. All other options are held under the 1999 Unapproved Employee Share Option Scheme.

Compliance

The composition of the Remuneration Committee does not comply with the recommendation of the Combined Code. Other than this, the Remuneration Committee has complied throughout the year with the best practice provisions set out in Section B annexed to the Listing Rules of the UKLA.

Mr A N Singer

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 below, 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 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.

Auditors' report to the members of QXL ricardo plc

Independent auditors' report to the members of QXL ricardo plc

We have audited the financial statements which comprise the profit and loss account, the Group and Company balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent 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 Report of the Remuneration Committee 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 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. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London
6 July 2001

Consolidated profit and loss account for the year ended 31 March 2001

	Notes	Year ended 31 March 2001 Excluding exceptional items £'000	Year ended 31 March 2001 Exceptional items £'000	Year ended 31 March 2001 Total £'000	Year ended 31 March 2000 restated* Excluding exceptional items £'000	Year ended 31 March 2000 restated* Exceptional items £'000	Year ended 31 March 2000 restated* Total £'000
Turnover							
Operations before acquisitions		6,284	-	6,284	6,870	-	6,870
Acquisitions		8,771	-	8,771	22	-	22
Continuing operations	1	15,055	-	15,055	6,892	-	6,892
Cost of sales	2	(12,402)	-	(12,402)	(6,151)	-	(6,151)
Gross profit		2,653	-	2,653	741	-	741
Distribution costs	2,3	(43,384)	(72,948)	(116,332)	(21,710)	(22,418)	(44,128)
Administrative expenses	2,3	(25,051)	(3,539)	(28,590)	(11,818)	(13,226)	(25,044)
Net operating expenses		(68,435)	(76,487)	(144,922)	(33,528)	(35,644)	(69,172)
Operating loss							
Operations before acquisitions		(37,822)	2,378	(35,444)	(32,581)	(13,226)	(45,807)
Acquisitions		(27,960)	(78,865)	(106,825)	(206)	(22,418)	(22,624)
Continuing operations	2,4	(65,782)	(76,487)	(142,269)	(32,787)	(35,644)	(68,431)
Share of operating loss of joint venture	16			(3,417)			-
Loss on ordinary activities before interest				(145,686)			(68,431)
Interest receivable and similar income	7			2,874			1,777
Interest payable and similar charges	8			(333)			(13)
Loss on ordinary activities before taxation				(143,145)			(66,667)
Tax on loss on ordinary activities	9			-			-
Loss on ordinary activities after taxation				(143,145)			(66,667)
Equity minority interests				4,105			-
Loss for the financial year				(139,040)			(66,667)
Dividends and appropriations - non-equity	10			-			(2,112)
Loss for the financial year				(139,040)			(68,779)
Loss per ordinary share							
- basic and diluted	12			(30.0)p			(23.8)p

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

*Restated for a prior year adjustment following the introduction of UITF 25 (note 1)

Statement of Group total recognised gains and losses for the year ended 31 March 2001

	Year ended 31 March 2001 £'000	Year ended 31 March 2000 restated* £'000
Loss attributable to shareholders	(139,040)	(68,779)
Exchange adjustments offset to reserves	170	341
Total recognised loss for the year	(138,870)	(68,438)
Prior year adjustment (note 1)	9,125	-
Total recognised losses since last annual report	(129,745)	(68,438)

Group balance sheet

as at 31 March 2001

	Notes	31 March 2001 £'000	31 March 2000 restated £'000
Fixed assets			
Intangible assets	13	23,955	435
Tangible assets	14	6,337	7,233
Investments	15	232	-
		30,524	7,668
Current assets			
Stock	17	295	401
Debtors – due after more than one year	18	321	-
Debtors – due within one year	18	7,580	6,374
Cash at bank and in hand	19	24,285	77,662
		32,481	84,437
Creditors: amounts due within one year	20	(13,381)	(9,731)
Net current assets		19,100	74,706
Total assets less current liabilities		49,624	82,374
Creditors: amounts falling due after one year	21	(413)	(337)
2% Convertible Bonds due 2004	22	(5,011)	-
Provisions for liabilities and charges	23	-	(2,432)
Net assets		44,200	79,605
Capital and reserves			
Called up share capital	24	635	119
Share capital to be issued		-	9,294
Share premium account	26	218,856	111,919
Merger reserve	26	9,137	6,617
Profit and loss account	26	(187,053)	(48,344)
Total equity shareholders' funds		41,575	79,605
Equity minority interests		2,625	-
Capital employed	27	44,200	79,605

These financial statements were approved by the board of directors on 6 July 2001.

Company balance sheet

as at 31 March 2001

	Notes	31 March 2001 £'000	31 March 2000 restated £'000
Fixed assets			
Intangible assets	13	68	90
Tangible assets	14	4,640	6,791
Investments	15	23,928	356
		28,636	7,237
Current assets			
Stock	17	6	401
Debtors – due after more than one year	18	321	–
Debtors – due within one year	18	13,054	6,320
Cash at bank and in hand	19	16,424	76,440
		29,805	83,161
Creditors: amounts falling due within one year	20	(6,306)	(7,339)
Net current assets		23,499	75,822
Total assets less current liabilities		52,135	83,059
Creditors: amounts falling due after more than one year	21	(97)	(337)
2% Convertible Bonds due 2004	22	(5,011)	–
Provisions for liabilities and charges	23	–	(2,432)
Net assets		47,027	80,290
Capital and reserves			
Called up share capital	24	635	119
Share capital to be issued		–	9,294
Share premium account	26	218,856	111,919
Merger reserve	26	2,520	–
Profit and loss account	26	(174,984)	(41,042)
Total shareholders' funds	27	47,027	80,290

These financial statements which comprise the profit and loss account, the consolidated and company balance sheets, the cash flow statement, the statement of recognised gains and losses and related notes including the directors' remuneration disclosures were approved by the board of directors on 6 July 2001 and were signed on its behalf by:

R S Dighero

Director

Consolidated cash flow statement

for the year ended 31 March 2001

	Notes	31 March 2001 £'000	31 March 2000 restated £'000
Net cash outflow from operating activities	30	(56,004)	(28,954)
Returns on investments and servicing of finance			
Interest received		2,715	1,590
Interest paid		(25)	(7)
Issue costs of non-equity shares		-	(1,283)
Issue costs of 2% Convertible Bond		(241)	-
Net cash inflow from returns on investment and servicing of finance		2,449	300
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,417)	(7,718)
Net cash outflow for capital expenditure and financial investment		(2,417)	(7,718)
Acquisitions			
Purchase of subsidiary undertakings			
Net cash balances acquired with subsidiaries		11,214	-
Payments to acquire trades or businesses		(12,261)	(1,027)
Net cash outflow for acquisitions		(1,047)	(1,027)
Cash outflow before management of liquid resources* and financing		(57,019)	(37,399)
Management of liquid resources			
Reduction/(increase) in short-term deposits with banks		56,125	(69,167)
Financing			
Gross receipts from issuing shares and warrants		603	116,535
Issue costs of equity shares and warrants		(1,667)	(7,832)
Capital element of finance lease repaid		(294)	(199)
Gross receipts from issue of 2% Convertible Bonds		5,000	-
Net cash inflow from financing		3,642	108,504
Increase in cash in the period	30	2,748	1,938

*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 2001

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below. They have been applied consistently with the exception of a prior year adjustment in respect of National Insurance on share options (note 23) following the publication of UITF 25. This prior year adjustment has resulted in the loss for the year ended 31 March 2000 being reduced by £9.125 million. The year ended 31 March 2001 was affected by the same amount.

Basis of accounting

The financial statements have been prepared under the historical cost convention and on a 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 are included in the consolidated profit and loss account from the date control passes. 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 Companies Act 1985 normally requires goodwill arising on the acquisition of a subsidiary undertaking to be calculated as the difference between the total acquisition cost of the undertaking and the fair value of the Group's share of the identifiable assets and liabilities at the date it became a subsidiary undertaking.

FRS 2 recognises that, where an investment in an associated undertaking is increased and it becomes a subsidiary undertaking, in order to show a true and fair view goodwill should be calculated on each purchase as the difference between the cost of that purchase and the fair value at the date of that purchase.

As a result the Company has not complied with the Companies Act and has taken a true and fair override.

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 to the former owners of Idefi SA to the merger reserve.

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 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.

A significant proportion of the goodwill amortisation and impairment charges for the year are included within distribution charges in the profit and loss account since the amounts expended on goodwill have provided significant marketing benefit to the Group.

Turnover

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

Principal-based auctions

When the Group acts as principal, it recognises income once payment is received or authorised and merchandise has been despatched.

Agency-based auctions

When the Group acts as agent, it 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.

Intangible fixed assets

Intangible fixed assets are included at cost or fair value on acquisition and depreciated on a straight-line basis over their expected useful economic lives.

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, at the following annual rates:

Computer Systems and Equipment (including computer servers) at 25% or 33% per annum on a straight-line basis.

Furniture and Office Equipment at 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 also capitalises directly identifiable bought in services and own staff costs incurred in developing its websites and other internal software development costs incurred up to the date that the asset is brought into use. Capitalised projects must have a measurable economic viability in their own right. Amounts capitalised are written down over their expected useful economic lives on a straight-line basis at rates between 6.25% and 12.5% per month.

Development expenditure

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

Stock

Stock is valued on a first-in-first-out basis and is stated at the lower of cost and net realisable value.

Convertible Bonds

Convertible Bonds 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 over the expected life of the bond on the assumption that the bonds will not be converted. The initial carrying value of the bonds is determined by reference to the initial proceeds and the market value of the associated warrants.

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.

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.

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.

Issue and finance costs

In accordance with the provisions of Financial Reporting Standard 4, 'Capital Instruments', finance costs relating to non-equity shareholders' funds are treated as appropriations. 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.

Shares

Stock compensation

The Company charges the difference between the fair value of share options at grant date and the exercise price of the options to the profit and loss account on a straight-line basis over their vesting period.

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 is provided at appropriate rates on all material timing differences using the liability method after making allowances for tax losses available to the extent that there is a reasonable probability that a liability will crystallise in the foreseeable future.

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.