

PayPoint Limited

Report and Financial Statements

31 March 2002



**Deloitte & Touche
Verulam Point
Station Way
St Albans AL1 5HE
United Kingdom**

REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS	Page
Officers and professional advisers	1
Business review	2
Directors' report	6
Statement of directors' responsibilities	7
Independent auditors' report	8
Consolidated profit and loss account	9
Statement of total recognised gains and losses	10
Consolidated balance sheet	11
Company balance sheet	12
Consolidated cash flow statement	13
Notes to the accounts	16

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D B Newlands
D Taylor
W Murphy
I Bull
T Watkin-Rees
D Morrison
M Wilson
S Bott
M Astbury
K Steele

SECRETARY

S Court

REGISTERED OFFICE

1 The Boulevard
Shire Park
Welwyn Garden City
Hertfordshire AL7 1EL
United Kingdom

AUDITORS

Deloitte & Touche
Verulam Point
Station Way
St Albans AL1 5HE
United Kingdom

BUSINESS REVIEW

Introduction

On every measure, the past twelve months have been extremely successful for PayPoint, as the Group posts its first ever year end profit in line with its business plan. This milestone marks the end of the start up project phase of the Group's development and the beginning of future profitable growth.

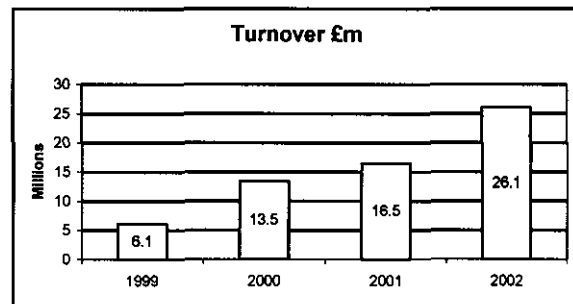
Business description

PayPoint collects payments on behalf of the UK's leading utility and customer service organisations, through a nation-wide agency network of convenience stores. Up to 2.6m consumer transactions are processed weekly through either terminals placed in store or through the retailers' own Electronic Point of Sale (EPOS) systems. At a PayPoint outlet, the wide range of PayPoint's clients uniquely provides consumers with a 'one stop shop' for making cash payments.

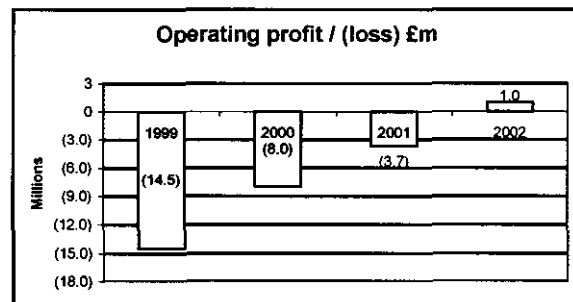
Already market leader, PayPoint aims to become the UK's leading branded network for the collection of automated payments. The Group has made great progress and is well on track to achieving this objective.

Results

Turnover in the year increased to £26.1m, up by 58% on the year before.

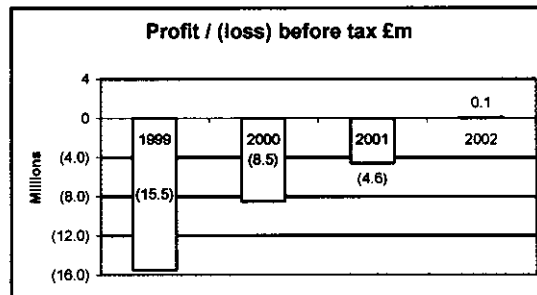


The operating profit/(loss) (profit before financing costs, but including depreciation) improved by £4.7m, resulting in a reported operating profit of £1.0m.



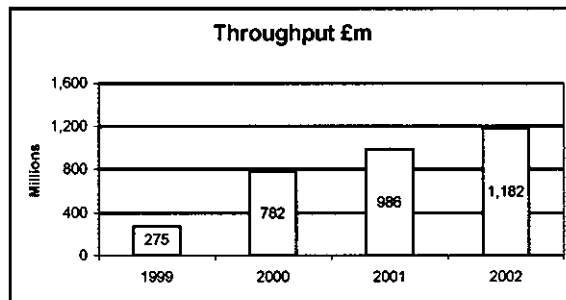
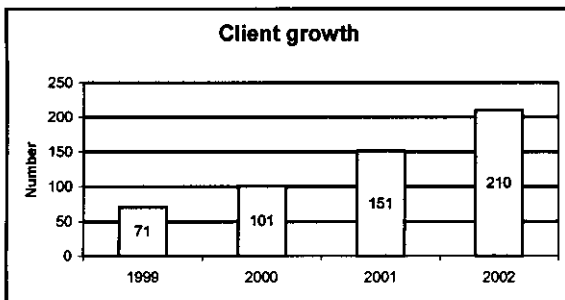
BUSINESS REVIEW

The profit before tax, including finance costs has also improved throughout the year by £4.7m, resulting in a small profit before tax of £0.1m.



Client growth and throughput

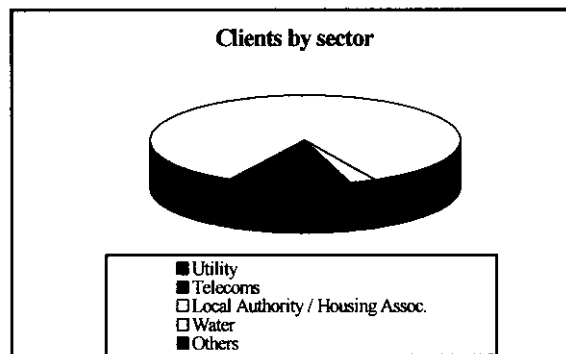
A strong and expanding client base underpins PayPoint's growth. Amongst PayPoint's clients are many of the largest consumer service organisations in the UK. During the year the Group's client base increased by 39% to 210 clients.



As a result, PayPoint has processed some 106m consumer transactions on behalf of its various clients, representing an increase in cash collected (throughput) over the year of 20% to £1.18bn.

PayPoint's client base includes:

- all but one of the UK's energy companies
- the major telecoms and cable companies and BBC TV Licensing
- all the mobile phone networks
- over 150 local authorities and housing associations



BUSINESS REVIEW

PayPoint has been particularly successful over the past twelve months in implementing new clients. These include Scottish Power, which went live during the year in the Scottish Power and Manweb regions, Orange, T-Mobile (formerly One2One), O2 (formerly BTCellnet) and a large number of Local Authorities and Housing Associations.

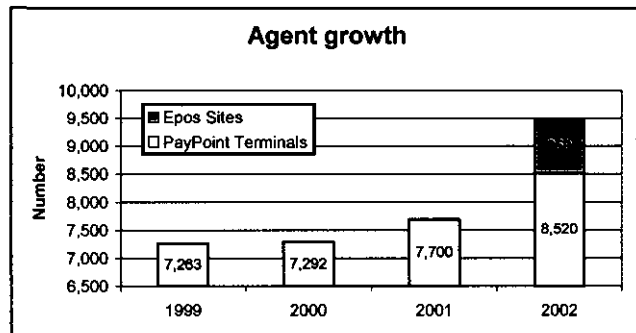
PayPoint has also been successful in winning a number of new contracts that will go live during the course of the next twelve months. These include Scottish and Southern Energy (comprising the Southern Electricity region in England, the Hydro region in Scotland and Swalec in Wales) and, as Capita's chosen retail partner, Transport for London's Congestion Charging Scheme. The Group was also successful in winning an exclusive contract with ESB (the Electricity Supply Board) in Ireland which is PayPoint's first contract win outside the UK and marks the foundation stone for a PayPoint service in Ireland, as well as renegotiating many existing contracts with its founder clients.

Agent growth and performance

The core of PayPoint's agent network is based in the convenience retail sector, close and accessible to where people live. The network provides comprehensive coverage across the whole of the United Kingdom and provides access to over 98% of the population within 1 mile in urban locations and 5 miles within rural locations.

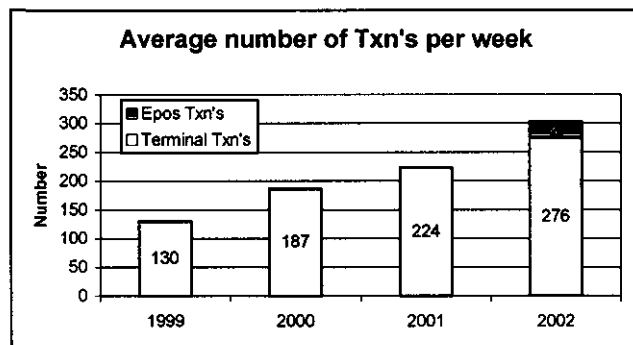
PayPoint's agent base has grown during the year to 8,520 in order to provide capacity for the growing volume of transactions.

PayPoint has also launched an EPOS network across 950 sites with T&S Stores and TotalFinaElf for the electronic processing of mobile phone top ups.



PayPoint has relationships with most of the UK's major convenience multiple retailers, including T&S Stores, Alldays, The Co-operative Group, Texaco and TotalFinaElf, as well as regional multiples such as Bells Stores and Jacksons Stores. Of PayPoint's 8,520 full service terminals some 6,000 are placed in stores under independent ownership or the ownership of small groups.

Despite the growth in full service sites, transaction volumes per site continue to grow, providing retailers with strong customer footfall and secondary purchases in store.



BUSINESS REVIEW

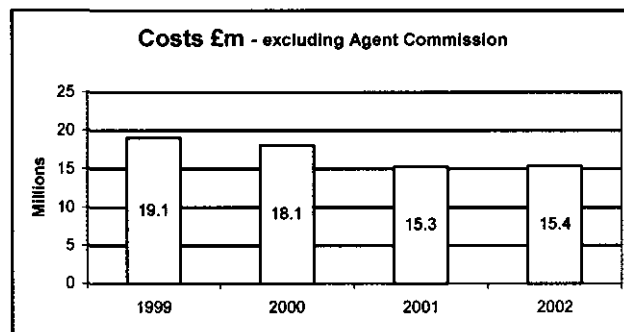
PayPoint's volume comes from a combination of:

- Energy Prepayment transactions where consumers charge their gas and electricity meters at home;
- General Payments, whether bill, budget or savings; and
- Online transactions, such as those required for the electronic top up of mobile phones.

Through this growing combination PayPoint offers consumers a wider range of cash payment facilities than any other similar proposition in the convenience sector.

Costs

PayPoint has been successful in maintaining a stable cost base, despite the increase in the agent network size. Costs in 2001/2002 included costs of £0.7m on a trial television advertising campaign in the Scottish STV region in the spring of 2002.



Prospects

Much potential exists for growth in existing and new markets. The Group plans to continue its profitable growth.

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The company is a holding company and owns two wholly owned subsidiaries that are engaged in developing and operating an electronic payment collection system mainly for its clients.

The performance of the business and its future prospects are reviewed in detail in the Business Review section which precedes this Directors' Report. A summary of the results for the year is given in the consolidated profit and loss account on page 9 of the accounts.

DIVIDENDS

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

DIRECTORS AND THEIR INTERESTS

K Steele was appointed as a Director on 26 September 2001. M Wiltshire resigned as a Director on 1 May 2001, and P Saxton resigned as a Director on 6 July 2001. The Directors serving during the period who had the interests in the shares of the company were as follows:

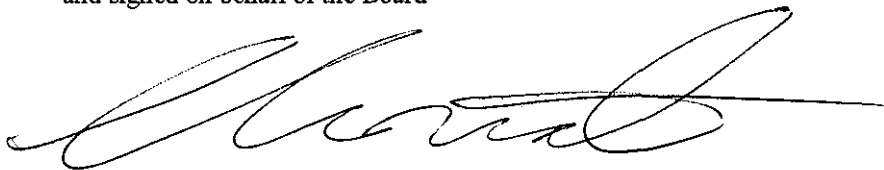
	Deferred shares of £0.01 each 31 March 2002	Ordinary shares of £0.01 each 31 March 2002	Deferred shares of £0.01 each 31 March 2001	Ordinary shares of £0.01 each 31 March 2001
D B Newlands	12,297	98,381	12,297	98,381
D Taylor	12,297	473,381	12,297	473,381
T Watkin-Rees	314,389	236,868	314,389	236,868
P Saxton	235,792	230,465	235,792	230,465
W Murphy	1,786,406	152,294	1,786,406	152,294
M Wiltshire	-	-	-	3,232

At 31 March 2001 and 31 March 2002, M Astbury had a share option to purchase 84,073 ordinary shares at £0.01 cash exercisable before 18 October 2010. The Directors' holdings of convertible loan stock are disclosed in note 17.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Secretary

28-6-02

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 as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 to 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.

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**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYPOINT LIMITED

We have audited the financial statements of PayPoint Limited for the year ended 31 March 2002 which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 and the other members of the group is not disclosed.

We read the directors' report and the business review for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state affairs of the company and the group as at 31 March 2002 and of the profit for group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

3-9-2002

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**Deloitte
Touche
Tohmatsu**

Aberdeen, Belfast, Birmingham, Bracknell, Bristol, Cambridge, Cardiff, Crawley, Edinburgh, Glasgow, Leeds, Liverpool, London, Manchester, Milton Keynes, Newcastle upon Tyne, Nottingham, St Albans and Southampton.

Principal place of business at which a list of partners' names is available: Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR.

Authorised by the Financial Services Authority in respect of regulated activities.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 March 2002

	Note	2002 £	Restated (Note 18) 2001 £
TURNOVER: continuing operations	2	26,095,194	16,469,233
Cost of sales		(15,310,700)	(11,579,348)
Gross profit		10,784,494	4,889,885
Administrative expenses		(9,776,326)	(8,612,708)
OPERATING PROFIT/(LOSS): continuing operations	4	1,008,168	(3,722,823)
Interest receivable and similar income		69,177	59,433
Interest payable and similar charges	5	(984,002)	(948,018)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		93,343	(4,611,408)
Tax credit on profit/(loss) on ordinary activities	6	700,000	2,942,781
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		793,343	(1,668,627)
Retained loss brought forward		(41,591,039)	(39,922,412)
Retained loss carried forward		(40,797,696)	(41,591,039)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 March 2002

	2002	Restated 2001
	£	£
Profit/(loss) for the financial year	793,343	(1,668,627)
Prior period adjustments (see note 18):		
Adjustment to the estimated recoverable amounts of deferred tax assets arising in previous periods	580,000	-
Adjustment in respect of prior year	2,320,000	-
Total recognised gains and losses since last annual report	<u>3,693,343</u>	<u>(1,668,627)</u>

CONSOLIDATED BALANCE SHEET
31 March 2002

	Note	2002 £	Restated (Note 18) 2001 £
FIXED ASSETS			
Tangible assets	8	2,207,354	2,203,177
Own shares	9	24,785	24,785
		<u>2,232,139</u>	<u>2,227,962</u>
CURRENT ASSETS			
Debtors - due within one year	10	4,180,233	3,087,694
Debtors - due after one year	10	3,294,725	3,123,751
Cash at bank and in hand		4,122,656	3,269,705
		<u>11,597,614</u>	<u>9,481,150</u>
CREDITORS: amounts falling due within one year	11	(10,341,459)	(12,135,330)
NET CURRENT ASSETS/(LIABILITIES)		<u>1,256,155</u>	<u>(2,654,180)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,488,294	(426,218)
CREDITORS: amounts falling due after more than one year			
Convertible or redeemable loan stock	12	(5,395,147)	-
Other creditors	12	(5,892,129)	(8,166,107)
	12	<u>(11,287,276)</u>	<u>(8,166,107)</u>
NET LIABILITIES		<u>(7,798,982)</u>	<u>(8,592,325)</u>
CAPITAL AND RESERVES			
Called up share capital	14	14,378,054	14,378,054
Share premium account	15	18,620,660	18,620,660
Profit and loss account	15	(40,797,696)	(41,591,039)
TOTAL SHAREHOLDERS' DEFICIT		<u>(7,798,982)</u>	<u>(8,592,325)</u>
		£	£
Shareholders' funds are analysed as:			
Equity interests		(21,992,209)	(22,785,552)
Non-equity interests		14,193,227	14,193,227
		<u>(7,798,982)</u>	<u>(8,592,325)</u>

These financial statements were approved by the Board of Directors on 28.6.2002.

Signed on behalf of the Board of Directors



Director

COMPANY BALANCE SHEET
31 March 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Investments	9	12,305,657	12,305,657
CURRENT ASSETS			
Debtors - due after one year	10	26,127,314	24,085,215
CREDITORS: amounts falling due within one year	11	<u>-</u>	<u>(2,200,000)</u>
NET CURRENT ASSETS		<u>26,127,314</u>	<u>21,885,215</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		38,432,971	34,190,872
CREDITORS: amounts falling due after more than one year			
Convertible or redeemable loan stock	12	(5,395,147)	-
Other creditors	12	<u>-</u>	<u>(1,153,048)</u>
	12	<u>(5,395,147)</u>	<u>(1,153,048)</u>
NET ASSETS		<u><u>33,037,824</u></u>	<u><u>33,037,824</u></u>
CAPITAL AND RESERVES			
Called up share capital	14	14,378,054	14,378,054
Share premium account	15	18,620,660	18,620,660
Profit and loss account	15	<u>39,110</u>	<u>39,110</u>
TOTAL SHAREHOLDERS' DEFICIT		<u><u>33,037,824</u></u>	<u><u>33,037,824</u></u>
£			
Shareholders' funds are analysed as:			
Equity interests		18,844,597	18,844,597
Non-equity interests		<u>14,193,227</u>	<u>14,193,227</u>
		<u><u>33,037,824</u></u>	<u><u>33,037,824</u></u>

These financial statements were approved by the Board of Directors on 28.6.2002.

Signed on behalf of the Board of Directors



Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 March 2002

	Note	2002 £	2001 £
Net cash inflow from operating activities	2	1,923,130	639,401
Returns on investments and servicing of finance	1	(828,214)	(888,585)
Taxation	1	-	622,781
Capital expenditure	1	<u>(1,233,408)</u>	<u>(484,746)</u>
Net cash outflow before financing		(138,492)	(111,149)
Financing	1	<u>991,443</u>	<u>(632,961)</u>
Increase/(decrease) in cash in the year	3	<u>852,951</u>	<u>(744,110)</u>

NOTES TO THE CASH FLOW STATEMENT
Year ended 31 March 2002

1. ANALYSIS OF CASHFLOWS

	2002 £	2001 £
Returns on investments and servicing of finance		
Interest paid	(461,860)	(619,530)
Interest received	69,713	59,433
Interest element of finance leases	(436,067)	(328,488)
	<u>(828,214)</u>	<u>(888,585)</u>
Taxation		
Consortium relief	-	622,781
	<u>-</u>	<u>622,781</u>
Capital expenditure		
Purchase of tangible fixed assets	(1,233,408)	(484,746)
	<u>(1,233,408)</u>	<u>(484,746)</u>
Financing		
Increase/(decrease) in borrowings	2,042,098	(706,978)
Increase in asset finance	862,535	1,358,410
Capital element of finance lease rental payments	(1,912,190)	(1,284,393)
	<u>991,443</u>	<u>(632,961)</u>

2. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit/(loss)	1,008,168	(3,722,823)
Depreciation charge	1,229,231	1,109,775
Increase in debtors	(563,513)	(509,712)
Increase in creditors	249,244	3,762,161
	<u>1,923,130</u>	<u>639,401</u>
Net cash inflow from operating activities	<u>1,923,130</u>	<u>639,401</u>

NOTES TO THE CASH FLOW STATEMENT
Year ended 31 March 2002

3. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £	2001 £
Increase/(decrease) in cash in the year	852,951	(744,110)
Cash inflow/(outflow) from change in debt and lease financing	<u>(991,443)</u>	<u>632,961</u>
Change in net debt	(138,492)	(111,149)
Net debt as at 31 March 2001	<u>(4,406,870)</u>	<u>(4,295,721)</u>
Net debt as at 31 March 2002	<u><u>(4,545,362)</u></u>	<u><u>(4,406,870)</u></u>

4. ANALYSIS OF CHANGES IN NET DEBT

	At beginning of year £	Cash flows £	At end of year £
Cash at bank and in hand	3,269,705	852,951	4,122,656
Other loans	(3,353,049)	(2,042,098)	(5,395,147)
Finance leases	<u>(4,323,527)</u>	<u>1,050,655</u>	<u>(3,272,872)</u>
	<u><u>(4,406,870)</u></u>	<u><u>(134,492)</u></u>	<u><u>(4,545,362)</u></u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2002**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

PayPoint Limited acts as the holding company for two subsidiary undertakings, namely PayPoint Network Limited and PayPoint Collections Limited. The group accounts consolidate the accounts of PayPoint Limited and its subsidiary undertakings drawn up to 31 March 2002.

The combination of PayPoint Collections Limited and PayPoint Network Limited has been accounted for as a merger in accordance with the group reconstruction provisions of Financial Reporting Standard (FRS) 6.

Except in respect of this combination, acquisitions are accounted for under the acquisition method, so that the results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Going concern basis

The group had a profit for the year of £93,000 and had a deficit on shareholders' funds of £7.8 million. The group is forecast to generate sufficient cash to meet its financing repayments as they fall due. Accordingly, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the going concern basis has been adopted in preparing these financial statements.

Deferred taxation

The group adopted FRS 19 during the year. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Development expenditure and licence costs

Development expenditure and licence costs are written off as they are incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on all tangible assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life. Terminals are expected to be fully depreciated by September 2003 and terminals will have had lives of between 4½ years and 5½ years. The expected useful life of all other classes of assets has been estimated to be 3 years.

Investments

Fixed asset investments are shown as cost less provision for permanent diminution in value.

Pension costs

The company makes payments to a number of defined contribution pension schemes. The amounts charged to the profit and loss account in respect of pension costs represent 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.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002**1. ACCOUNTING POLICIES (CONTINUED)****Turnover**

Group turnover comprises the value of sales (excluding VAT) of services in the normal course of business. Turnover is wholly attributable to the operation of the group's electronic payment collection system and has arisen solely in the United Kingdom.

Turnover and cost of sales are recorded according to the actual transactions that occur in a given period. Under various take or pay arrangements in place, which extend for up to three years, additional cash receipts, which relate to contracted transaction commitments exceeding actual transactions, are treated as deferred income. See also Note 18.

Deferred income is released to the profit and loss account either when a milestone date is reached under a particular contract, at which point the benefit of the contractual volumes exceeding actual volumes is realised, or when the directors are reasonably certain that the difference between actual and contracted volumes represented by the deferred income being realised will not be eroded before the next milestone date for that contract.

Cost allocation

Cost of sales consists of all direct costs associated with taking transactions, together with all third party costs of running the terminals and maintaining the agent network including agent commission and payments of funds collected to clients where PayPoint is the principal in collection of funds. All other costs are allocated to administrative expenses.

Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

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 ACCOUNTS
Year ended 31 March 2002

2. TURNOVER ANALYSIS

	2002 Gross throughput £	2001 Gross throughput £	2002 Revenue £	Restated 2001 Revenue £
Amounts as agent	1,119,241,160	981,087,134	23,870,914	15,973,465
Amounts as principal	<u>62,605,770</u>	<u>5,359,660</u>	<u>2,224,280</u>	<u>495,768</u>
	<u>1,181,846,930</u>	<u>986,446,794</u>	<u>26,095,194</u>	<u>16,469,233</u>

Gross throughput represents payments made by consumers using the PayPoint service. Revenue represents the transaction fees and commission receivable by PayPoint. See note 18.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 £	2001 £
Directors' remuneration		
Fees	780,589	948,111
Pension contributions	<u>64,620</u>	<u>65,079</u>
	<u>845,209</u>	<u>1,013,190</u>
<i>The above amounts include the following in respect of the highest paid director:</i>		
Emoluments	234,740	223,938
Pension contributions	<u>19,840</u>	<u>19,200</u>
	<u>254,580</u>	<u>243,138</u>
	No.	No.
Number of directors who are members of defined contribution pension scheme	<u>4</u>	<u>5</u>
Average number of persons employed		
Sales and marketing	14	13
Administration	<u>163</u>	<u>152</u>
	<u>177</u>	<u>165</u>
	2002 £	2001 £
Staff costs during the year (including directors)		
Wages and salaries	4,894,115	4,134,720
Social security costs	439,239	402,798
Pension costs	<u>221,979</u>	<u>177,761</u>
	<u>5,555,333</u>	<u>4,715,279</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

4. OPERATING PROFIT/(LOSS)

	2002	2001
	£	£
Operating loss is after charging:		
Depreciation and amortisation		
Owned assets	470,029	553,707
Leased assets	759,202	556,068
Rentals under operating leases		
Hire of plant and machinery	12,450	10,625
Other operating leases	271,759	182,128
Auditors' remuneration		
audit fees to current auditors	25,625	25,000
other services to current auditors	27,808	20,000
audit fees to previous auditors	-	7,175
other services to previous auditors	-	26,275
	<u> </u>	<u> </u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
	£	£
Bank loans, overdrafts and other loans repayable within five years	434,697	393,870
Finance leases and hire purchase contracts	436,067	328,488
Settlement costs	40,235	157,914
Bank charges	73,003	67,746
	<u>984,002</u>	<u>948,018</u>

6. TAX CREDIT ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2002	Restated 2001
	£	£
Adjustment in respect of prior years	-	622,781
Deferred tax	700,000	2,320,000
	<u>700,000</u>	<u>2,942,781</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

7. FACTORS AFFECTING THE TAX CREDIT

Current period

	2002	Restated 2001
	£	£
Profit/(loss) on ordinary activities before tax	93,343	(4,611,408)
Corporation tax at 30% thereon	(28,003)	1,383,422
Effects of:		
Expenses not deductible for tax purposes	(16,110)	2,975
Capital allowances in excess of depreciation	46,364	(181,165)
Utilisation of tax losses	3,449	17,830
Movement in short term timing differences	(5,700)	22,500
Consortium relief received	-	(622,781)
	<u>-</u>	<u>622,781</u>

Future periods

A deferred tax asset has not been recognised in respect of timing differences relating to some of the trading losses, as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £8,649,737. This asset would be recovered if trading profits are in excess of the forecasts prepared by the company.

8. TANGIBLE FIXED ASSETS

Group	Terminals and equipment	Fixtures, fittings, tools and equipment	Total
Cost			
At 1 April 2001	5,702,825	621,261	6,324,086
Additions	1,205,737	27,671	1,233,408
At 31 March 2002	<u>6,908,562</u>	<u>648,932</u>	<u>7,557,494</u>
Accumulated depreciation			
At 1 April 2001	3,679,645	441,264	4,120,909
Charge for the year	1,130,377	98,854	1,229,231
At 31 March 2002	<u>4,810,022</u>	<u>540,118</u>	<u>5,350,140</u>
Net book value			
At 31 March 2002	<u>2,098,540</u>	<u>108,814</u>	<u>2,207,354</u>
At 31 March 2001	<u>2,023,180</u>	<u>179,997</u>	<u>2,203,177</u>

The net book value of assets held under finance leases is £1,471,946 (2001: £1,433,046).

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

9. INVESTMENTS HELD AS FIXED ASSETS

	Investment in subsidiaries £	Company	
		Other investments £	Total £
At 1 April 2001 and 31 March 2002	12,280,872	24,785	12,305,657

Subsidiary undertakings

The company, a holding company, has investments (directly or indirectly) in the following subsidiary undertakings:

Subsidiary of the company	Principal Activity
PayPoint Network Limited	Management of an electronic payment service
PayPoint Collections Limited	Payment collection service
Counter Payment Managers Limited	ESOP Scheme
PayPoint Trust Managers Limited	Trustee of PayPoint Risk Fund

All of the above companies are 100% owned. Counter Payment Managers Limited is registered in the Isle of Man and the other companies are registered in England and Wales.

Own shares

	Group	
	2002 £	2001 £
Cost		
Beginning and end of period	24,785	24,785

A trust deed exists between the company and Counter Payment Managers Limited, a wholly-owned subsidiary registered in the Isle of Man, which established "The PayPoint Services Limited Employee Incentive Trust", and ESOP scheme within the meaning of section 743 of the Companies Act 1985.

The trust was established to encourage the holding of shares in the company by employees, with a view to facilitating the recruitment, retention and motivation of employees of the PayPoint group.

As a result of the uncertainties regarding the performance period of the share options granted, no charge to the profit and loss account has been recognised, in accordance with UITF 17.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

10. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Trade debtors	3,176,788	2,568,624	-	-
Other debtors	65,234	62,803	-	-
Prepayments and accrued income	258,211	456,267	-	-
Deferred tax asset (note 13)	680,000	-	-	-
	<u>4,180,233</u>	<u>3,087,694</u>	<u>-</u>	<u>-</u>

DEBTORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR

	Group		Company	
	2002	Restated 2001	2002	2001
	£	£	£	£
Amounts owed by group undertakings	-	-	26,127,314	24,085,215
Other debtors	374,725	223,751	-	-
Deferred tax asset (note 13)	2,920,000	2,900,000	-	-
	<u>3,294,725</u>	<u>3,123,751</u>	<u>26,127,314</u>	<u>24,085,215</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	2001	2002	2001
	£	£	£	£
Loans	-	2,200,000	-	2,200,000
Trade creditors	3,324,972	2,812,414	-	-
Obligations under finance leases	1,848,789	1,950,859	-	-
Other taxes and social security	176,253	167,830	-	-
Other creditors	287,928	239,355	-	-
Accruals and deferred income	4,703,517	4,764,872	-	-
	<u>10,341,459</u>	<u>12,135,330</u>	<u>-</u>	<u>2,200,000</u>

Included within accruals and deferred income is a balance of £3million which represents the amount by which payments under Take or Pay arrangements exceed the income for actual transactions that occur in a given period.

The loan of £2.2m was repaid on 25 July 2001 and convertible or redeemable loan stock was issued which is repayable starting in October 2004.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2002 £	2001 £	2002 £	2001 £
Obligations under finance leases	1,424,621	2,372,668	-	-
Loans	-	1,153,049	-	1,153,048
Other creditors	62,000	86,800	-	-
Deferred income	4,405,508	4,553,590	-	-
	<u>5,892,129</u>	<u>8,166,107</u>	-	<u>1,153,048</u>
Convertible or redeemable loan stock	<u>5,395,147</u>	-	<u>5,395,147</u>	-
	<u>11,287,276</u>	<u>8,166,107</u>	<u>5,395,147</u>	<u>1,153,048</u>

Deferred income represents the amount by which payments under Take or Pay arrangements exceed the income for actual transactions that occur in a given period.

On 25 July 2001 the outstanding loans were repaid and new convertible or redeemable loan stock was issued. At the same time a further £2.1m of loan stock was also issued and subscribed to by existing shareholders and directors.

The convertible or redeemable unsecured loan stock may be converted at the holder's option into fully paid ordinary shares of £0.01 each on an exit event up to October 2004 at the rate of 7.425 ordinary shares for every £0.10 of convertible loan stock. Full conversion of the outstanding rights will result in the issue of 4,005,897 ordinary shares. If the conversion option is not exercised, the loan stock will be redeemed in four six-monthly intervals starting in October 2004.

13. DEFERRED TAX

Movement on deferred tax balance

	2002 £	Restated 2001 £
Opening balance	2,900,000	580,000
Credit to profit and loss account	700,000	2,320,000
Deferred tax asset (note 10)	<u>3,600,000</u>	<u>2,900,000</u>

Analysis of deferred tax asset

	2002 £	Restated 2001 £
Capital allowances in excess of depreciation	2,850,456	2,896,820
Short term timing differences	5,700	-
Losses	743,844	3,180
	<u>3,600,000</u>	<u>2,900,000</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

13. DEFERRED TAX (CONTINUED)

Effect of the implementation of FRS 19

	Deferred tax asset £	Profit and loss account reserve £	Shareholders' funds £
2001 as previously reported	-	(44,491,039)	(11,492,325)
Adoption of FRS 19 at 1 April 2000	580,000	580,000	580,000
During the year ended 31 March 2001	2,320,000	2,320,000	2,320,000
	<u>2,900,000</u>	<u>2,900,000</u>	<u>2,900,000</u>
Adoption of FRS 19 at 31 March 2001	2,900,000	2,900,000	2,900,000
2001 restated	<u>2,900,000</u>	<u>(41,591,039)</u>	<u>(8,592,325)</u>

14. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
244,530,200 ordinary shares of £0.01 each	2,445,302	2,445,302
1,210,587,200 "F" shares of £0.01 each	12,105,872	12,105,872
	<u>14,551,174</u>	<u>14,551,174</u>
Called up, allotted and fully paid		
18,482,700 ordinary shares of £0.01 each	184,827	184,827
208,735,620 deferred ordinary shares of £0.01 each	2,087,356	2,087,356
1,210,587,111 "F" shares of £0.01 each	12,105,871	12,105,871
	<u>14,378,054</u>	<u>14,378,054</u>

"F" share rights

The "F" shares may be redeemed if the net present value of the company's after-tax cash flows in any particular financial year exceeds £100million. Upon reaching this event, the company shall notify each of the "F" shareholders in writing that this repurchase event has occurred and each holder of the "F" shares is entitled to serve notice in writing to the company requiring it to redeem them at a price equal to the aggregate of (i) their issue price and (ii) an amount equal to the interest on the issue price at a rate equal to 2 per cent above LIBOR, calculated from the date of issue to the date on which the amount falls to be calculated and compounded annually.

The "F" shares carry no right to vote at any general meeting. The holders are entitled to a fixed non-cumulative dividend at the rate of 5 per cent per annum for any financial year of the company in respect of which the net profits of the company available for dividend exceed £100million.

On winding up of the company, a return on the capital paid on each "F" share out of the surplus assets of the company will occur after a total sum of £100 has been distributed in respect of each of the ordinary shares of the company.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

14. CALLED UP SHARE CAPITAL (CONTINUED)

Deferred ordinary shares

Deferred ordinary shares carry no right to vote at any general meeting of the company. The deferred shares entitle the holders to a fixed non-cumulative dividend at the rate of 5 per cent per annum for any financial year of PayPoint Limited in respect of which the net profits of the company available for dividend exceed £100million.

On winding up of the company, a return on the capital paid on each deferred ordinary share out of the surplus assets of the company will occur after a total sum of £100 has been distributed in respect of each of the ordinary shares of the company.

15. RESERVES

	Share premium account £	Group Restated Profit and loss account £	Share premium account £	Company Profit and loss account £
At 1 April 2001	18,620,660	(41,591,039)	18,620,660	39,110
Profit for the year	-	793,343	-	-
At 31 March 2002	<u>18,620,660</u>	<u>(40,797,696)</u>	<u>18,620,660</u>	<u>39,110</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 2002 £	2001 £	Company 2002 £	2001 £
Profit/(loss) for the year as originally reported	793,343	(3,988,627)	-	16,660
Restatement for prior period adjustment (note 13)	-	2,320,000	-	-
Net movement in shareholders' funds	793,343	(1,668,627)	-	16,660
Opening shareholders' funds	(8,592,325)	(7,503,698)	33,037,824	33,021,164
Restatement in respect of opening shareholders' funds (note 13)	-	580,000	-	-
Closing shareholders' funds	<u>(7,798,982)</u>	<u>(8,592,325)</u>	<u>33,037,824</u>	<u>33,037,824</u>

17. RELATED PARTY TRANSACTIONS

Both PayPoint Network and PayPoint Collections have a number of contracts with their shareholders and/or their subsidiary companies. British Telecom and London Electricity are defined as related parties under FRS 8.

The contracts with both British Telecom and London Electricity for the payment of pre-pay and post-pay bills were for an original length of between 3 to 5 years, and were in place at the beginning of the year.

All contracts that have been entered into have been at arms length.

NOTES TO THE ACCOUNTS
Year ended 31 March 2002

17. RELATED PARTY TRANSACTIONS (CONTINUED)

The main services provided during the year were as follows:

British Telecom

Provision of an electronic payment system for payment of post-pay bills, telecommunication services

London Electricity

Provision of an electronic payment system for payment of pre-pay and post-pay bills.

The amounts included in the accounts for the year ended 31 March 2002 (and year ended 31 March 2001) excluding VAT are given below.

Year ended 31 March 2002

	Invoiced items £	Expenditure items £	Deferred income £	Convertible loan stock £	Trade debtors £	Trade creditors £
British Telecom	2,503,305	2,050,030	6,465,883	1,649,976	2,003	77,175
London Electricity	3,037,191	-	-	1,649,976	464,212	-

Year ended 31 March 2001

	Invoiced items £	Expenditure items £	Deferred income £	Convertible loan stock £	Trade debtors £	Trade creditors £
British Telecom	3,389,788	1,574,613	4,533,590	-	17,110	73,589
London Electricity	3,512,224	-	-	-	623,496	-

Related parties, including directors and connected persons, also held convertible loan stock as follows:

	2002 £	2001 £
Related parties:		
RIT Capital Partners plc	825,000	-
Lord Weinstock	825,000	-
Directors:		
K Steele	100,000	-
T Watkin-Rees	82,288	-
B Murphy	52,907	-
D Taylor	25,000	-
M Astbury	20,000	-
Connected persons to D B Newlands	165,000	-

NOTES TO THE ACCOUNTS

Year ended 31 March 2002

18. PRIOR PERIOD ADJUSTMENTS

Turnover and cost of sales

Under certain contracts with customers, PayPoint has title to funds collected for a period of time. In prior year the monies collected under such contracts were recorded as turnover, and as payments were made these were recorded in cost of sales. However, during the year ended 31 March 2002 the group has reflected the ASB's Discussion Paper on Revenue Recognition and now accounts for these contracts on the same basis as the rest of its business. The effect of this change in accounting policy has been to reduce the previously reported turnover and cost of sales for the year ended 31 March 2001 by £5,359,662. The net effect on the result for the year is £nil.

Deferred tax

The company has adopted the accounting standard FRS 19 "Deferred tax" during the year. With the adoption of FRS 19 the company has chosen to recognise a deferred tax asset, as shown in notes 10 and 13, with the associated restatement of relevant figures in the profit and loss account, balance sheet and notes for the prior year.

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Pension arrangements

The group administers a non-contributory defined contribution scheme for some directors and employees. The amount charged in the consolidated profit and loss account for the period for pension costs of the group under the scheme was £221,979 (2001: £177,761). There is no accrual or prepayment of pension contributions at the balance sheet date.

20. FINANCIAL COMMITMENTS

	2002 £	2001 £		
Obligations under finance leases				
Minimum lease payments due:				
Within one year	1,848,789	1,950,859		
Within 2 to 5 years	1,424,083	2,372,668		
	<u>3,272,872</u>	<u>4,323,527</u>		
Finance charges allocated to future periods	593,082	723,160		
	<u>3,865,954</u>	<u>5,046,687</u>		
Operating lease commitments				
	2002 £	2002 £	2001 £	2001 £
	Land and buildings	Other	Land and buildings	Other
Leases which expire:				
Within two to five years	-	8,424	-	6,600
After five years	354,820	-	142,128	-
	<u>354,820</u>	<u>8,424</u>	<u>142,128</u>	<u>6,600</u>