

**Blue Square Limited**

Annual report and financial statements  
for the year ended 31 March 2002

Registered number: 3796653



## Directors' report

For the year ended 31 March 2002

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 March 2002.

### Principal activity and business review

The principal activities of the company comprise the provision of comprehensive online fixed odds betting services aimed at the entertainment gaming market within the UK. The aim is to offer a wide range of betting opportunities across multiple interactive platforms in an entertaining and fun environment, focusing on the leisure gaming market and attracting as broad a spectrum of the population to its service as possible.

During the year the company decided to outsource all of its marketing and brand development activity to Blue Square Interactive Development Limited ("the Contractor"). There is a contract in place by which the Contractor recharges amounts to the company on a quarterly basis. These amounts are determined by the success of the Contractor in growing the customer base of the company.

### Going concern

The liabilities of the company exceed its assets and the company has been reliant on the financial support of Intercapital Private Group Limited (formerly Intercapital Group Limited) the ultimate parent company. Intercapital Private Group Limited has confirmed that it will continue to provide financial support to the company for a period of not less than twelve months from the date of approval of these financial statements or until alternative funding has been secured.

The directors have considered the financial position of the company and have concluded the company is able to meet its liabilities as they fall due. Consequently the financial statements have been prepared on the going concern basis.

### Results and dividends

The audited financial statements for the year ended 31 March 2002 are set out on pages 6 to 20. The turnover for the year increased from £37,757,941 last year to £109,347,199 for the year ended 31 March 2002.

The directors do not recommend the payment of a dividend (2001 - £nil).

## Directors' report (continued)

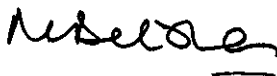
### Directors

The directors who served during the year and their interest in the 'A' ordinary shares of the company are as follows:

<u>Name of director</u>	<u>31 March 2002</u>	<u>31 March 2001</u>
M.D. Belsham	769,200	769,200
D.P. Kelly	230,800	230,800
N.G. Rose	-	-
M.A. Spencer (resigned 19 <sup>th</sup> July 2002)	769,200	769,200

Blue Square Limited  
Park House  
16 Finsbury Circus  
London  
EC2M 7DJ

By order of the Board,



M.D. Belsham  
Director

31 July 2002

## 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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**To the Shareholders of Blue Square Limited**

We have audited the financial statements of Blue Square Limited for the year ended 31 March 2002, which comprise the Profit and Loss Account, the Balance Sheet, Cash flow and the related Notes numbered 1 to 21. These financial statements have been prepared under 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 law and United Kingdom Accounting Standards are set out in the Statement of Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 at 31 March 2002 and of the company's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

180 Strand  
London  
WC2R 1BL

31 July 2002

## Profit and loss account

For the year ended 31 March 2002

	Notes	2002 £	2001 £
<b>Turnover</b>	2	109,347,199	37,757,941
Cost of sales		<u>(100,570,478)</u>	<u>(34,220,394)</u>
<b>Gross profit</b>		8,776,721	3,537,547
Other operating expenses (net)		<u>(15,014,608)</u>	<u>(16,164,579)</u>
<b>Operating loss</b>		(6,237,887)	(12,627,032)
Finance charges (net)	3	<u>(1,857,030)</u>	<u>(1,244,966)</u>
<b>Loss on ordinary activities before taxation</b>	4	(8,094,917)	(13,871,998)
Tax on loss on ordinary activities	7	<u>-</u>	<u>-</u>
<b>Loss on ordinary activities after taxation</b>		(8,094,917)	(13,871,998)
Retained loss for the year	13	<u>(8,094,917)</u>	<u>(13,871,998)</u>

There are no recognised gains or losses in either year other than the loss for the year and therefore no separate statement of total recognised gains and losses has been presented.

The accompanying notes are an integral part of this profit and loss account.

# Balance sheet

31 March 2002

	Notes	2002 £	2001 £
<b>Fixed assets</b>			
Tangible assets	8	2,533,898	1,929,952
Investments	9	200,000	-
		<u>2,733,898</u>	<u>1,929,952</u>
<b>Current assets</b>			
Debtors	10	263,877	738,129
Cash at bank and in hand		3,379,620	1,455,521
		<u>3,643,497</u>	<u>2,193,650</u>
<b>Creditors: Amounts falling due within one year</b>	11	<u>(34,461,492)</u>	<u>(24,112,782)</u>
<b>Net current liabilities</b>		<u>(30,817,995)</u>	<u>(21,919,132)</u>
<b>Net liabilities</b>		<u>(28,084,097)</u>	<u>(19,989,180)</u>
<b>Capital and reserves</b>			
Called-up share capital	12	153,846	153,846
Share premium account	13	854,991	854,991
Profit and loss account	13	<u>(29,092,934)</u>	<u>(20,998,017)</u>
<b>Equity shareholders' deficit</b>	14	<u>(28,084,097)</u>	<u>(19,989,180)</u>

The financial statements were approved by the board of directors and signed on its behalf by:



M.D. Belsham  
Director

31 July 2002

The accompanying notes are an integral part of this balance sheet.



## Cash flow statement

For the year ended 31 March 2002

	Notes	2002 £	2001 £
<b>Net cash outflow from operating activities</b>	15	(1,154,053)	(10,326,526)
Returns on investments and servicing of finance	16	102,510	72,114
Taxation		-	-
Capital expenditure and financial investment	16	(1,711,603)	(452,828)
Acquisitions and disposals	16	(200,000)	-
<b>Cash outflow before financing</b>		<u>(2,963,146)</u>	<u>(10,707,240)</u>
Financing	16	<u>4,887,245</u>	<u>10,438,079</u>
<b>Increase in cash in the year</b>	17	<u>1,924,099</u>	<u>(269,161)</u>

The accompanying notes are an integral part of this cash flow statement.

## Notes to the financial statements

31 March 2002

### 1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228 of the Companies Act 1985, because it is a majority owned subsidiary of Intercapital Private Group Limited (formerly Intercapital Group Limited), which prepares consolidated financial statements which are publicly available.

#### Going concern

The liabilities of the company exceed its assets and the company has been reliant on the financial support of Intercapital Private Group Limited, its ultimate parent company. Intercapital Private Group Limited has confirmed that it will continue to provide financial support to the company for a period of not less than twelve months from the date of approval of these financial statements or until alternative funding has been secured.

The directors have considered the financial position of the company and have concluded that the company is able to meet its liabilities as they fall due. Consequently the financial statements have been prepared on the going concern basis.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Fixtures, Fittings & Equipment	5 years
Computer Equipment	3 years
Web site Development	3 years

Those web site development costs that comply with UITF 29 are capitalised. Any remaining costs are expensed to the profit and loss account as incurred.

## Notes to the financial statements (continued)

### **Investments**

Fixed asset investments are shown at cost less provision for impairment.

For investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued. Any premium is ignored.

### **Turnover**

Turnover, which is stated exclusive of betting tax, represents amounts received in respect of bets placed on events which had occurred by the year end. The Company's turnover arises exclusively in the UK.

### **Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

### **Pension costs and other post retirement benefits**

The company makes contributions on behalf of certain employees to defined contribution schemes. The amount charged to the profit and loss account in respect of those pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### **Leases**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

## Notes to the financial statements (continued)

### 2 Turnover information

The Company's turnover arose exclusively in the UK and was all derived from fixed odds interactive betting.

### 3 Finance charges (net)

	2002 £	2001 £
<i>Interest payable and similar charges</i>		
Loans from ultimate parent undertaking	(1,959,541)	(1,317,080)
<i>Investment income</i>		
Less: Interest receivable and similar income	102,511	72,114
	<u>(1,857,030)</u>	<u>(1,244,966)</u>

### 4 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2002 £	2001 £
Depreciation	1,107,658	867,781
Amounts written off fixed asset investment	-	53,846
Auditors' remuneration for audit services	38,775	70,500
Operating lease rentals	<u>159,036</u>	<u>66,004</u>

Amounts payable to Arthur Andersen by the company in respect of non-audit services were £39,621 (year ended 31 2001 - £176,250).

## Notes to the financial statements (continued)

### 5 Staff costs

The average monthly number of employees (including executive directors) was:

	2002 Number	2001 Number
Management, operations and administration	<u>44</u>	<u>33</u>
	£	£

Their aggregate remuneration comprised:

Wages and salaries	1,960,389	1,619,551
Social security costs	189,674	176,575
Other pension costs	<u>21,298</u>	<u>22,144</u>
	<u>2,171,361</u>	<u>1,818,270</u>

### 6 Directors' remuneration and transactions

#### *Remuneration*

The remuneration of the directors was as follows:

	2002 £	2001 £
Emoluments	311,667	231,178
Company contributions to money purchase pension schemes	<u>13,250</u>	<u>11,453</u>
	<u>324,917</u>	<u>242,631</u>

## Notes to the financial statements (continued)

### 6 Directors' remuneration and transactions (continued)

#### *Pensions*

The number of directors who were members of pension schemes was as follows:

	2002	2001
Money purchase schemes	<u>2</u>	<u>2</u>

#### *Highest-paid director*

The above amounts for remuneration include the following in respect of the highest paid director:

	2002 £	2001 £
Emoluments	200,834	175,834
Company contributions to money purchase schemes	<u>8,750</u>	<u>9,479</u>
	<u>209,584</u>	<u>185,313</u>

### 7 Tax on loss on ordinary activities

There is no liability to corporation tax due to the losses arising during the year (2001 - £nil).

# Notes to the financial statements (continued)

## 8 Tangible fixed assets

	Fixtures and fittings £	Computer equipment £	Website Development £	Total £
<b>Cost or valuation</b>				
At 1 April 2001	415,558	2,315,534	285,525	3,016,617
Additions	176,470	971,329	563,804	1,711,603
At 31 March 2002	<u>592,028</u>	<u>3,286,863</u>	<u>849,329</u>	<u>4,728,220</u>
<b>Depreciation</b>				
At 1 April 2001	104,429	948,729	33,506	1,086,664
Charge for the year	98,361	835,858	173,439	1,107,658
At 31 March 2002	<u>202,790</u>	<u>1,784,587</u>	<u>206,945</u>	<u>2,194,322</u>
<b>Net book value</b>				
At 31 March 2001	<u>311,128</u>	<u>1,366,805</u>	<u>252,019</u>	<u>1,929,952</u>
At 31 March 2002	<u>389,238</u>	<u>1,502,276</u>	<u>642,384</u>	<u>2,533,898</u>

## 9 Fixed asset investments

### Subsidiary undertakings

	Subsidiary Undertaking £
<b>Cost and net book value</b>	
At 1 April 2001	-
Additions	200,000
At 31 March 2002	<u>200,000</u>

## Notes to the financial statements (continued)

### 9 Fixed asset investments (continued)

#### *Subsidiary undertakings (continued)*

The company has investments in the following subsidiary undertakings.

	Country of incorporation	%
Blue Square Interactive Development Limited (formerly Blue Square (DTV) Limited)	England and Wales	100

On 14 May 2001, Blue Square Interactive Development Limited began trading. Its principal activity is marketing and brand development services which were provided entirely to the company.

### 10 Debtors

	2002 £	2001 £
Amounts falling due within one year:		
Other debtors	7,502	11,177
Amounts owed by subsidiary	109,068	-
Prepayments and accrued income	147,307	726,952
	<u>263,877</u>	<u>738,129</u>

### 11 Creditors: Amounts falling due within one year

	2002 £	2001 £
Trade creditors	582,082	943,992
Amounts owed to ultimate parent undertaking	27,707,661	20,860,876
Taxation and social security	75,192	59,437
Other creditors	3,046,381	1,624,323
Accruals and deferred income	3,050,176	624,154
	<u>34,461,492</u>	<u>24,112,782</u>

The loan from the ultimate parent undertaking bears interest at 3% above LIBOR and has no fixed repayment date.



# Notes to the financial statements (continued)

## 12 Called-up share capital

	2002 £	2001 £
<i>Authorised</i>		
499,500,000 'A' ordinary shares of £0.01 each (2001 – 4,995,000 'A' ordinary shares of £1 each)	4,995,000	4,995,000
500,000 'B' ordinary shares of £0.01 each (2001 – 5,000 'B' ordinary shares of £1 each)	5,000	5,000
	<u>5,000,000</u>	<u>5,000,000</u>
	£	£
<i>Allotted, called-up and fully-paid</i>		
14,884,600 'A' ordinary shares of £0.01 each (2001 – 148,846 'A' ordinary shares of £1 each)	148,846	148,846
500,00 'B' ordinary shares of £0.01 each (2001 – 5,000 'B' ordinary shares of £1 each)	5,000	5,000
	<u>153,846</u>	<u>153,846</u>

## 13 Reserves

	Share premium account £	Profit and loss account £	Total £
At 1 April 2001	854,991	(20,998,017)	(20,143,026)
Retained loss for the year	-	(8,094,917)	(8,094,917)
At 31 March 2002	<u>854,991</u>	<u>(29,092,934)</u>	<u>(28,237,943)</u>

## Notes to the financial statements (continued)

### 14 Reconciliation of movements in shareholders' deficit

	2002 £	2001 £
Loss for the financial year	(8,094,917)	(13,871,998)
New shares issued	-	53,846
Net increase in shareholders' deficit	(8,094,917)	(13,818,152)
Opening shareholders' deficit	(19,989,180)	(6,171,028)
Closing shareholders' deficit	(28,084,097)	(19,989,180)

### 15 Reconciliation of operating loss to operating cash flows

	2002 £	2001 £
Operating loss	(6,237,887)	(12,627,032)
Depreciation charges	1,107,658	867,780
Decrease/(increase) in debtors	474,251	(513,563)
Increase in creditors	3,501,925	1,946,289
<b>Net cash outflow from operating activities</b>	<b>(1,154,053)</b>	<b>(10,326,526)</b>

Notes to the financial statements (continued)

**16 Analysis of cash flows**

	2002 £	2001 £
<i>Returns on investments and servicing of finance</i>		
Interest received	102,510	72,114
<b>Net cash inflow</b>	<u>102,510</u>	<u>72,114</u>
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(1,711,603)	(452,828)
<b>Net cash outflow</b>	<u>(1,711,603)</u>	<u>(452,828)</u>
<i>Acquisitions and disposals</i>		
Purchase of subsidiary undertaking	(200,000)	-
<b>Net cash outflow</b>	<u>(200,000)</u>	<u>-</u>
<i>Financing</i>		
Issue of ordinary share capital	-	53,846
Increase in short term borrowings	4,887,245	10,384,233
<b>Net cash inflow</b>	<u>4,887,245</u>	<u>10,438,079</u>

## Notes to the financial statements (continued)

### 17 Analysis and reconciliation of net debt

	1 April 2001 £	Cash flow £	Other non-cash changes £	31 March 2002 £
Cash in hand, at bank	1,455,521	1,924,099	-	3,379,620
Debt due within 1 year	(20,860,876)	(4,887,244)	(1,959,541)	(27,707,661)
Net debt	<u>(19,405,355)</u>	<u>(2,963,145)</u>	<u>(1,959,541)</u>	<u>(24,328,041)</u>

	2002 £	2001 £
Increase in cash in the year	1,924,099	(269,161)
Cash inflow from increase in debt and lease financing	<u>(6,846,785)</u>	<u>(11,701,312)</u>
Movement in net debt in year	(4,922,686)	(11,970,473)
Net debt at 1 April	<u>(19,405,355)</u>	<u>(7,434,882)</u>
Net debt at 31 March	<u>(24,328,041)</u>	<u>(19,405,355)</u>

### 18 Financial commitments

Expenditure contracted for but not provided in the financial statements at 31 March 2002 was £nil.

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2002 £	2001 £
Expiry date		
- within one year	190,285	21,811
- between two and five years	<u>365,061</u>	<u>-</u>
	<u>555,346</u>	<u>21,811</u>

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

### 19 Contingent liability

The company is on notice that a claim may be brought against it by a former employee alleging constructive wrongful dismissal and/or entitlement to a grant of options over, or to shares representing, approximately 2% of the current

## Notes to the financial statements (continued)

### 19 Contingent liability

The company is on notice that a claim may be brought against it by a former employee alleging constructive wrongful dismissal and/or entitlement to a grant of options over, or to shares representing, approximately 2% of the current issued equity share capital of the company. In the event that a formal claim is made, the directors intend to defend it vigorously. Having taken legal advice, the directors have concluded that it is unlikely that any claim would succeed.

### 20 Ultimate controlling party

The directors regard Intercapital Private Group Limited (formerly Intercapital Group Limited), a company incorporated in England and Wales, as the ultimate parent company and the ultimate controlling party.

Intercapital Private Group Limited is also the parent company of the largest and smallest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from Intercapital Private Group Limited, Park House, 16 Finsbury Circus, London, EC2M 7DJ.

### 21 Related parties

Directors' interests in the company are disclosed in the Directors' report. Directors' emoluments are disclosed in note 6.

Transactions with other group entities during the year and outstanding balances at the year end, all of which arose in the normal course of trade, are as follows:

Related party	Relationship	Balance as at 31 March	
		2002	2001
Blue Square Interactive Development Limited	100% owned subsidiary	109,068	-

During the year Blue Square Limited purchased £2,418,064 of brand development services from Interactive. Blue Square Limited charged £52,980 to Interactive for administration.

Related party	Relationship	Balance as at 31 March	
		2002	2001
Intercapital Private Group Limited	Ultimate controlling Party	27,707,661	20,860,876

During the year Blue Square Limited charged Intercapital £598,333 for submission of tax losses to the Group.

Refer to Note 3 for interest charged on intercompany loans.