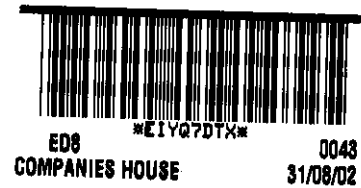


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Affinity Internet Holdings plc



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## DIRECTORS

<b>Terry Plummer</b>	Chairman
<b>Wayne Lochner</b>	Group CEO
<b>Stuart Barker ACA</b>	Finance Director
<b>June May</b>	CEO, UK Operations
<b>Peter Collins</b>	Technical Director
<b>Rodney Smith</b>	Non-Executive Director
<b>Sir Gerry Neale</b>	Non-Executive Director
<b>Sir Leonard Peach</b>	Non-Executive Director

<b>Company Secretary</b>	Peter Cole, ACIS
<b>Registered office</b>	Victoria House 64 Paul Street London EC2A 4NG Tel: + 44 (0)20 7670 1155 Fax: + 44 (0)20 7670 1178 www.aih.co.uk Registered No. 3681853

## ADVISORS

<b>Auditors</b>	Ernst & Young LLP Rolls House 7 Rolls Buildings Fetter Lane London EC4A 1NH	<b>Bankers</b>	Singer & Friedlander plc 21 New Street London EC2M 4HR  Barclays Bank plc Pall Mall Corporate Business Centre 155 Brompton Road London SW3 1WD
<b>Solicitors</b>	Haarmann Hemmelrath 28th Floor, Tower 42 25 Old Broad Street London EC2N 1HN	<b>Registrars</b>	Computershare Investor Services plc PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH
<b>Stockbroker</b>	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR	<b>Financial PR Agency</b>	Merlin Financial Royex House Aldermanbury Square London EC2V 7HR

## SUMMARY OF 2001 RESULTS

- Turnover for 2001 £52.8 million, up 366 per cent. from 2000  
56 per cent. growth in Q4 2001, up from 42 per cent. for Q3 2001
- Telecom revenue £38.8 million  
Telephony revenue increased by over 1,700 per cent. year-on-year and now represents 74 per cent. of total turnover
- Internet revenue continues to grow  
Revenue from the Internet division has increased by 52 per cent. in 2001
- Gross profit of £3.6 million in Q4 2001  
Maiden quarterly gross profit
- Q4 EBITDA loss before exceptional items down 71 per cent. from Q3 2001  
Improving trend in EBITDA loss before exceptional items from £6.3 million in Q2 to £5.4 million in Q3 and £1.6 million in Q4.
- Telecoms division profitable in Q4 2001  
The Affinity telecoms division reported a quarterly profit before tax of £537,000 in Q4 2001
- Hurricaneseye EBITDA profitable in 2001  
Affinity's joint venture with Powergen, Hurricaneseye, reported EBITDA profit for 2001 of £280,000  
  
Loss for the year in line with expectations  
Loss before tax of £30 million in line with expectations after adjusting for exceptional charges of £10.22 million.  
The exceptional receipt of £5 million from Powergen was crystallised as forecast in Q3 2001.
- £6.3 million fundraising in Q4 2001  
Injection of working capital funds to provide for growth
- Over 4.5 million Group users  
Total number of customers registered for Affinity services has grown 125 per cent. since 2000
- Mobile customers grew by 174 per cent. in Q4 2001  
Strong pre-Christmas sales for mobiles
- Cash outflows continue to slow  
Cash outflow before financing for the year falls to £16.5 million from £20.9 million in 2000. Cash outflow from operating activities of £15.3 million in 2001 against £10.2 million in 2000. Cash outflow from operating activities before cash based exceptional items, falls in Q4 2001 to £1.6 million from £1.95 million.
- Group activities reviewed  
Following the telecoms acquisitions during the year, the Group has reorganised its activities, resulting in exceptional charges for impairment and closure of the eCRM operation and South African office.

## 2007/2008 FINANCIAL YEAR HIGHLIGHTS

### Network migration

Affinity's fixed line customers successfully migrated to Hurricaneseye network

### Evesham Technology launches Affinity's small business internet access portal

Affinity's SME offering to be pre-loaded onto all Evesham PC's and marketed to existing SME customers

### Affinity expands operations in Australia

Affinity acquires remaining share of Australian operation in all share deal and reaches agreement for acquisition of a small Australian ISP

### Affinity completes second phase investment in Mall-UK

Second tranche payment to Mall-UK, Affinity's joint venture with Capital Shopping Centres plc

### breathe.com becomes Soldier's preferred ISP

Soldier magazine, whose worldwide readership totals 250,000, selects breathe.com as preferred ISP

### Launch of IVR platform for pre-pay fixed line telephony

Affinity's proprietary IVR platform for pre-pay mobiles enhanced to include pre-pay fixed line telephony

### Liverpool FC take branded mobiles

A premiership club is marketing Affinity's mobile services to its fans

### Broadband launched

Affinity launched its competitively priced broadband offering

### eCRM offering remodelled

Affinity has significantly reduced its resource commitment to the eCRM platform due to poor demand in the current economic environment

# FINANCIAL AND NON-FINANCIAL PERFORMANCE 2001/2002

	12 months ended 31 December 2001 £000	6 months ended 30 June 2001 £000	12 months ended 31 December 2000 £000
Turnover (including share of joint ventures)	52,765	15,781	11,312
Group operating loss before amortisation and exceptional items	(19,595)	(13,349)	(16,281)
Amortisation	(4,150)	(1,096)	(2,716)
Exceptional operating items	(4,740)	(575)	(11,814)
Operating loss	(28,485)	(15,020)	(26,824)
Group share of joint venture operating losses	(1,347)	(723)	(3,987)
Loss on ordinary activities before taxation	(30,090)	(14,550)	(26,050)
	Number	Number	Number
Affinity Group unique gross users including e-mail accounts and multiple registrations	4,542,157	3,470,480	2,018,629
Affinity Internet:			
UK registered accounts	1,507,231	1,351,947	1,226,326
UK 60 day active accounts	356,546	356,946	402,294
UK 28 day active accounts	315,561	315,202	341,169
Overseas subscribers	1,824,073	1,350,093	398,076
Affinity Communications:			
TCS users provisioned	438,778	320,865	119,421
TCS users billed	348,099	118,084	40,556
	3 months ended 31 December 2001	3 months ended 30 June 2001	3 months ended 31 December 2000
Average minutes of use per UK 28 day active account	363	395	452
UK churn for the quarter (percentage)	16.2	18.7	25.3

## CHAIRMAN'S STATEMENT

### THE JOURNEY TO PROFITABILITY

The motto for 2001 has been 'on target'. Affinity is delighted to report that at every stage of the year, as with every year so far, Affinity has achieved the milestones that it set itself.

Affinity has enjoyed a year of phenomenal growth and has experienced and managed significant changes in all aspects of its businesses. The Company exceeded market expectations with total revenues of £52.8 million and more importantly, Affinity is demonstrating with its final quarters performance how it intends to reach profitability in 2002. Customer registrations across the Group topped 4.5 million, with the fastest growth proving to be in the mobile business, particularly in the latter part of the year.

2001 saw the Group's activities change significantly with both acquisitions and discontinued operations as a result of the increased focus on telecommunications. The Directors have undertaken a full review of the Company's accounting policies in light of these changes and have adopted revenue recognition policies appropriate to the new business operations.

Affinity is a Communications Service Provider, specialising in brand extension and its strategy is to operate exclusively in markets where it foresees profitable growth. During the year the Group and its joint venture, Hurricaneseye, made a number of strategic acquisitions:

- breathe.com ISP and portal from Great Universal Stores
- Blast Internet Services in Australia
- The Blue Carrots portal from Cube B
- 150,000 residential customers from Atlantic Telecom
- 3 Switches and a 'figure eight' network from RSL COM

With the exception of the switches and network acquired from RSL COM, these acquisitions have been funded through the issue of shares and have therefore preserved cash reserves as far as possible.

breathe.com, Blue Carrots, Blast Internet and Atlantic Telecom all have significant customer bases which have been integrated into Affinity's existing business and have been operated at little additional cost, significantly improving the Group's gross margins. Affinity will continue to operate this acquisition strategy.

Affinity continues to enjoy a successful relationship with Powergen through Hurricaneseye. The telecom network acquisition from RSL COM was the most significant acquisition to date, establishing Hurricaneseye as a fully-fledged licenced carrier of its own proprietary telecom services. Significantly, the relatively low acquisition cost leaves Hurricaneseye well positioned to convert positive EBITDA into pre-tax profit. The balance of the overall business shifted significantly following this acquisition, with Telecoms contributing 78 per cent. of the revenue in Q4, reflecting the high level of demand for these services. The network should also provide the Group with improved margins going forward.

Strict cost management has been a priority in 2001 and will continue to be during 2002. The Board are pleased to report successful negotiations with our key suppliers, with overheads for Q4 2001 down to 26 per cent. of turnover from 52 per cent. in Q3 2001. Affinity has recently completed a migration of its customer services from Client Logic to our own Gloucester facility. Bringing the helpdesk in-house will significantly reduce costs, improve the quality of service and enable the Company to take a more proactive approach to our customer relationship management. Strategically this is important as it now means Affinity has a single helpdesk supporting the wireless, fixed line and internet businesses which is important for 'single billing' going forwards.

Costs have also been reduced through the restructuring and closure of some international operations, and in our commerce and content activities. The reorganisation reflects management's willingness and ability to manage and adapt to difficult market conditions.

## STRATEGIC OUTLOOK

Our target in 2001 was to focus on driving profitable revenue through the business and to reduce costs. The strategic acquisitions and development we have undertaken over the last year with the support of our shareholders has enabled Affinity to grow aggressively and has positioned the business in such a way as to allow the Company to approach its 2002 profit target with confidence.

The Board believe the winners in 2002 will be those companies with the ability to create a competitively priced and high quality converged offering to the market. For instance, a competitively priced fixed line telephony and internet access package, billed on a single bill for both consumers and SMEs is a compelling offer. With the combination of the services available plus the convergent billing platform, the Board believe Affinity is well placed to take advantage of the market.

Affinity is now established as a Communications Service Provider who specialises in brand extension. With Affinity, any company or organisation with a brand and vision can become a virtual telco, mobile company or ISP, with all of the revenue, brand extension and customer relationship benefits that that brings. When coupled with the ability to produce 'one bill' through the convergent billing platform, Affinity is well placed to capture any lifestyle expenditure.

The management team and all of our employees have worked hard to build an organisation that is at the heart of the converging Internet and Telecoms markets. With current trading progressing well, the Board currently have every confidence that the management will deliver upon their objectives again this year and with the Company will meet the market's expectations in 2002. Our full attention is now directed to growing revenues, increasing profitability, strict cost control and the development of our converged offering.

We continue to view the future with enthusiasm and confidence.



Terry Plummer  
*Chairman*

18 March 2002

## Chief Executive's Review

### AFFINITY TELECOM

The Telecom division which consists of the wireless, the fixed line and the billing services, enjoyed strong growth in 2001 and has contributed £38.8 million in revenue to the Affinity Group. Fixed line customers who are receiving bills via Hurricaneseye's billing platform grew by 18 per cent. over the last quarter of 2001 whilst mobile customers grew by 174 per cent. over the same period.

The growth was driven by a number of factors. The continued success of selling branded fixed line telephony, primarily through the joint venture vehicle Hurricaneseye (in the form of Powergen telecom) was a feature throughout the year.

The fixed line business was boosted in the third quarter when the Company acquired 150,000 residential customers from Atlantic Telecom, prior to its fall into administration. At the time of purchase, the customer base generated annualised revenues of £18 million, with gross margins of between 20 and 25 per cent.. The Board believes this customer base is capable of generating EBIT in excess of £1 million per annum.

By the end of Q3 2001, the Atlantic customer base had been successfully integrated into the business, and is now operating under the breathe brand. A campaign began in Q4 to start cross-selling other Affinity products and services into the fixed line customer base.

The second acquisition, through Hurricaneseye, was a 'figure eight' network with 3 Switches from RSL COM. This telecom infrastructure is of key strategic importance as it establishes Hurricaneseye as a fully-fledged licenced carrier of its own proprietary telecom services and reduces the reliance on 3rd party suppliers. Traditionally, telecommunication businesses have invested heavily in a network infrastructure and then found customers to populate that network. By comparison, Affinity and Hurricaneseye built a customer base and then purchased a network for a fraction of the original build cost. The low acquisition cost, generates moderate depreciation, amortisation and interest charges, helping it make an immediate positive contribution to Affinity's bottom line. It takes the business to a new level as one of the recognised alternative telcos in the UK.

The mobile business has gone from strength to strength over the last 12 months, with over 95 per cent. of the connections being for pre-pay mobiles. The IVR platform (an automated, voucher-free top-up system) has proved to be a compelling argument for choosing Affinity, and importantly for the Company it guarantees us 100 per cent. of all top-up revenues on the phones connected by Affinity. Trading over the Christmas period was buoyant with demand exceeding expectations and lifting mobile sales for the year to just under 200,000 units, comfortably exceeding prior internal expectations by over 40 per cent. With clients including, QPR FC, HFC Beneficial Bank, Liverpool FC, Channel 5 and Powergen, the Board believe the prospects for the mobile business in 2002 are very encouraging.

### AFFINITY INTERNET

Whilst the headlines have been grabbed by the growth in telecoms, the internet division also made significant progress and 2001 has seen dramatic changes in the ISP market. In April, Affinity became one of the first wholesale sellers of Flat Rate Internet Access Call Origination (FRIACO) services in the UK, a fundamental change in the way that internet access is delivered to consumers. This also provided Affinity with the opportunity to make the business profitable in the longer term.

In order to take advantage of FRIACO, Affinity Internet's management team invested a great deal of time and effort into developing a highly competitive small to medium enterprise (SME) access platform to complement the traditional residential access business. This is an essential part of our strategy as the SME business delivers higher margins. The SME platform was completed in the latter half of 2001 and is now being actively sold into Affinity's existing clients and into new prospective clients. Whilst the business was not profitable on a stand-alone basis in 2001, the Board believes Affinity Internet will have a profitable year in 2002.



Although the volume of small clients wanting to become virtual internet service providers (VISPs) has declined, the larger brands names coming to Affinity has increased in 2001, reinforcing our belief that 'bricks and mortar' brands will dominate the web. Our client list now has a wide industry spread and includes household names such as WHSmith, Prudential, the Royal Bank of Scotland and Powergen. By the end of 2001, registered ISP users had increased to 1.5 million, a 23 per cent. increase on the year 2000.

#### E-Commerce

2001 saw the consolidation of Affinity's content and commerce division. In an increasingly difficult economic environment, online businesses focused on e-commerce and advertising have suffered across the board and selling new CRM solutions became unsustainable during the course of the year. Therefore, in the latter half of 2001, Affinity significantly reduced its commitment to the TransAffinity business before ceasing operations. The technology has been disbanded but the competence and the skill set has been retained and the service will be delivered through more cost effective and market driven avenues. The cessation has resulted in exceptional costs including the writing off of goodwill held on the balance sheet.

As reported in Affinity's Q3 2001 results, the Board intends that in the current business environment, Affinity Portals - the operator of breathe.com and Blue Carrots - will be the main focus of resource allocation for the foreseeable future now that all 10 virtual shopping malls from the Mall-UK joint venture have been launched using the Affinity Affiliate Resource Centre (AARC) and mytaxi software.

The Board has taken the strategic decision to minimise costs for all of the remaining content and commerce business and will only re-invest in this area as and when they see the opportunity re-emerge. As a result, the division has been merged with Affinity Internet on an operational and management level in order to reduce costs and will be reported on as such going forward. In addition, the Directors have recognised impairment charges against the goodwill associated with these businesses.

#### AFFINITY INTERNATIONAL

Affinity experienced mixed fortunes in its overseas operations in 2001 and as a result has substantially rationalised them. The Australian operation, which has to date predominantly focussed on telecommunications services, enjoyed strong growth for its services throughout 2001. Affinity Australia began to break-even during Q3 2001, and expanded their activities in Q4 to take advantage of the number portability opportunity in the Australian mobile market. The success of the business has led Affinity to increase its shareholding in Affinity Australia from 52 per cent. to 100 per cent. in January 2002. In 2001, the Australian operation accounted for 4 per cent. of Group turnover.

In South Africa, demand for the internet service was substantially higher than anticipated and as a direct result additional costs were incurred. As previously reported, the indefinite postponement of de-regulation in the telecommunications industry constrained the significant opportunities that were originally envisaged from growing demand. As a result, the Board took the decision to withdraw from the market in order to minimise the ongoing exposure to costs.

The European operation has also been restructured, with technology and operations being centralised back into the UK which has again significantly reduced costs. Mister Mail BV in Holland, the email marketing company, continued to grow quickly throughout the year and now manages over 1.8 million opt-in email addresses on behalf of clients such as Vizzavi, World Online, QXL.com and Pepsi.

#### CURRENT TRADING

2002 has begun well in the mobile arena with new business being won from Liverpool FC, further evidence that strong brands are becoming aware of the opportunities that Affinity can bring in terms of revenue, customer relationships and brand extension. The Board believe the prospects for this business are very encouraging, particularly when coupled with the voucherless top-up IVR platform.

The IVR platform (a recent finalist in 2 categories at the Mobile Awards 2002) has been developed further and can now be used by Affinity's pre-pay fixed line telephony customers too. This development takes Affinity closer to providing a totally converged offering.

Affinity Internet Holdings plc

The most recent significant change in the Internet market is the reduction in price of ADSL by BT. The price reduction makes broadband a more affordable proposition for many households and small businesses alike and should accelerate take-up of the service in the UK, bringing us more in line with the rest of Europe.

The Directors have welcomed the price reduction and have already launched ADSL services on its small business portal in response. Q2 2002 will see broadband services being offered to all Affinity's ISP clients, who provide both residential and small business services. Evesham Computers, Affinity's first white-label SME portal which launched in January, will be one of the first clients to offer the service pre-loaded into its PC's.



Wayne Lochner  
*Group Chief Executive Officer*

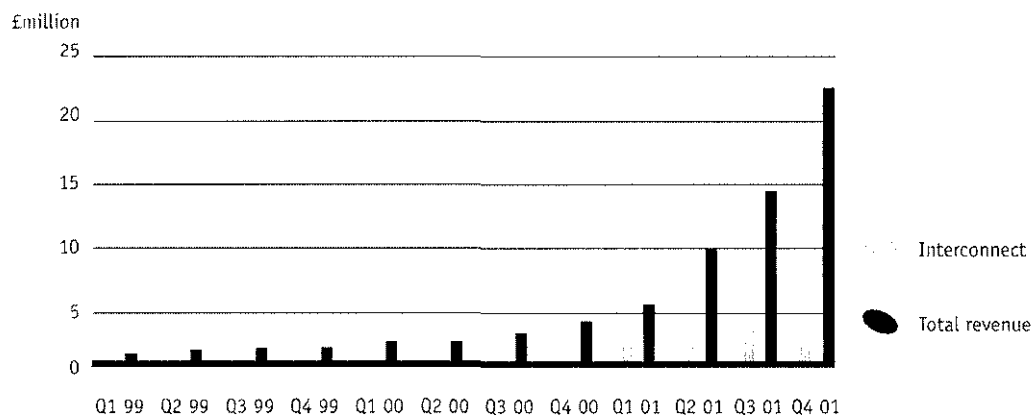
18 March 2002

## OPERATING DATA AND FINANCIAL REVIEW

### TRADING REVIEW

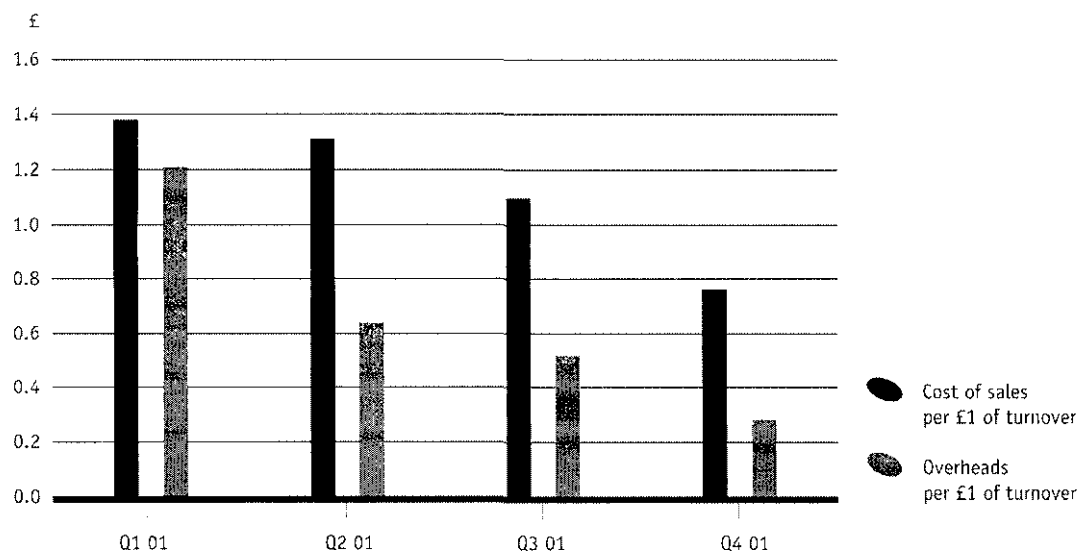
The Group exceeded its ambitious internal target of 40 per cent. quarter on quarter growth, lifting total turnover to £52.8 million, making a 366 per cent. increase over the previous year. As can be seen from the graph below, turnover has grown each quarter and the reliance upon a growing level of interconnect reduces each quarter.

### QUARTERLY INTERCONNECT VERSUS TOTAL REVENUE



The Group also succeeded in achieving improved margins, with Q4 2001 showing a quarterly gross profit for the first time. Q4 saw the margin improve to a profit of £3.6 million from a loss in Q3 of £1 million, a turnaround of £4.6 million in the quarter. This trend is reflected below with cost of sales in Q4 falling to 77 pence per £1 of turnover indicating a gross profit margin of 23 per cent.. When the combined cost of sales and overheads fall below £1, the Company will be reporting operating profits.

### COST OF SALES AND OVERHEADS PER £1 OF TURNOVER



Significantly, Q4 EBITDA excluding exceptional items improved to a £1.6 million loss against £5.4 million in Q3, £6.3 million in Q2, and £5.5 million in Q1. The Group had an EBITDA loss excluding exceptional items for the year of £18.7 million.

As previously reported, a strategic review of the Commerce division regarding the future viability of operations has been taken, and consequently the scope of the Group's operations will be less diverse in 2002. The Internet operations in South Africa have been closed, and the operations in both Finland and Holland will cease to have any physical infrastructure by the end of Q1 2002. Further significant cuts have been made in the commerce operations, with the Group's activities in this area restricted to Affinity Portals, Mall-UK and Mister Mail in Holland. The restructuring and closure has generated exceptional costs in the form of impairment of goodwill and other intangible assets totalling £8.3 million.

	Acquisitions and continuing operations £000	Discontinuing operations £000	Total £000
<b>Year to 31 December 2001</b>			
Turnover	51,781	984	52,765
Gross profit / (loss)	2,166	(3,204)	(1,038)
EBITDA before exceptional items	(13,861)	(4,884)	(18,745)
<b>Q4 2001</b>			
Turnover	22,585	(46)	22,539
Gross profit / (loss)	3,629	(6)	3,623
EBITDA before exceptional items	(590)	(982)	(1,572)

Included in continuing operations are the results of Holland and Finland which will cease effective operations in Q2 of 2002. They generated combined turnover of £166,000, with a gross loss of £1,806,000 and losses before tax of £3,719,000 during 2001. In Q4 2001 the same figures were £15,000, £342,000, and £711,000 respectively.

## TELECOMS

By far and away the biggest changes to the business have occurred in the Telecoms division. During 2000 the telecoms division contributed 19 per cent. of the total turnover, whilst in 2001 this has grown to 74 per cent.. This represents an increase of over 1,700 per cent. to £38.8 million for the year, whilst Q4 sales grew 78 per cent. to £17.7 million.

The growth in the Telecoms business is responsible for the improvement in the Group's overall margin, and reached 18 per cent. in the UK for the year. The growth in sales generating positive margins has allowed the Telecoms division to achieve a pre-tax profit in Q4 2001 of £537,000. The Hurricaneseye joint venture was £280,000 EBITDA profitable in 2001.

The number of fixed line telephony customers being billed has increased by 18 per cent. from Q3 2001. The number of customers provisioned for the service was 438,778. This is a reduction in the number reported at the end of Q3, resulting from a cleansing of the database of records that have never been active.

In Q4 2001, the division experienced demand for its pre-pay mobile telephones ahead of expectations. The boost to the division's revenues came from the first significant launches by the Wireless division securing important deals with HFC Beneficial Bank and Channel 5. An injection of additional working capital allowed the division to increase the number of connections achieved in the run up to Christmas ahead of budget, reaching just under 200,000 connections by the end of the year.

## INTERNET

Initially the internet division suffered from the introduction of FRIACO through having to put in place a minimum level of infrastructure whilst building a user base of subscribers from scratch. The consequences of this were gross losses in the early part of the year, but this trend was reversed in Q4 with the internet division in the UK reporting a gross profit for the first time of £1,269,000, and almost reaching its target of breakeven.

The division has also continued to grow, with revenues from the division up 52 per cent. over the course of the year. This rate of growth is expected to continue into 2002.

During the year, Tiny Computers sold its on-line subsidiary to Tiscali, which will result in the migration of customers from the platform in Q1 2002, with a consequent loss of gross revenue, but a positive effect on the profit and loss account. The cost structure has been adjusted accordingly, with infrastructure commitments due to fall away at the same time as the migration occurs. The recent purchase of Tiny by Time Computers is unlikely to alter the plans for migration to Tiscali.

#### **E-Commerce**

The commerce division has traditionally been the smallest part of Affinity's business, accounting for less than 5 per cent. of revenue in 2000.

The division has been able to lift its revenues by a creditable 56 per cent. but this was not enough to deliver positive margins. As a result, the division has curtailed its activities to such an extent that for operational purposes the remaining commerce activities are now run through the internet division.

Having made the decision to rationalise operations, the division succeeded in reducing its gross loss from £419,000 in Q3 to £66,000 in Q4. The division reduced its staff count by 12 employees in December, leaving just 19 employees in this division, the benefit of which will be seen in 2002.

#### **INTERNATIONAL**

The Australian office accounted for over 90 per cent. of the Q4 turnover from overseas, and for the year as a whole generated sales of £1.6 million with a gross margin of over 70 per cent., and lost £1.08 million for the year. The operating loss for Q4 was £383,000, although the full year figures include a one-off charge of £150,000 in respect of a bad debt following the collapse of World Exchange.

As previously stated in this report, trading overseas has not developed as the Board hoped at the beginning of the year, the withdrawal from the South African market being the most noted. In addition, Internet access services in both Holland and Finland have failed to achieve sufficient scale to breakeven and have been restructured accordingly. Supply contracts are due to expire at the end of March 2002 when the internet operations in both countries will cease to have any physical infrastructure remaining, and also the European central team based in London will be redeployed. The further action taken has reduced losses overseas in Q4 from £1.2 million to £875,000.

#### **JOINT VENTURES**

A significant part of Affinity's business is now conducted using the services of its main joint venture, Hurricaneseye, which is 50 per cent. owned by Powergen.

During the year, the joint venture began reporting positive monthly results to the extent that the full year figure was a positive EBITDA of £280,000.

The business has been funded to date solely by cash injected by the two shareholders.

The Company's other joint ventures, Synigence Affinity and Mall-UK are also free of borrowings and have been funded by the respective shareholders.

#### **LIQUIDITY AND CAPITAL RESOURCES**

The Company was loss making during 2001, which has resulted in a reduction in the Company's cash reserves. The cash outflow from operating activities for the year was £15.3 million against £10.2 million in 2000. However, the cash outflow from operating activities before exceptional items has reduced on a quarterly basis, with the cash outflow in Q4 2001 being £1.6 million.

The Company was able to raise funds during the year, with a placing of £1.8 million in August to finance the acquisition of the Atlantic Telecom residential customer base, and a placing of £6.3 million in December to provide additional working capital for expansion. The Company also triggered the receipt of £5 million from Powergen as a part of the sales incentive built into the joint venture agreement for Hurricaneseye.

At the end of the year the Group had cash in hand of £8.45 million.

The Company remains free of any formal debt instruments despite the acquisitions made during the year, leaving the Company well placed to convert EBITDA to profit before tax.

The Company is forecasting continued growth in the coming year, and these forecasts indicate that the Company has sufficient cash resources to achieve profitability without the need for borrowings. However, the nature of the Company's business and the rate of growth is such that the exact timing of revenues is subject to a degree of uncertainty. Accordingly the Board have concluded that it would be prudent to put in place additional funding facilities.

At the date of approving these financial statements the Group has been offered a bank overdraft facility, and is in advanced negotiations for leasing and other facilities.



Stuart Barker ACA  
*Finance Director*

18 March 2002

## THE AFFINITY YEARS

- January**      **Official launch of Affinity Wireless**
  - Joint venture with Capital Shopping Centres and Mall-UK
- February**    **One of the first wholesale sellers of FRIACO services in the UK**
  - Majority ownership of Australia.com
- March**        Strengthened management team
- April**         Largest ISP in South Africa in 2 months trading
- May**          Streamlining of operating structure and branding
- June**         **Acquisition of breathe.com from GUS**
- July**          Acquisition of Blast Internet Services in Australia
- August**       Acquisition of Blue Carrots portal
  - Affinity Portals incorporated to operate breathe and Blue Carrots
  - Acquisition of Atlantic Telecom's residential customer base**
- September**   Re-launch of breathe portal with Affinity's Group services
  - Launch of Sonnet as Affinity's small business offering
  - Launch of WHSmith Online, won from BT Openworld**
  - QPR FC launches virtual mobile services
  - VIP changes name to Affinity Internet Ltd
- October**      **Acquisition of 'figure eight' network and switch from RSL COM**
- November**    Appointment of Collins Stewart Limited as Financial Advisor and Corporate Broker
  - Lakeside virtual shopping mall launched
- December**    Completed £6.3 million fundraising to provide capital for growth

## DIRECTORS' PROFILES

### **Terry Plummer** *Chairman*

Terry Plummer co-founded the Company in association with Wayne Lochner. From 1967 to 1977 Terry worked for Unilever plc and was part of the senior management team by the time he left. Terry was previously Chief Executive of Hobson plc prior to its acquisition by Hillsdown Holdings plc, and for some years has been running his own export company specialising in re-selling branded merchandise.

### **Wayne Lochner** *Group CEO*

Wayne Lochner co-founded the Company in association with Terry Plummer having identified the potential of the Internet and the role that brands would play in the webs' development in the UK. Wayne was previously based in the Far East with M.W. Marshall & Company Limited, where he held a number of positions including Group treasurer. Subsequently Wayne was appointed Chief Executive and Managing Director of MAI plc (now Garban-Intercapital plc) for the Asia Pacific and Middle East Regions.

### **Stuart Barker** *ACA Finance Director*

Stuart Barker qualified as a Chartered Accountant with the ICAEW in 1990, and spent 12 years working in private practice, rising to partner designate. Stuart, having set up his own consulting firm, joined as financial controller in July 1998 and subsequently gave up his consultancy to accept the full time position of Finance Director with the Group. Stuart was appointed to the Affinity Board in April 1999.

### **June May** *CEO UK Operations*

June May joined the Affinity Board as a non-executive Director in December 1999. In March 2001 June accepted a full-time Board position as CEO of Affinity in the UK. In a career which spans over 20 years, June has held a variety of high profile positions within the technology industry in organisations such as Digital Equipment Corporation Ltd and Informix Software Ltd. June has extensive international experience in IT customer services and software and network support through her roles as Vice President of Novell Technical Services and Managing Director of Ramesys Business Services.

### **Peter Collins** *Technical Director*

Peter Collins' joined the Affinity Board in September 2001. His career within the communications and internet industries spans three decades. His wealth of experience has centred around managing and developing communications and computing systems for a wide range of corporate companies including Pye Telecommunications, Southern Electricity, Total Oil, and two global money and securities broking houses where he was Director of IT.

### **Rodney Howard Smith** *Non-Executive Director*

Rod Smith joined the Affinity Board in February 2001 after completing a 12 month contract as COO of Affinity Internet Holdings plc. Rod began his career at Mercantile House / M.W. Marshall where he spent 17 years starting up businesses around the world, eventually rising to the position of CEO in 1986. Rod then moved to Fulton Prebon to become Chairman where he helped the company to successfully compete in a niche market.

### **Sir Leonard Peach** *Non-Executive Director*

Sir Leonard Peach joined the Affinity Board in June 2001 and is Chairman of the Remuneration and Nominations Committee. His extensive career spans both the public and private sectors. He has 30 years experience with IBM at a national and regional level including Group Director of Personnel in IBM Europe, Middle East and Africa and Director of the IBM Holdings Board in the UK. Sir Leonard has held several Government appointments during his career including Chief Executive of the NHS Management Board and Chairman of the Police Complaints Authority. Sir Leonard was previously a Director of the Personal Investment Authority (PIA) and a Deputy Chairman of the Discipline and Membership Committee of the PIA. He was most recently appointed a Deputy Chairman of the Regulatory Decisions Committee of the FSA.

### **Sir Gerry Neale** *Non-Executive Director*

Sir Gerry Neale joined the Affinity Board in June 2001 and is Chairman of the Audit Committee. His career also spans both public and private sector service. Sir Gerry was a former Member of Parliament for North Cornwall from 1979 to 1992. During his career, he has gained comprehensive senior management experience with a number of companies including Chairman at Class Systems Limited, Only Four Sport Management Limited and was a Director of Glengo Limited. In addition, Sir Gerry is a visiting lecturer at the University of Westminster where he lectures in Cognitive thinking.



## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of Affinity Internet Holdings Plc for the year ended 31 December 2001.

### PRINCIPAL ACTIVITIES

The Company's principal activity is the holding of Group investments in subsidiaries involved in the provision of branded internet access, telecommunications, convergent billing and online services.

### REVIEW OF BUSINESS

The target for 2001 was to focus on driving profitable revenue through the business and to reduce costs. The Group achieved quarter on quarter revenue growth in excess of 40 per cent. and improved margins to attain a gross profit in Q4 2001.

### POST BALANCE SHEET EVENTS

On 10 January 2002 the Company issued 204,454 new ordinary shares of 10 pence each to increase its holding in its Australian subsidiary, Affinity Corporation Pty Limited (formerly Australia.com Pty Limited), to 100 per cent.

On 16 January 2002 the Company issued 135,172 new ordinary shares of 10 pence each, pursuant to the agreement signed on in January 2001 to invest in Mall-UK Limited. The investment was the second instalment of £500,000, with the third and final instalment due in January 2003.

On 15 March 2002 the Company reached conditional agreement to acquire an ISP business in Australia from Phoneware Online Pty Limited for A\$600,000 to be satisfied by the issue of new ordinary shares of 10 pence each. The number of shares to be issued will be determined on completion, which is expected to be on 22 March 2002.

### RESEARCH AND DEVELOPMENT

The Group has minimal expenditure on specific research and development, but remains committed to locating the most up to date products for its service, and securing contractual relationships with the suppliers of these products.

### DIVIDENDS

The Directors do not recommend the payment of a dividend.

### POLITICAL AND CHARITABLE DIVIDENDS

The Group made no political donations during the year (2000: £nil) and made charitable donations of £232 (2000: £135) during the year.

## DIRECTORS AND THEIR INTERESTS

The Directors who held office during the year were as follows:

**Terry Plummer**

**Wayne Lochner**

**Robert Southward** (resigned 10 September 2001)

**Allan Redfern** (resigned 31 March 2001)

**Stuart Barker**

**Peter Howard-Dobson** (resigned 18 January 2001)

**June May**

**Rodney Smith** (appointed 1 February 2001)

**Sir Leonard Peach** (appointed 25 June 2001)

**Sir Gerry Neale** (appointed 25 June 2001)

**Peter Collins** (appointed 10 September 2001)

Directors' interests are disclosed in note 5.

In accordance with the Company's Articles of Association, Terry Plummer retires by rotation and, being eligible, offers himself for re-election.

## EMPLOYEES

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate the best employees regardless of sex, religion or disability. Should employees become disabled during their employment, the Group would seek wherever possible to retain or if necessary retrain. The Group places considerable value on the involvement of its people and continues its practise of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Company through formal and informal meetings.

The Group's policy is to issue share options at appropriate intervals in order to motivate and retain employees and to align their interests with those of the shareholders. Additionally, pension contributions are made to the Group's defined contribution pension scheme. Other benefits include a company car scheme, medical expenses insurance and employee of the quarter award.

## POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Group's policy in respect of its suppliers is to agree terms of payment when first contracting with each supplier and aims to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow a code on payment practice. The amount of trade creditors shown in the balance sheet at 31 December 2001 represents 84 days of average purchases for the Group (Company 61 days).

## ENVIRONMENT

The Group recognises its obligations to the environment and the benefits of encouraging good environmental practice in all its operations. Whilst there are no formal guidelines or targets, office and departmental managers are encouraged to review their environmental practices and implement improvements where appropriate. Initiatives practised in the United Kingdom also include the saving of electricity and other power sources and the recycling of paper and computer consumables.

## INTRODUCTION OF THE EURO

The Group's activities during 2001 were primarily in the United Kingdom, however the development of activities continued overseas both within and outside the Eurozone. The initial impact of the Euro has been minimal, with the Group having instituted accounting software that is Euro capable and has the capability to receive and make payments in Euros. Further developments continue to be monitored to ensure that the Group continues to have multi currency capability, including Euros, and to determine continuing development of the Group's convergent billing platform.

## AUDITORS


Following the resignation of KPMG Audit Plc, the Directors appointed Ernst & Young LLP as Auditors of the Company. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Ernst & Young LLP as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

P W COLE

Company Secretary

18 March 2002



Victoria House  
64 Paul Street  
London  
EC2A 4NG

Affinity Internet Holdings Plc is committed to corporate governance in line with the Combined Code which sets out the principles of Good Governance and Code of Best Practice. The Board confirms that it is compliant with the provisions of Section 1 of the Combined Code, with the exception of: (i) the Company does not have a designated Nominations Committee, incorporating this function within the Remuneration Committee and (ii) at the request of the non-executive Directors the Chairman, Terry Plummer, sits on the Remuneration Committee.

#### The Board

The Board consists of five executive Directors and three non-executive Directors. The non-executive Directors bring considerable knowledge and a wide range of experience to the Board and Sir Leonard Peach and Sir Gerry Neale are considered to be independent. Rodney Smith is not considered an independent Director due to his previous employment as COO of the Company.

The full Board meets monthly, chaired by Terry Plummer, and has adopted a schedule of matters for discussion designed to maintain control over appropriate strategic, financial, operational and compliance issues. The full Board also holds responsibility for identifying and addressing significant risks to the business of the Group, which are then delegated to working parties made up of Board members and senior management. Directors receive an information pack containing background papers to familiarise themselves in advance of the meeting on all agenda items.

To enable the Board to perform its duties all Directors have full access to all relevant information and to the services of the Company Secretary. If necessary, Directors may take independent professional advice at the Company's expense.

#### Board Committees

**The Audit Committee** comprises all three non-executive Directors and is chaired by Sir Gerry Neale. The Committee is scheduled to meet at least four times per annum, with the Finance Director and external Auditors regularly attending these meetings. It is responsible for reviewing accounting policies, controls and the financial information contained in the Annual and Interim Reports. It provides the opportunity for the non-executive Directors to make independent contributions to financial matters.

**The Remuneration and Nominations Committee** comprises all three non-executive Directors and the Chairman, Terry Plummer. The Remuneration Committee is chaired by Sir Leonard Peach. The Committee is scheduled to meet at least three times per annum. It sets the remuneration of the executive Directors and senior management, and also considers grants and conditions for the Company's share option schemes. The executive Director is not present during the discussion of his own pay arrangements. The Committee also receives nominations for new Directors.

#### Relations with shareholders

The Company's Chairman, Chief Executive Officer and Finance Director meet with institutional shareholders, fund managers and analysts following the publication of the quarterly figures, as part of an investor relations programme to discuss issues and feedback. In addition, briefings are held throughout the year on specific topics of interest or new developments significant to the business. Private investors are encouraged to participate in the running of the Company through the Company's General Meetings.

At such meetings the Chairman will review the Company's current trading and future prospects, and will then invite questions from shareholders. Notice of the Annual General Meeting will be mailed, together with any related documents, at least 20 working days before the meeting, and separate resolutions will be proposed on each substantially separate issue. The level of proxy votes lodged on a resolution will be announced at the Meeting.

#### Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

In September 1999, the Turnbull Committee issued guidance on internal financial controls and financial reporting which apply to all accounting periods ending on or after 23 December 2000.

The Board confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The Company listed on techMark in October 2000 at which time this process was implemented and remains in place up to the date of approval of the Annual Report and Accounts, and this process is regularly reviewed by the Board and accords with the guidance.

As part of this process the Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which those risks are managed. The Board has not yet approved the adoption of a Code of Business Conduct, although there are supporting Group policies and employee procedures for the reporting and resolution of suspected fraudulent activities.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. Those risks are assessed on a continual basis and may be associated with a variety of external sources including control breakdowns, disruption of information systems, competition, natural catastrophe and regulatory requirements.

A process of self assessment and hierarchical reporting has been established which provides for a documented trail of accountability. These procedures provide for successive assurances to be given at increasingly higher levels of management and finally to the Board.

The Board has reviewed the need for an internal audit function but has concluded the current size and structure of the Group does not warrant its creation at the present time.

Management report regularly on the review of risks and how they are managed to an Executive Committee, whose role includes to review on behalf of the Board the key risks inherent in the business and the system of internal control necessary to manage such risks, and present their findings to the Board. The Company does not have a separate Risk Committee, this function being performed by the Board as a whole. The Audit Committee reviews assurance procedures and presents its findings to the Board as appropriate.

The UK Chief Executive Officer also reports to the Board on behalf on the Executive Committee on the significant changes in the business and the external environment which affect significant risks. The Finance Director provides the Board with monthly financial information which includes key performance and risk indicators. Where areas for improvement in the system are identified, the Board considers recommendations made by the Executive Committee and the Audit Committee.

#### Going concern

After making enquiries and considering the Group's planned activities and negotiations, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

## REMUNERATION REPORT

### Composition of the Remuneration Committee

The members of the Remuneration Committee during 2001 were Sir Leonard Peach, Sir Gerry Neale, Rodney Smith and Terry Plummer.

### Compliance with the Combined Code

This report describes how the principles identified by the Combined Code in relation to executive Directors' remuneration are applied by the Group. In line with the requirements of the Combined Code, the Remuneration Committee, which operates within agreed terms of reference, has responsibility for making recommendations to the Board on the Group's general policy towards executive remuneration. The Remuneration Committee also determines, on the Board's behalf, the specific remuneration packages of the executive Directors and a number of senior executives.

### Policy on remuneration of executive Directors and senior executives

The Remuneration Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive Directors and senior executives of the right calibre.

The main components are:

**(i) Basic salary**

Basic salary for each Director is determined by the Remuneration Committee, taking into account the performance of the individual and information from independent sources on the rates of salary for similar positions in a selected group of comparable companies.

**(ii) Share options**

The Company believes that share ownership by executive Directors and senior executives strengthens the link between their personal interest and those of the shareholders. The Company's policy regarding share options is to grant these to selected employees on a discretionary basis as part of its periodic reviews of remuneration packages. There have been no changes to the Company's share option policy during the year. The shareholders are invited to approve all long-term incentive schemes.

**(iii) Performance-related bonus**

The performance-related bonus element of remuneration for executive Directors forms a significant proportion of their total remuneration package and is designed to align their interests with those of shareholders. All such bonuses are non-pensionable. The bonus element for 2002 is currently being revised to reflect a scheme whereby all bonus entitlement is linked by a pre-determined formula to the level of profit reported by the Group.

### Policy on external appointments

The Company recognises that its Directors may be invited to become non-executive Directors of other companies and that exposure to such non-executive duties can broaden experience and knowledge, which will benefit Affinity Internet Holdings plc. Executive Directors are, therefore, allowed to accept one non-executive appointment as long as these are not with competing companies and are not likely to lead to conflicts of interest. Any additional outside appointments may only be held with the approval of the Board. Such Directors are allowed to retain the fees paid.

#### Directors' service contracts

The notice period for the termination of the service contracts of the executive Directors is one year. The Remuneration Committee has not specified details of any compensation which would be payable in the event of early termination of service contracts, other than in the event of a change of control in the Company. In this instance the service contracts provide for compensation equivalent to one year's gross salary, not to include any bonus element.

The non-executive Directors are appointed for an expected period of three years, determinable on 6 months' notice in writing on either side. They do not participate in the bonus and share option schemes and their fees for services provided are determined by the executive Directors in consultation with their professional advisors, having regard to the fees payable in comparable companies.

#### Directors' emoluments

Directors' emoluments, shareholdings and share options, are set out in note 5.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.



# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF AFFINITY INTERNET HOLDINGS PLC

We have audited the Group's financial statements for the year ended 31 December 2001 which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated cash flow statement, consolidated statement of total recognised gains and losses, reconciliation of consolidated shareholders' funds and the related notes 1 to 31. These financial statements have been prepared on the basis of the accounting policies set out therein.

### 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 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 with the Group is not disclosed.

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 form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' report, Chairman's statement, Operating and financial review and Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

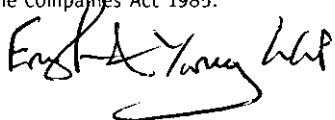
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 of the Group as at 31 December 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London

18 March 2002



# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2001

	Note	Continuing operations 2001 £000	Acquisitions 2001 £000	Discontinued operations 2001 £000	Total 2001 £000	Total 2000 £000
Turnover		49,952	1,829	984	52,765	11,312
Less: Group share of joint ventures turnover	15	(15,637)	-	-	(15,637)	(1,998)
<b>Group turnover</b>	2	<b>34,315</b>	<b>1,829</b>	<b>984</b>	<b>37,128</b>	<b>9,314</b>
Cost of sales		(33,345)	(633)	(4,188)	(38,166)	(12,735)
<b>Gross profit/(loss)</b>		<b>970</b>	<b>1,196</b>	<b>(3,204)</b>	<b>(1,038)</b>	<b>(3,421)</b>
Amortisation	12	(904)	(811)	(2,435)	(4,150)	(2,716)
Exceptional operating items	3	(2,932)	(1,808)	-	(4,740)	(11,814)
Other administrative expenses		(14,164)	(2,696)	(1,697)	(18,557)	(8,873)
<b>Total administrative expenses</b>		<b>(18,000)</b>	<b>(5,315)</b>	<b>(4,132)</b>	<b>(27,447)</b>	<b>(23,403)</b>
<b>Operating loss</b>		<b>(17,030)</b>	<b>(4,119)</b>	<b>(7,336)</b>	<b>(28,485)</b>	<b>(26,824)</b>
Group share of joint ventures operating loss	15	(1,347)	-	-	(1,347)	(3,987)
<b>Group operating loss</b>	2	<b>(18,377)</b>	<b>(4,119)</b>	<b>(7,336)</b>	<b>(29,832)</b>	<b>(30,811)</b>
Exceptional non-operating items	3				(480)	4,077
Interest receivable and similar income	7				343	742
Interest payable and similar charges	8				(121)	(58)
<b>Loss on ordinary activities before taxation</b>	4				<b>(30,090)</b>	<b>(26,050)</b>
Tax on ordinary activities	9				-	-
<b>Loss on ordinary activities after taxation</b>					<b>(30,090)</b>	<b>(26,050)</b>
Minority interests	24				1,567	-
<b>Retained loss for the year</b>	23				<b>(28,523)</b>	<b>(26,050)</b>
<b>Loss per share – basic and fully diluted</b>	11				<b>(109.81p)</b>	<b>(128.82p)</b>
<b>Loss per share before exceptional operating items – basic and fully diluted</b>	11				<b>(91.56p)</b>	<b>(70.40p)</b>

# CONSOLIDATED BALANCE SHEET

at 31 December 2001

	Note	2001 £000	2000 £000
<b>Fixed assets</b>			
Intangible assets	12	4,960	2,085
Tangible assets	13	2,946	1,241
Investments	14	-	680
Investment in joint ventures	15		
Share of gross assets		9,621	4,667
Share of gross liabilities		(9,815)	(7,130)
Loans to joint ventures		3,265	9,650
		3,071	7,187
		<u>10,977</u>	<u>11,193</u>
<b>Current assets</b>			
Stocks	16	801	-
Debtors	17	12,406	3,357
Cash at bank and in hand		8,454	16,973
		21,661	20,330
<b>Creditors: amounts falling due within one year</b>	18	(23,073)	(5,136)
<b>Net current (liabilities)/assets</b>		<u>(1,412)</u>	<u>15,194</u>
<b>Total assets less current liabilities</b>		<u>9,565</u>	<u>26,387</u>
<b>Creditors: amounts falling due after more than one year</b>	19	(71)	(176)
<b>Provisions for liabilities and charges</b>	20	(977)	-
<b>Net assets</b>		<u>8,517</u>	<u>26,211</u>
<b>Capital and reserves</b>			
Called up share capital	22	2,985	2,425
Shares to be issued	23	-	5,970
Share premium account	23	62,988	45,811
Other reserves	23	5,085	5,085
Profit and loss account	23	(61,525)	(33,080)
<b>Total equity shareholders' funds</b>		<u>9,533</u>	<u>26,211</u>
<b>Minority interests</b>	24	(1,016)	-
		<u>8,517</u>	<u>26,211</u>

These financial statements were approved by the Board on 18 March 2002 and were signed on its behalf by:



T Plummer  
Director



W Lochner  
Director





Affinity Internet Holdings plc

# COMPANY BALANCE SHEET

at 31 December 2001

	Note	2001 £000	2000 £000
<b>Fixed assets</b>			
Intangible assets	12	68	353
Tangible assets	13	17	11
Investments	14	9,522	14,343
		<u>9,607</u>	<u>14,707</u>
<b>Current assets</b>			
Debtors	17	32,266	19,233
Cash at bank and in hand		1,551	14,930
		<u>33,817</u>	<u>34,163</u>
<b>Creditors: amounts falling due within one year</b>	18	(2,124)	(550)
<b>Net current assets</b>		<u>31,693</u>	<u>33,613</u>
<b>Net assets</b>		<u>41,300</u>	<u>48,320</u>
<b>Capital and reserves</b>			
Called up share capital	22	2,985	2,425
Shares to be issued	23	-	35
Share premium account	23	62,988	45,811
Profit and loss account	23	(24,673)	49
<b>Total equity shareholders' funds</b>		<u>41,300</u>	<u>48,320</u>

These financial statements were approved by the Board on 18 March 2002 and were signed on its behalf by:



T Plummer  
Director



W Lochner  
Director





**CONSOLIDATED CASH FLOW STATEMENT**

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
<b>Cash flow from operating activities</b>	27	<b>(15,319)</b>	<b>(10,207)</b>
<b>Returns on investment and servicing of finance</b>			
Interest received		343	742
Interest paid		(87)	-
Interest element of finance lease rental payments		(34)	(58)
		<u>222</u>	<u>684</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(1,979)	(1,070)
Purchase of intangible fixed assets		(2,298)	(2,418)
Purchase of goodwill	21	(2,060)	-
Purchase of fixed asset investments		-	(1,080)
Investment into joint ventures		(2,115)	(10,901)
Proceeds on disposal of fixed assets		66	27
		<u>(8,386)</u>	<u>(15,442)</u>
<b>Acquisitions and disposals</b>			
Payments to acquire subsidiary undertakings		(28)	(793)
Net cash acquired with subsidiary undertakings		1,994	138
Proceeds from sale of subsidiary undertaking:			
Initial consideration		-	4,739
Sales incentive		5,000	-
		<u>6,966</u>	<u>4,084</u>
<b>Cash outflow before financing</b>		<b>(16,517)</b>	<b>(20,881)</b>
<b>Financing</b>			
Issue of ordinary share capital		8,377	25,673
Costs relating to share issue		(318)	(2,827)
Finance leases issued during the year		-	199
Capital element of finance lease rental payments		(139)	(154)
		<u>7,920</u>	<u>22,891</u>
<b>(Decrease)/increase in cash in the year</b>		<b>(8,597)</b>	<b>2,010</b>

**Major non-cash items**

The Company did not issue any ordinary shares during the year solely to acquire fixed assets (2000: £136,810).

Part of the consideration for the purchase of subsidiary undertakings during the year comprised ordinary shares. Full details of the consideration are shown in note 21.

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
<b>(Decrease)/increase in cash in the year</b>	28	<b>(8,597)</b>	2,010
Cash outflow from decrease in debt and lease financing	28	139	154
Change in net debt resulting from cash flows		<b>(8,458)</b>	2,164
New finance leases	28	-	(199)
Exchange differences	28	78	-
<b>Movement in net funds in the year</b>		<b>(8,380)</b>	1,965
<b>Net funds at the start of the year</b>	28	<b>16,650</b>	14,685
<b>Net funds at the end of the year</b>	28	<b>8,270</b>	16,650

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2001

	2001 £000	2000 £000
Retained loss for the financial year	<b>(28,523)</b>	(26,050)
Foreign exchange movement on re-translation of overseas investments	78	(49)
<b>Total losses recognised since last annual report</b>	<b>(28,445)</b>	(26,099)

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2001

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Retained (loss)/profit for the financial year	<b>(28,523)</b>	(26,050)	<b>(24,722)</b>	126
Foreign exchange movement on re-translation of overseas investments	78	(49)	-	-
New share capital subscribed (net of issue costs)	<b>17,737</b>	23,022	<b>17,737</b>	23,022
Shares to be issued	<b>(5,970)</b>	5,970	<b>(35)</b>	35
Merger relief on acquisitions	-	6,350	-	-
Net (reduction)/addition to shareholders' funds	<b>(16,678)</b>	9,243	<b>(7,020)</b>	23,183
Opening shareholders' funds	<b>26,211</b>	16,968	<b>48,320</b>	25,137
<b>Closing shareholders' funds</b>	<b>9,533</b>	26,211	<b>41,300</b>	48,320

## NOTES

(to the financial statements)

### 1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently, other than as stated below, in dealing with items that are considered material in relation to the Group's financial statements.

#### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. Two new accounting standards, Financial Reporting Standard 17 'Retirement Benefits' and Financial Reporting Standard 18 'Accounting Policies' became effective for the first time during the period and have been adopted. Neither of them has had any significant effect on the financial position of the Group nor on the reported result for the year.

Under Section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The amount of the profit for the financial year of the Company is disclosed in note 23 of these accounts.

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of Affinity Internet Holdings plc and its subsidiary undertakings and joint ventures made up to 31 December. Unless otherwise stated the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings and joint ventures are accounted for from the effective dates of acquisition. Joint ventures are arrangements in which the Group has a long-term interest and shares control under a written contractual arrangement. The Group accounts include the appropriate share of joint venture results and net assets, based on their latest accounts.

The accounts of the Company include investment in subsidiary undertakings at historical cost, modified for any impairment in value.

#### Goodwill

Purchased goodwill (being the difference between the fair value of the purchase consideration and the fair value of the separable net assets acquired) arising on consolidation and business combinations in respect of acquisitions is capitalised. Positive goodwill is amortised over its estimated useful economic life, in accordance with Financial Reporting Standard 10 'Goodwill and intangible assets'.

The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill is amortised over periods of between three and five years. The Directors review goodwill for impairment at the end of the first financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

## NOTES (CONTINUED)

### 1 ACCOUNTING POLICIES continued

#### Fixed assets and depreciation

Fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives. The principal rates used are:

Intangible software licences	-	shorter of 3 years and the period of the licence
Short leasehold property	-	straight line over the period of the lease
Computer equipment and software	-	3 years straight line
Office equipment	-	15 per cent. per annum reducing balance
Motor vehicles	-	25 per cent. per annum reducing balance

The carrying values of fixed assets, including investments, are reviewed for impairment in periods if events or changes in circumstances indicate the carrying values may not be recoverable.

#### Joint ventures

The treatment of joint ventures is set out in Financial Reporting Standard 9 'Associates and Joint Ventures', however the standard does not consider how to treat any loans made to joint ventures from the controlling parties. The Company does not believe its loans to its joint ventures to be a part of its holding in the joint venture, and discloses the loans separately on the face of the balance sheet.

#### Stock

Stocks are stated at the lower of cost and net realisable value. In determining the cost of goods purchased for resale, the weighted average purchase price is used.

#### Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover contracts have been arranged, at such contracted rates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date, or at a contracted rate if applicable and any exchange differences arising are taken to the profit and loss account.

The assets and liabilities of overseas undertakings are translated at the exchange rate ruling at the balance sheet date. The profit and loss accounts of such undertakings are translated at the relevant average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves.

#### Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which lease payments exceed the recorded lease obligations are treated as finance charges and are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Annual rental costs under operating leases are charged to operating profit on a straight-line basis over the lease term.



#### Turnover

Turnover represents the amounts receivable (excluding value added tax) derived from the provision of goods and services to third party customers in the United Kingdom and overseas.

Turnover primarily consists of charges to customers for access charges and airtime usage. Turnover is recognised as services are provided. Unbilled turnover resulting from services provided to the end of each period is accrued. Cash received in advance from customers is treated as deferred revenue. Turnover also includes equipment sales, which are recognised upon delivery of equipment to customers.

#### Pensions

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the financial year.

#### Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided only to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

#### Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

#### Going Concern

The accounts have been prepared on a going concern basis. The Group is engaged in a high growth industry where losses are fully anticipated. These losses represent the Group's investment in its development and it has remained the Directors' policy to ensure that proper finance is available to support this development.

At the date of approving these financial statements the Group has been offered a bank overdraft facility and is in advanced negotiations to secure a number of other facilities.

After making enquiries and considering the Group's planned activities and budgeted revenues, and after considering current negotiations for funding facilities, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation and obtain profitability. On this basis, in the opinion of the Directors, the Group has adequate financial resources to continue its operations into the foreseeable future.

## NOTES (CONTINUED)

## 2 SEGMENTAL INFORMATION

The table below sets out information for each of the Group's industry segments.

	Internet Services		Telecommunications		Total	Total
	2001	2000	2001	2000	2001	2000
	£000	£000	£000	£000	£000	£000
Turnover	13,964	9,163	38,801	2,149	52,765	11,312
Less: Group share of joint ventures turnover	-	-	(15,637)	(1,998)	(15,637)	(1,998)
<b>Group turnover</b>	<b>13,964</b>	<b>9,163</b>	<b>23,164</b>	<b>151</b>	<b>37,128</b>	<b>9,314</b>
Operating loss before exceptional items	(17,901)	(13,156)	(1,607)	(180)	(19,508)	(13,336)
Share of joint ventures losses	(702)	(3,058)	(645)	(929)	(1,347)	(3,987)
Exceptional operating items	(4,740)	(9,832)	-	-	(4,740)	(9,832)
<b>Segment operating loss</b>	<b>(23,343)</b>	<b>(26,046)</b>	<b>(2,252)</b>	<b>(1,109)</b>	<b>(25,595)</b>	<b>(27,155)</b>
Corporate costs					(4,237)	(1,674)
Other exceptional operating items					-	(1,982)
<b>Group operating loss</b>					<b>(29,832)</b>	<b>(30,811)</b>
Segment net assets/(liabilities)	(8,106)	18,048	6,930	1,802	(1,176)	19,850
Corporate net assets					9,693	6,361
<b>Total net assets</b>					<b>8,517</b>	<b>26,211</b>

Internet services comprises the Group's internet service providers and internet content and commerce and the management and infrastructure of that business segment. Telecommunications represents the Group's investment in residential and corporate communications.

Activities outside the UK generated turnover of £2,801,000 (2000: £62,000), operating losses of £8,344,000 (2000: £1,832,000), and gave rise to net liabilities of £211,000 (2000: £1,925,000).

The profit and loss account for 2000 includes £106,000 of administrative expenses and £2,458,000 relating to the Group's share of joint venture operating losses for operations that have subsequently been discontinued. All discontinued operations relate to Internet services as a result of the Group refocusing its activities. All other amounts in 2000 relate to continuing operations.

### 3 EXCEPTIONAL ITEMS

	Exceptional operating items		Exceptional non-operating items	Total	Total
	Continuing operations	Acquisitions	items	2001	2000
	2001	2001	2001	2001	2000
	£000	£000	£000	£000	£000
<b>Exceptional costs</b>					
Restructuring charges	(575)	-	-	(575)	-
Onerous contracts	(1,343)	-	-	(1,343)	-
Impairment of goodwill	(764)	(1,808)	(3,589)	(6,161)	(9,630)
Impairment of software licences	(250)	-	(1,891)	(2,141)	(202)
Impairment of investment	-	-	-	-	(800)
Development costs written off	-	-	-	-	(1,182)
	<u>(2,932)</u>	<u>(1,808)</u>	<u>(5,480)</u>	<u>(10,220)</u>	<u>(11,814)</u>
<b>Exceptional gains/profits</b>					
Sales incentive on joint venture	-	-	5,000	5,000	-
Profit on disposal of 50 per cent. of subsidiary undertaking	-	-	-	-	4,077
	<u>(2,932)</u>	<u>(1,808)</u>	<u>(480)</u>	<u>(5,220)</u>	<u>(7,737)</u>

The restructuring charges arose as a part of the changing scope of operations. The Company was able to re-negotiate the terms of its contracts in Europe with ICL, a key supplier, and in consideration for material changes to the contractual commitments, a single payment of £575,000 was made.

The Group has a number of operating lease contracts outstanding for routers and similar equipment. Due to recent improvements in technology, these are now redundant and outstanding commitments have been provided against.

The Directors have considered the carrying value of goodwill in the consolidated balance sheet. This has resulted in an impairment of £764,000 in respect of continuing operations and £1,808,000 relating to acquisitions made prior to the Group's refocusing of activities. In addition, the Directors have written down all goodwill on activities which have ceased during the year, amounting to £3,589,000.

At the time of the acquisition of Taxi Interactive Limited on the 6 January 2000, the Directors determined that the goodwill should be amortised over 5 years and in accordance with this policy £2,408,000 was charged to the profit and loss account. Subsequently during 2000, the Directors implemented a significant re-organisation within Taxi Interactive Limited to reposition the commercial proposition and determined that the remaining goodwill of £9,630,000 be written off to the profit and loss account.

The Directors have taken the view that the software rights in respect of discontinued activities of £1,891,000 should be written off to the profit and loss account in the current year. Additional software rights in continuing activities have also been written off following further review.

On 21 February 2000, the Company disposed of 50 per cent. of the shares in the previously wholly owned subsidiary undertaking, TeleCentric Solutions Limited. Under the terms of a marketing agreement signed in June 2000, the Company received a one-off payment in the current year of £5 million from its joint venture partner.

## NOTES (CONTINUED)

**4 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

Loss on ordinary activities before taxation is stated after charging:

	2001 £000	2000 £000
Auditors' remuneration:		
– Audit	150	130
– Other services	–	34
Depreciation and other amounts written off tangible assets		
– Owned	765	304
– Leased, motor vehicles	66	83
– Leased, other	19	22
Loss on disposal of fixed assets	–	59
Amortisation of intangible fixed assets	4,150	2,716
Impairment of intangible fixed assets	8,302	11,014
Rentals payable under operating leases		
– Land and buildings	897	167
– Plant and machinery	1,662	1,313

Fees to the Company's former auditor, KPMG Audit Plc, amounted to £265,000 (2000: £164,000) in relation to audit and other services. In the previous year fees of £998,750 were paid to KPMG Audit Plc for the equity placing and have been offset against the share premium account.

The audit fee in respect of the Company was £35,000 (2000: £35,000).

**5 REMUNERATION OF DIRECTORS**

	Salary £	Benefits £	2001 Total £	2000 Total £
<i>Executive Directors:</i>				
Terry Plummer	200,000	21,989	221,989	203,253
Wayne Lochner	204,167	16,591	220,758	205,073
Robert Southward	105,000	10,079	115,079	136,584
Allan Redfern	45,000	3,040	48,040	119,675
Stuart Barker	144,500	6,995	151,495	104,600
June May	171,393	921	172,314	–
Peter Collins	37,333	257	37,590	–
	<b>907,393</b>	<b>59,872</b>	<b>967,265</b>	<b>769,185</b>
<i>Non-executive Directors:</i>				
Peter Howard-Dobson	12,500	143	12,643	20,000
June May	5,474	–	5,474	15,000
Rodney Smith	31,250	139	31,389	–
Sir Leonard Peach	12,996	58	13,054	–
Sir Gerry Neale	12,996	58	13,054	–
	<b>75,216</b>	<b>398</b>	<b>75,614</b>	<b>35,000</b>
			<b>1,042,879</b>	<b>804,185</b>

Retirement benefits are accruing to seven (2000: four) Directors under a money purchase scheme as follows:

	2001	2000
	£	£
<i>Executive Directors</i>		
Terry Plummer	7,500	5,708
Wayne Lochner	7,500	5,708
Robert Southward	5,500	–
Allan Redfern	1,250	3,441
Stuart Barker	5,250	3,000
June May	12,953	–
Peter Collins	1,167	–
	<u>41,120</u>	<u>17,857</u>

The Directors who held office at the end of the year had the following interests in the ordinary shares of the Company according to the register of Directors' interests:

	Interest at end of year Number	Interest at start of year* Number
Terry Plummer	5,127,361	5,627,361
Wayne Lochner	5,026,221	5,607,029
Stuart Barker	83,338	83,338
June May	–	–
Peter Collins	16,375	16,375
Rodney Smith	–	–
Sir Leonard Peach	–	–
Sir Gerry Neale	–	–

\* or date of appointment, if later.

Terry Plummer and Wayne Lochner additionally have a joint interest in 585,553 (2000: 649,294) shares registered in the name of Plumloch Investments (UK) Limited, a company in which they have a controlling interest.

NOTES  
NOTES (CONTINUED)**5 REMUNERATION OF DIRECTORS continued**

The Directors who held office at the end of the year had the following interests in options to acquire ordinary shares under the terms of the Affinity Internet Holdings plc Share Option Scheme:

	Exercise period	At start of year*	Granted during year	At end of year	Exercise price
Terry Plummer	December 2003/2010	50,000	–	50,000	£5.30
	November 2004/2011	–	90,000	90,000	£0.86
		<u>50,000</u>	<u>90,000</u>	<u>140,000</u>	
Wayne Lochner	December 2003/2010	50,000	–	50,000	£5.30
	May 2004/2011	–	35,000	35,000	£3.65
	November 2004/2011	–	70,000	70,000	£0.86
		<u>50,000</u>	<u>105,000</u>	<u>155,000</u>	
Stuart Barker	June 2003/2010	15,000	–	15,000	£16.50
	December 2003/2010	22,500	–	22,500	£5.30
	May 2004/2011	–	35,000	35,000	£3.65
	November 2004/2011	–	35,000	35,000	£0.86
		<u>37,500</u>	<u>70,000</u>	<u>107,500</u>	
June May	May 2004/2011	–	50,000	50,000	£3.65
	November 2004/2011	–	35,000	35,000	£0.86
		<u>–</u>	<u>85,000</u>	<u>85,000</u>	
Peter Collins	June 2003/2010	7,500	–	7,500	£16.50
	December 2003/2010	20,000	–	20,000	£5.30
	May 2004/2011	–	25,000	25,000	£3.65
	November 2004/2011	–	35,000	35,000	£0.86
		<u>27,500</u>	<u>60,000</u>	<u>87,500</u>	
Rodney Smith	June 2003/2010	17,500	–	17,500	£16.50
	December 2003/2010	20,000	–	20,000	£5.30
		<u>37,500</u>	<u>–</u>	<u>37,500</u>	
Total		<u>202,500</u>	<u>410,000</u>	<u>612,500</u>	

\*or date of appointment, if later.

The above table represents the full amount of shares under option to the Directors. The exercise price represents the middle market price of Affinity Internet Holdings plc on the date of grant of the options. No options were granted to non-executive Directors during the year. No options were capable of being exercised in the year.

The market price of the Company's shares on 31 December 2001 was £3.025 and the high and low share prices during the year were £6.400 and £0.485 respectively.

None of the Directors who held office at the end of the financial year had any discloseable interest in the shares of other Group companies. According to the register of Directors' interests, no rights to subscribe for shares in or debentures of any other Group companies other than as disclosed above, were granted to any of the Directors or their immediate families, or exercised by them, during the financial year.

## 6 STAFF NUMBERS AND COSTS

The average monthly number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2001	2000
Management	8	7
Administration	265	102
	<u>273</u>	<u>109</u>

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	10,301	4,267
Social security costs	965	453
Other pension costs	439	123
	<u>11,705</u>	<u>4,843</u>

## 7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2001 £000	2000 £000
Interest receivable on short term deposits	<u>343</u>	<u>742</u>

## 8 INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £000	2000 £000
On bank loans and overdrafts	87	-
Finance charges payable in respect of finance leases	34	58
	<u>121</u>	<u>58</u>

## 9 TAXATION

There is no tax charge for the year as a result of the losses incurred. The losses carried forward for relief against future profits at 31 December 2001, subject to agreement of the UK and Overseas tax authorities, are £24,134,000 (2000: £9,428,000).

The potential amount of unprovided deferred taxation at the rate of 30 per cent, for decelerated capital allowances is £110,000 (2000: £204,000) and for losses carried forward is £7,240,000 (2000: £2,855,000).

## 10 DIVIDENDS

The Directors do not recommend the payment of a dividend for the year.

## 11 LOSS PER EQUITY SHARE

The loss per equity share has been calculated on the basis of a loss before exceptional operating items of £23,783,000 (2000: £14,236,000) and after exceptional items of £28,523,000 (2000: £26,050,000) attributable to shareholders of Affinity Internet Holdings plc and 25,975,103 (2000: 20,222,183) ordinary shares being the weighted average number of ordinary shares in issue during the year ended 31 December 2001 in accordance with Financial Reporting Standard 14 'Earnings per Share'.

## NOTES (CONTINUED)

## 12 INTANGIBLE FIXED ASSETS

Group	Goodwill £000	Software licences £000	Total £000
<b>Cost</b>			
At 1 January 2001	13,267	2,556	15,823
Additions	–	2,298	2,298
Acquisitions (see note 21)	11,364	1,665	13,029
At 31 December 2001	24,631	6,519	31,150
<b>Amortisation</b>			
At 1 January 2001	12,172	1,566	13,738
Charge for the year	2,849	1,301	4,150
Impairment charge	6,161	2,141	8,302
At 31 December 2001	21,182	5,008	26,190
<b>Net book value</b>			
At 31 December 2001	3,449	1,511	4,960
At 31 December 2000	1,095	990	2,085

In accordance with Financial Reporting Standard 11 'Impairment of Fixed Assets and Goodwill', as a result of significant changes in market values and a business reorganisation, impairment charges of £6,161,000 and £2,141,000 have been made against the carrying values of goodwill and software licences respectively, and have been included in the profit and loss account for the year (see note 3).

Company	Software licences £000
<b>Cost</b>	
At 1 January 2001	353
Additions	–
At 31 December 2001	353
<b>Amortisation</b>	
At 1 January 2001	–
Charge for the year	35
Impairment charge	250
At 31 December 2001	285
<b>Net book value</b>	
At 31 December 2001	68
At 31 December 2000	353



## 13 TANGIBLE FIXED ASSETS

Group	Short leasehold property £000	Computer equipment and software £000	Office equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>					
At 1 January 2001	104	1,040	257	455	1,856
Additions	121	1,597	152	109	1,979
Acquisitions	-	509	133	-	642
Disposals	-	-	-	(88)	(88)
At 31 December 2001	225	3,146	542	476	4,389
<b>Depreciation</b>					
At 1 January 2001	16	384	53	162	615
Charge for the year	51	634	76	89	850
Disposals	-	-	-	(22)	(22)
At 31 December 2001	67	1,018	129	229	1,443
<b>Net book value</b>					
At 31 December 2001	158	2,128	413	247	2,946
At 31 December 2000	88	656	204	293	1,241

Included in the Group's tangible fixed assets at 31 December 2001 are the following assets held under finance leases and similar hire purchase contracts.

	Computer equipment and software £000	Office equipment £000	Motor vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2001	60	14	451	525
Disposals	-	-	(40)	(40)
At 31 December 2001	60	14	411	485
<b>Depreciation</b>				
At 1 January 2001	29	4	161	194
Charge for the year	18	1	66	85
Disposals	-	-	(20)	(20)
At 31 December 2001	47	5	207	259
<b>Net book value</b>				
At 31 December 2001	13	9	204	226
At 31 December 2000	31	10	290	331

## NOTES

## 13 TANGIBLE FIXED ASSETS continued

Company	Office equipment £000
<b>Cost</b>	
At 1 January 2001	11
Additions	14
	<hr/>
At 31 December 2001	25
<b>Depreciation</b>	
At 1 January 2001	-
Charge for the year	8
	<hr/>
At 31 December 2001	8
<b>Net book value</b>	
At 31 December 2001	17
	<hr/>
At 31 December 2000	11
	<hr/>

## 14 FIXED ASSET INVESTMENTS

Group	Investments £000
At 1 January 2001	680
Transfer to goodwill (see note 21)	(680)
	<hr/>
At 31 December 2001	-
	<hr/>

On 14 February 2001 the Company issued 140,240 new ordinary shares of 10 pence each, thereby increasing its 6 per cent. holding in Affinity Corporation Pty Limited (formerly Australia.com Pty Limited) to a controlling interest of 52 per cent., and leading to the consolidation of the Australian results in the Group consolidated balance sheet at 31 December 2001.

Company	Shares in subsidiary undertakings		Joint ventures		Total £000
	Investments £000	£000	Shares £000	Loans £000	
At 1 January 2001	680	2,163	1,850	9,650	14,343
Additions	-	9,170	1,500	2,115	12,785
Reclassifications	(680)	9,180	-	(8,500)	-
Impairment	-	(17,006)	(600)	-	(17,606)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	-	3,507	2,750	3,265	9,522
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Affinity Internet Holdings plc

On 6 January 2001, the Company issued 351,175 new ordinary shares of 10 pence each in settlement of the deferred consideration due on its acquisition of Taxi Interactive Limited.

On 17 January 2001, the Company entered into a joint venture with Capital Shopping Centres Plc called Mall-UK Limited. The Company has a one third stake in the joint venture. The Company's initial investment of £500,000 was settled by the issue of 120,773 new ordinary shares of 10 pence each. The Company is due to make additional investments of £500,000 on both the first and second anniversaries of the date of signing the joint venture agreement.

On 2 February 2001 the Company increased its interest in the TransAffinity joint venture to 80 per cent. through the capitalisation of £8.5 million in loans to the joint venture.

On 8 June 2001, the Company issued 20,000 new ordinary shares in settlement of additional consideration for the purchase of Mister Mail BV following the achievement of performance criteria.

On 15 June 2001, the Company issued 533,537 new ordinary shares in consideration for the purchase of the assets of breathe.com. These assets were subsequently transferred to Affinity Portals Limited.

On 5 July 2001, the Company issued 29,208 new ordinary shares of 10 pence each to acquire 100 per cent. of the business and assets of Blast Internet Services, a small Australian ISP.

On 22 August 2001, the Company issued 199,045 new ordinary shares of 10 pence each to increase its holding in Affinity Portals Limited from 70 per cent. to 80 per cent..

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings and joint ventures which affect the Group's results and net assets:

	Country of incorporation if not England and Wales	Principal activity	Group holding percentage	Class of share
<b><i>Subsidiary undertakings</i></b>				
Affinity Internet Limited (formerly Virtual Internet Provider Limited)		Internet services	100	Ordinary
Affinity Wireless Limited		Telecommunications	100	Ordinary
Sonnet Internet Limited		Internet services	100	Ordinary
Affinity E-Commerce Limited (formerly EgoManiacs.net Limited)		Internet services	100	Ordinary
Affinity Portals Limited		Internet services	80	Ordinary
Taxi Interactive Limited		Internet services	100	Ordinary
Brightfibre Communications Plc		Telecommunications	100	Ordinary
Affinity Internet OY	Finland	Internet services	100	Ordinary
VIP Benelux BV	Holland	Internet services	100	Ordinary
Mister Mail BV	Holland	Internet services	100	Ordinary
Affinity Internet (Pty) Limited	South Africa	Internet services	100	Ordinary
Affinity Corporation Pty Limited (formerly Australia.com Pty Limited)	Australia	Telecommunications	52	Ordinary
TransAffinity, Inc.	Delaware, USA	Internet services	80	Ordinary
<b><i>Joint Ventures</i></b>				
TeleCentric Solutions Limited		Telecommunications	50	Ordinary
Synigence Affinity Limited		Internet services	50	Ordinary
Mall-UK Limited		Internet services	One third	Ordinary

## NOTES (CONTINUED)

## 15 INVESTMENT IN JOINT VENTURES

Included within joint ventures is the Group's share of the consolidated results and balance sheet of the entities set out below:

	TeleCentric Solutions Ltd (One half share)		Synigence Affinity Limited (One half share)		TransAffinity, Inc. (One third share)		Mall-UK Limited (One third share)	Total	
	2001	2000	2001	2000	2001	2000	2001	2001	2000
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Tangible fixed assets	2,353	1,436	-	-	-	424	111	2,464	1,860
Current assets	6,739	1,432	65	65	-	1,310	353	7,157	2,807
Liabilities due within one year (excluding shareholder loans)	(6,477)	(1,723)	(65)	(65)	-	(1,025)	8	(6,550)	(2,813)
Shareholder loans due within one year	(3,265)	(1,150)	-	-	-	(3,167)	-	(3,265)	(4,317)
Net assets/(liabilities)	(650)	(5)	-	-	-	(2,458)	456	(194)	(2,463)
Loans to joint ventures	3,265	1,150	-	-	-	8,500	-	3,265	9,650
Turnover	15,637	1,998	-	-	-	-	-	15,637	1,998
Loss before tax	(645)	(929)	-	(600)	(74)	(2,458)	(628)	(1,347)	(3,987)

On 2 February 2001, the Company increased its interest in the TransAffinity, Inc. joint venture to 80 per cent., moving it from investments in joint ventures to subsidiary undertakings.

## 16 STOCKS

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Goods for resale	801	-	-	-

## 17 DEBTORS

	Group		Company	
	2001	2000	2001	2000
	£000	£000	£000	£000
Trade debtors	9,801	1,533	-	-
Amounts owed by Group undertakings	-	-	31,857	18,646
Other debtors	1,110	319	323	54
Called-up share capital not paid	9	9	9	9
Prepayments and accrued income	401	844	77	524
Amounts owed by joint ventures	1,085	652	-	-
	12,406	3,357	32,266	19,233

All debtors held by the Group and Company are due within one year, except amounts owed by Group undertakings and joint ventures, which have no fixed date for repayment.

**18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Obligations under finance leases (see note 19)	113	147	-	-
Trade creditors	12,815	2,808	482	331
Amounts owed to Group undertakings	-	-	-	148
Amounts owed to joint ventures	3,136	24	-	24
Taxation and social security	1,873	327	592	-
Other creditors	1,276	288	1,022	-
Accruals and deferred income	3,860	1,542	28	47
	<u>23,073</u>	<u>5,136</u>	<u>2,124</u>	<u>550</u>

**19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

Group	2001 £000	2000 £000
Obligations under finance leases	<u>71</u>	<u>176</u>
Analysis of debt		
Debt can be analysed as falling due:		
In one year or less, or on demand	113	147
Between one and two years	46	106
Between two and five years	25	70
	<u>184</u>	<u>323</u>
The maturity of obligations under finance leases is as follows:		
Within one year	148	183
Between one and two years	62	136
Between two and five years	33	97
	<u>243</u>	<u>416</u>
Less future finance charges	<u>(59)</u>	<u>(93)</u>
	<u>184</u>	<u>323</u>

**20 PROVISIONS FOR LIABILITIES AND CHARGES**

Group	2001 £000	2000 £000
At 1 January 2001	-	-
Provision for redundant operating leases	1,343	-
Paid in paid	<u>(366)</u>	<u>-</u>
At 31 December 2001	<u>977</u>	<u>-</u>

In line with the requirements of Financial Reporting Standard 12 'Provisions, contingent liabilities and contingent assets', the Directors have reviewed all operations for onerous contracts. Due to recent improvements in technology, the Group has a number of contracts outstanding for routers and similar equipment which are now redundant; £1,343,000 has been provided against outstanding commitments.

## NOTES (CONTINUED)

### 21 ACQUISITIONS

During the year, the Company made the acquisitions detailed below. The resulting goodwill was capitalised and is being written off in accordance with the stated goodwill policies. The table below sets out the book value of the identifiable assets and liabilities and their provisional fair value to the Group.

	Trans-Affinity £000	Australia .com Pty £000	Blast £000	breathe.com £000	Blue Carrots £000
<b>Fixed assets</b>					
Intangible fixed assets	1,295	–	–	–	370
Tangible fixed assets	–	169	14	450	9
	1,295	169	14	450	379
<b>Current assets</b>					
Debtors	457	666	–	–	–
Cash	1,990	4	–	–	–
<b>Total assets</b>	3,742	839	14	450	379
<b>Liabilities</b>					
Creditors	(2,767)	(1,120)	–	–	–
	975	(281)	14	450	379
Share of joint venture assets on acquisition	2,533	–	–	–	–
<b>Minority interests</b>	(180)	135	–	–	(500)
<b>Net assets/(liabilities) acquired</b>	3,328	(146)	14	450	(121)
<b>Goodwill</b>	5,200	1,706	63	1,300	371
<b>Purchase consideration</b>	8,528	1,560	77	1,750	250
<b>Satisfied by:</b>					
Cash paid in prior years	–	680	–	–	–
Loans capitalised	8,500	–	–	–	–
Issue of ordinary shares	–	880	77	1,750	250
<b>Costs of acquisition</b>	28	–	–	–	–
	8,528	1,560	77	1,750	250
<b>Pre-acquisition results</b>					
Loss for the 12 months ended 31 December 2000/30 June 2000	(7,374)	(435)	n/a	n/a	n/a
Loss for the period from 1 January 2001 to date of acquisition	(225)	(82)	n/a	n/a	n/a

On 2 February 2001 the Company increased its interest in the TransAffinity joint venture to 80 per cent. through the capitalisation of £8.5 million in loans to the Joint Venture.

On 14 February 2001 the Company issued 140,240 ordinary shares of 10 pence each, thereby increasing its 6 per cent. holding in Affinity Corporation Pty Limited (formerly Australia.com Pty Limited) to a controlling interest of 52 per cent..

On 5 July 2001 the Company issued 29,208 new ordinary shares of 10 pence each to acquire 100 per cent. of the business and assets of Blast Internet Services, a small Australian ISP.

## 21 ACQUISITIONS continued

On 11 June 2001 the Company issued 533,537 new ordinary shares of 10 pence each to acquire the business and assets of breathe.com from GUS 2001 Limited. The business of breathe is now operated in the subsidiary undertaking Affinity Portals Limited.

On 22 August 2001 the Company issued 199,045 new ordinary shares of 10 pence each to acquire the business and assets of Blue Carrots.com from Cube8 plc. The business of Blue Carrots is now operated in the subsidiary undertaking Affinity Portals Limited.

In addition, during the year the Company purchased for cash a fixed line customer base for £2,060,000, including associated costs; all of this was considered goodwill.

On 17 January 2001, the Company entered into a joint venture with Capital Shopping Centres Plc called Mall-UK Limited. The Company has a one third stake in the joint venture for a total consideration of £1,500,000. Against this total consideration the Group's share of net assets and results to date were offset, resulting in £416,000 of goodwill.

On 8 June 2001, the Company issued 20,000 new ordinary shares of 10 pence each in settlement of additional consideration for the purchase of Mister Mail BV resulting in further goodwill of £248,000.

Total goodwill arising on acquisitions during the year was £11,364,000.

## 22 CALLED UP SHARE CAPITAL

	2001 £000	2000 £000
<b>Authorised</b>		
50,000,000 ordinary shares of 10 pence each	5,000	5,000
<b>Allotted and called up</b>		
91,075 ordinary shares of 10 pence each	9	9
<b>Allotted, called up and fully paid</b>		
29,758,914 (24,161,554) ordinary shares of 10 pence each	2,976	2,416
	<u>2,985</u>	<u>2,425</u>

On 6 January 2001, the Company issued 351,175 shares at £17.00 in settlement of deferred consideration for the purchase of Taxi Interactive Limited.

On 17 January 2001, the Company issued 120,773 shares at £4.14 per share to its joint venture partner, Capital Shopping Centres Plc, as initial consideration for its investment in Mall-UK Limited.

On 29 January 2001, the Company issued 3,382 shares at £10.00 per share which related to the Placing and Open Offer in connection with the Company's move to the Official List on 24 October 2000.

On 14 February 2001, the Company issued 140,240 shares at £6.275 per share in consideration for increasing its shareholding in Affinity Corporation Pty Limited (formerly Australia.com Pty Limited).

On 8 June 2001, the Company issued 20,000 shares at £12.50 in settlement of additional consideration for the purchase of Mister Mail BV following the achievement of performance criteria.

On 15 June 2001, the Company issued 533,537 shares at £3.28 in consideration for the purchase of the assets of breathe.com.

On 5 July 2001, the Company issued 29,208 shares at £2.65 in consideration for the purchase of the business and assets of Blast Internet Services, a small Australian ISP.

On 9 August 2001, the Company placed 1,500,000 shares at £1.20 to raise consideration for the acquisition of the residential customer base of Atlantic Telecom.

On 22 August 2001, the Company issued 199,045 shares at £1.256 in consideration for the purchase of the business and assets of Blue Carrots.com from Cube8 plc.

On 12 December 2001, the Company issued 2,700,000 shares at £2.43 through a Placing and Open Offer.

## NOTES

## 23 SHARE PREMIUM AND RESERVES

Group	Shares to be issued £000	Share premium account £000	Other reserves £000	Profit and loss account £000
At 1 January 2001	5,970	45,811	5,085	(33,080)
Loss for the year	-	-	-	(28,523)
Premium on share issues, less expenses	(5,970)	17,177	-	-
Exchange differences	-	-	-	78
<b>At 31 December 2001</b>	<b>-</b>	<b>62,988</b>	<b>5,085</b>	<b>(61,525)</b>

Company	Shares to be issued £000	Share premium account £000	Profit and loss account £000
At 1 January 2001	35	45,811	49
Loss for the year	-	-	(24,722)
Premium on share issues, less expenses	(35)	17,177	-
<b>At 31 December 2001</b>	<b>-</b>	<b>62,988</b>	<b>(24,673)</b>

The Company's loss on ordinary activities after taxation for the year was £24,722,000 (2000: £126,000 profit).

## 24 MINORITY INTERESTS

	Equity interests £000
At 1 January 2001	-
Share of loss for the year	(1,567)
Acquisition of subsidiary undertakings	545
Exchange differences	6
<b>At 31 December 2001</b>	<b>1,016</b>



## 25 COMMITMENTS AND CONTINGENT LIABILITIES

- (a) At the end of the financial year the Group had not entered into any commitments (2000: *£nil*) in respect of finance leases and similar hire purchase contracts, the inception of which occurs after the year end. There were no unprovided capital commitments of the Group at the year end (2000: *£nil*).
- (b) The Company has agreed to provide further funding to certain subsidiary undertakings within the normal course of business.
- (c) Annual commitments under the Group's non-cancellable operating leases are as follows:

	2001 Land and buildings £000	2001 Other £000	2000 Land and buildings £000	2000 Other £000
Operating leases which expire:				
Within one year	350	791	285	1,330
In the second to fifth years inclusive	553	13	552	568
After five years	235	-	-	-
	<u>1,138</u>	<u>804</u>	<u>837</u>	<u>1,898</u>

The other lease commitments of £791,000 expiring within one year are included in the provision for onerous lease commitments (see note 20).

## 26 PENSION COMMITMENTS

The Group operates a defined contribution pension scheme in the UK; managed by Standard Life, the scheme assets are held in a separately administered fund. Contributions to the scheme of £257,966 (2000: £115,293) are charged to the profit and loss account as they fall due.

The remaining contributions of £181,363 relate to schemes in overseas subsidiary undertakings and are charged to the profit and loss account as they fall due.

## 27 RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	2001 £000	2000 £000
Operating loss	(28,485)	(26,824)
Depreciation and amortisation	5,000	3,125
Exceptional items, impairment charges	2,822	11,814
Loss on disposal of fixed assets	-	59
Increase in stocks	(801)	(12)
(Increase)/decrease in debtors	(7,926)	296
Increase in creditors	13,094	1,335
Increase in provision for onerous contracts	977	-
<b>Net cash outflow from operating activities</b>	<u><b>(15,319)</b></u>	<u><b>(10,207)</b></u>

## NOTES (CONTINUED)

## 28 ANALYSIS OF NET FUNDS

	At 1 January 2001 £000	Cash flow £000	Exchange differences £000	At 31 December 2001 £000
Cash at bank and in hand	16,973	(8,597)	78	8,454
Finance leases	(323)	139	-	(184)
<b>Total</b>	<b>16,650</b>	<b>(8,458)</b>	<b>78</b>	<b>8,270</b>

## 29 FINANCIAL INSTRUMENTS

The Group's borrowings, liquidity, interest rate and foreign exchange rate exposure are managed at Group level. The following policies have been applied during the year to manage the financial risks faced by the Group with regard to funding and liquidity and interest rate exposure:

- *Liquidity risk:* The Group's overall objective is to ensure that it is at all times able to meet its financial commitments as and when they fall due. To assist with determining the level of funding required, the Group prepares periodic working capital forecasts.
- *Interest rate risk:* The Group finances its operations through a mixture of share issue proceeds and bank borrowings. Due to the successful share issues in both 2001 and 2000, the Group had no bank borrowings either during the year or at the year end. The Group has also entered into finance lease contracts, which carry varying fixed rates of interest.
- *Currency risk:* Each of the Group's operations are carried on in the local currency of the jurisdiction in which the entity is based. The Group considers the use of financial instruments to limit exposure to and manage currency exposures arising from its net investment overseas (structural currency exposures). The aim is to maintain a low cost of borrowings where necessary and to retain potential for currency related appreciation, whilst considering hedges to protect against currency depreciation. Gains and losses from structural currency exposures are recognised in the Statement of total recognised gains and losses.

During the year and at 31 December 2001, the Group had not entered into any derivative financial instruments to manage either interest rate or currency exposures.

The Group had no undrawn borrowing facilities at 31 December 2001.

**Interest rate and currency profile:**

The table below shows the Group's interest rate and currency exposure, the latter being transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account.

	2001			2000		
	Floating rate £000	Non- interest bearing £000	Total £000	Floating rate £000	Non- interest bearing £000	Total £000
<b>Financial assets</b>						
<b>Currency</b>						
Sterling	5,831	5,758	11,589	15,601	11,288	26,889
Euro-related	91	23	114	349	46	395
Other	-	16	16	19	-	19
	<b>5,922</b>	<b>5,797</b>	<b>11,719</b>	<b>15,969</b>	<b>11,334</b>	<b>27,303</b>

	Fixed rate £000	2001 Total £000	Fixed rate £000	2000 Total £000
<b>Financial liabilities</b>				
<b>Currency</b>				
Sterling	184	184	323	323

As permitted by Financial Reporting Standard 13 'Derivatives and Other Financial Instruments', short-term debtors and creditors have been excluded from the disclosures.

Prior period sterling assets which are non-interest bearing include fixed asset investments, which comprise the Group's investment in Affinity Corporation Pty Limited (formerly Australia.com Pty Limited). On 14 February 2001, the Group increased its holding to a controlling interest of 52 per cent..

Financial liabilities represent total balances outstanding under finance leases. Interest is payable at fixed rates of between 11 per cent. and 15 per cent., subject to the initial start date of each lease. All such liabilities and fixings expire within five years (see note 19).

Floating rate financial assets comprise cash and short-term deposits, which attract interest rates based on LIBOR for periods of overnight up to one month. Non-interest bearing financial assets include loans to joint ventures (see note 15).

	2001 Book and fair value £000	2000 Book and fair value £000
<b>Financial assets</b>		
Cash at bank and in hand	8,454	16,973
Loans to joint ventures	3,265	9,650
Fixed asset investments	-	680
	<u>11,719</u>	<u>27,303</u>

The carrying value of fixed asset investments represents historic cost and equates to fair value; no fair value adjustment is considered necessary for loans to joint ventures.

### 30 POST BALANCE SHEET EVENTS

On 10 January 2002 the Company issued 204,454 new ordinary shares of 10 pence each to increase its holding in its Australian subsidiary, Affinity Corporation Pty Limited (formerly Australia.com Pty Limited), to 100 per cent..

On 16 January 2002 the Company issued 135,172 new ordinary shares of 10 pence each, pursuant to the agreement signed on in January 2001 to invest in Mall-UK Limited. The investment was the second instalment of £500,000, with the third and final instalment due in January 2003.

On 15 March 2002 the Company reached conditional agreement to acquire an ISP business in Australia from Phoneware Online Pty Limited for A\$600,000 to be satisfied by the issue of new ordinary shares of 10 pence each. The number of shares to be issued will be determined on completion, which is expected to be on 22 March 2002.

### 31 RELATED PARTY DISCLOSURES

During the prior year, the Group sold a car to Bannacount Exports Limited, a subsidiary undertaking of Plumloch Investments (UK) Limited, which is controlled by Terry Plummer and Wayne Lochner, the Chairman and Chief Executive respectively. The vehicle was sold at its open market value of £9,828.

During the prior year, the Group paid £4,909 for payroll services to Masons, Chartered Accountants. The brother of Stuart Barker is a partner in the practice.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2002 Annual General Meeting of Affinity Internet Holdings plc will be held at the offices of Collins Stewart Limited, 9th Floor, 88 Wood Street, London EC2V 7QR on 30 April 2002 at 9.30 am for the transaction of the following business:

1. To receive, and if thought fit, to adopt the report of the Directors and the accounts for the year ended 31 December 2001 together with the auditors' report thereon.
2. To re-elect as a Director Mr Terry Plummer who retires by rotation but, being eligible, offers himself for re-election.
3. To re-elect as a Director Mr Peter Collins who has been appointed since the date of the previous Annual General Meeting.
4. To re-elect as a Director Sir Leonard Peach who has been appointed since the date of the previous Annual General Meeting.
5. To re-elect as a Director Sir Gerry Neale who has been appointed since the date of the previous Annual General Meeting.
6. To confirm and re-appoint Ernst & Young LLP as auditors of the Company and to authorise the Directors to fix their remuneration.
7. To consider and, if thought fit, pass the following Resolution as an ordinary Resolution:

THAT:

- (a) In substitution for any existing authority, the Directors of the Company be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 (the "Act") 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 a maximum aggregate nominal value of £1,000,000.
  - (b) In relation to the grant of any right to subscribe for, or convert any security into, shares in the Company, the reference in this Resolution to the maximum amount of relevant securities that may be allotted is to the maximum aggregate nominal amount of shares which may be allotted pursuant to such right.
  - (c) The authority hereby conferred shall commence on the date of the passing of this Resolution and shall expire on the commencement of the next Annual General Meeting of the Company or on the date falling 15 months after the date of the passing of this Resolution (whichever is the earlier) provided that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreements as if the authority hereby conferred had not expired.
8. To consider and, if thought fit, pass the following Resolution as a Special Resolution:

### SPECIAL RESOLUTION

THAT the Directors be and they are hereby authorised, pursuant to Section 95 of the Act, for the period commencing on the date of the passing of the Resolution and expiring at the commencement of the next Annual General Meeting of the Company or on the date 15 months after the passing of this Resolution (whichever is the earlier) to the exclusion of and in substitution for any other such power previously granted to them and subsisting at the date of this Resolution, to allot, pursuant to the authority conferred upon the Directors under Section 80 of the Act by the previous resolution, and as if Section 89(1) of the Act did not apply to such allotment:

- (1) equity securities as so defined in Section 94(2) of the Act in connection with an issue by way of rights (including, without limitation, under a rights issue, open offer or similar arrangements) to holders of equity securities (as so defined) in proportion as nearly as may be to their respective holdings of such securities

or in accordance with the rights attaching thereto (but with such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements, record dates or other legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory or as regards shares held by an approved depositary or in issue in uncertificated form or otherwise (howsoever);

- (2) any number and amount of equity securities otherwise than pursuant to (1) above up to a maximum aggregate nominal amount equal to £300,000;

provided that such authority shall allow the Company to make an offer or agreement before the expiry of such authority which would or might require the allotment, grant of options over, conversion of any security into or other disposal of shares after the expiry of such authority, and the Directors may allot, grant options over, convert any security into or otherwise dispose of shares pursuant to any such offer or agreements as if such authority had not expired.

*Registered Office*  
Victoria House  
2nd Floor  
64 Paul Street  
London  
EC2A 4NG

By Order of the Board  
Peter Cole  
*Secretary*

28 March 2002

- Note 1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. The proxy need not also be a member of the Company. A form of proxy is attached for use at the meeting.
- Note 2. To be valid, a form of proxy and, if applicable, any authority under which it is signed, or a certified copy of such authority, must be lodged at the offices of Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bristol BS99 3FA, not later than 48 hours before the time appointed for holding the meeting. Completion and return of a form of proxy will not prevent a member from attending and voting at the meeting should he so wish.
- Note 3. For the purposes of determining who is entitled to attend or vote (whether on a show of hands or a poll) at the meeting, a person must be entered on the register of members not later than 48 hours before the time of the meeting or any adjournment thereof.
- Note 4. The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the Register of Members of the Company as at 9.30 am on 28 April 2002, shall be entitled to attend or vote at the aforesaid 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 9.30 am on 28 April 2002 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

# FORM OF PROXY

## FOR USE AT THE ANNUAL GENERAL MEETING

I/We (name in full in block capitals) .....  
of .....  
being a member/members of the Company hereby appoint the Chairman of the Meeting (see note 1 below)

.....  
as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 30 April 2002 at 9.30 am at the offices of Collins Stewart Limited, 9th Floor, 88 Wood Street, London EC2V 7QR and at any adjournment thereof, on the following resolutions, as indicated by an "X" in the appropriate box.

Ordinary Resolution	For	Against
1. To receive, and if thought fit, to adopt the report of the Directors and the accounts for the year ended 31 December 2001 together with the auditors' report thereon.		
2. To re-elect as a Director Mr Terry Plummer who retires by rotation but, being eligible, offers himself for re-election.		
3. To re-elect as a Director Mr Peter Collins who has been appointed since the date of the previous Annual General Meeting.		
4. To re-elect as a Director Sir Leonard Peach who has been appointed since the date of the previous Annual General Meeting.		
5. To re-elect as a Director Sir Gerry Neale who has been appointed since the date of the previous Annual General Meeting.		
6. To confirm and re-appoint Ernst & Young LLP as auditors of the Company and to authorise the Directors to fix their remuneration.		
7. To renew the Directors' authority to allot shares.		
<b>Special Resolution</b>		
8. To disapply pre-emption rights.		

Dated: .....2002

Signature: .....

### Notes:

1. If it is desired to appoint another person or persons as proxy or proxies the words "the Chairman of the Meeting" should be deleted and the name or names of the proxy or proxies (who need not be members of the Company) inserted into the appropriate space. If such words are deleted and a proxy or proxies is/are named on this form the Chairman shall not be entitled to vote as proxy. Any alternative must be initialled.
2. Please indicate with an "X" how you wish to vote. Unless otherwise instructed, the proxy will vote or abstain from voting as he thinks fit.
3. To be valid, this form, together with the power of attorney or other written authority, if any, under which it is signed or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or written authority, must be lodged with Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bristol BS99 3FA not less than 48 hours before the time of the meeting.
4. A corporation must execute this form either under its common seal or under the hand of two Directors or one Director and the secretary or under the hand of an officer or attorney duly authorised in writing.
5. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
6. Deposit of a completed form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

Second fold

BUSINESS REPLY SERVICE  
Licence No. SWB 1002

1



**Computershare Investor Services PLC**  
**PO Box 1075**  
**The Pavilions**  
**Bristol**  
**BS99 3FA**

First fold

Third fold and tuck in