

earthport plc

Report and Financial Statements

30 June 2003

Registered No: 3428888

Directors

A Ripley	Non Executive Chairman
R Rakison	Non Executive
C Keen	Non Executive
R Manchanda	Non Executive
P Townsend	
C Hall	

Secretary

J Ellison

Auditors

Ernst & Young LLP
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Bankers

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Statement by the Chairman and the Chief Executive

This report and accounts covers the period from 1 July 2002 to 30 June 2003, during which your Company addressed and resolved legacy debt, contingent liability, asset write down and other trading related historical issues. Your Board has taken this opportunity to deal with all the remaining consequences of previous years' trading, which could potentially have a negative effect on your Company's ongoing profitability and on shareholder value, in preparation for a prosperous future.

At first sight this report and accounts make grim reading but in taking the decision to write down intangible assets and stocks and to acknowledge the £1.2m liability of its 101010 Limited subsidiary (See Note) in the Group Consolidation, your Board has impaired the Company's Balance Sheet by a further sum of £5.4m. Therefore in recording a £12m loss for the year to June 2003 and in finishing the period with a £8.2m negative asset Balance Sheet, your Board is confident that these results mark the end of the salvage and reconstruction period of your Company.

As a result of these accounting measures your Company starts the 2003-04 financial year with the prospect of writing back £1.2m following the expected liquidation of 101010 Limited and of including at least £0.5m in other exceptional gains, of which £0.4m is attributable to a contract with Egg Banking plc (formerly Prudential Banking). In addition the Company has prepared a claim against Egg for a substantial sum under the November 2001 contract and for related work and intends to pursue this vigorously in the first quarter of 2004.

While these items in isolation are good news for the 2004 accounts, they will not form the basis of how the Company's performance will be judged or how shareholder value will be determined. In this our second statement to shareholders we are very pleased to report that the Company has followed the strategy outlined in this report last year. Your Company is well on the way to achieving significant commercial development of the business and its twin goals of becoming cash flow positive and profitable in the current financial year.

Your Company has established a suite of products and applications in six market sectors based on the unique earthport Universal Payment Network (UPN) as the industry standard payment solution in each sector. Your Company is also for the first time delivering to customers a fully functional earthport Stored Value product in three of the target sectors.

The combination of the UPN and Stored Value has enabled your Company to launch the ensurePay, mediaPay, mobilePay and cashPay branded and white labeled products in 2002-3. These products have been complemented by the launch of travelPay at the World Travel Market Exhibition at ExCeL, London on 10 November 2003.

In the following months your Company will launch products into the government, P2P, retail and insurance sectors. This adds two more sectors to those reported as being targeted for business in last year's statement.

In this reconstruction period, your Company has invested further in building the means to deliver these products and applications to market. earthport plc moved from Chiswick to Chandos Street in London's West End in March 2003 vastly improving communications with Clients and the City. earthport Solutions Ltd, the core operating subsidiary, will relocate in November from Colchester to Liverpool Street in the City of London, enabling the Company to combine banking and IT operations, saving costs and creating a more cohesive unit and relationship with earthport plc which is some ten minutes away.

At the same time your Company extended its global banking network to cover over 20 territories and payment execution in over 70 territories. The Company also added credit and debit card processing services and increased its forex and ledger management service capabilities.

Statement by the Chairman and the Chief Executive

Your Company has recruited an able and committed professional team to complement those who have served the Company through the last period to ensure the Company achieves its objectives. We would like to express our grateful thanks to both current and former staff for their assistance in the achievement of rebuilding your Company.

Between July and September 2003 your Company successfully completed the first phase of a two part fund raising exercise, as the Company seeks to capitalise on customer interest and take-up of its market leading products and applications. The initial fund raising exercise of £3.6m was successfully completed on 29 September 2003.

The Company is undertaking final fund raising to reach break even which it expects to complete by January 2004. Underwriting the Company's approach to investors is the fact that 13 customers are in the process of going live and another 11 are in the final stages of contractual documentation.

Your Board believes that with the support of further investment, earthport's powerful combination of products and applications, global banking coverage, operational development and service capability and professional management provide a viable business framework and conditions which should enable the Company to achieve the much vaunted "potential" of earthport of which its long standing shareholders are all too familiar.

Funding

During the year to 30 June 2003 104,870,004 shares were issued for a value of £2,816,468.

Of this £1,082,152 was from the issue of new equity at 2.5p, £681,514 from the conversion of convertible loan notes, all at 3.5p, and £1,052,802 from the conversion of loans at 2.5p.

Note re 101010 Limited

At the half year we noted in the interim results that we had withdrawn financial support for our subsidiary 101010 Limited. On the basis this would lead to its liquidation we showed the release of the £1.2m of net liabilities as an exceptional profit. However, the company had not yet gone into liquidation by the year end and therefore the net liabilities of 101010 Limited remain as part of our consolidated balance sheet. If 101010 Limited goes into liquidation in future it would be removed from our control and we would then expect to show again the release of its net liabilities from our consolidated balance sheet as a gain. It should be specifically noted that earthport continues not to provide financial support for 101010 Limited.

Andrew Ripley
Chairman

Rob Cunningham
Chief Executive

24 November 2003

Statement by the Chairman and the Chief Executive

Significant events in chronological order were:

6 August 2002	raised a total of £535,000 through the issue of Convertible Unsecured Loan Notes.
7 August 2002	Major on-line payment agreement signed with Ladbrokes to provide the unique online payment system to Ladbrokes' global eGaming and telebetting business. Ladbrokes was the first major gaming brand to enter into a licence agreement to take up earthport's system.
17 October 2002	Following successful trial in several countries, Ladbrokes went Live with earthport's UPN having successfully completed installation of its UPN for Ladbrokes' global eGaming and telebetting business. UPN provides Ladbrokes customers with the world's first secure online alternative to credit card payments, handling payments in multiple currencies.
30 October 2002	earthport launched mediaPay with citywebwatch.com. Signed a binding letter of intent with citywebwatch.com ("citywebwatch"), the online news aggregation service, to provide its new mediaPay online payment system, which is specifically designed for the media industry. In addition to offering traditional card based payment methods, mediaPay enables customers to purchase media content item by item in micro-payments, and also allows content providers to identify revenues earned and manage revenue sharing.
9 December 2002	earthport signed an agreement to provide Sportingbet.com, the European operation of Sportingbet Plc, with its online Universal Payment Network (UPN).
30 December 2002	Result of Annual General Meeting All proposed resolutions were passed at the Company's Annual General Meeting.
13 January 2003	earthport signed an agreement to provide its UPN to Betfair, the first and largest person-to-person sports betting exchange. The initial two-year agreement, with options to extend, provides earthport with licence fees and transaction based revenue streams.
17 January 2003	earthport launched mobilePay at GSM Conference 2003 in Cannes. Feedback from major service and content providers and handset manufacturers has confirmed that mobilePay can satisfy the mobile sector's demand for a universal and compliant payment mechanism.
28 March 2003	Interim Accounts for six months to 31 December 2002 Turnover increased to £282,000 from £97,000 in the same period of the previous year. Operating losses narrowed substantially to £3,567,000 (2001: £6,977,000)

Directors report

The directors present their report and accounts for the year ended 30 June 2003.

Results and Dividends

The group loss for the year after taxation amounted to £12,278,014 (2002 - £12,478,398).

The directors do not recommend the payment of a dividend for the year (2002 – nil).

Principal Activities

earthport specialises in the delivery of electronic payment services based on an industry standard payment infrastructure called the Universal Payment Network (UPN).

e-commerce and m-commerce have matured and become universally accepted channels for product and service distribution. Traditional payment methods can manage this expansion but the market requires a purpose-built payment infrastructure to handle increasing volumes and the complexity of transactions. earthport's UPN is that solution. earthport seamlessly connects conventional legacy banking with virtual payment networks and infrastructure to support and underpin its electronic payments product and service capability.

earthport's market leading payments solution has three unique features:

- UPN, the product developed by earthport supported by an industry standard fourth generation technical software platform (ep4).
- an international banking network to provide a range of global electronic payments services and solutions including 25 banking relationships representing banking groups located around the globe, providing domestic clearing in 13 currencies and cross border payment execution in over 70 territorial markets globally.
- a stored value function enabling fund values to be held in virtual accounts on earthport's servers or on a mobile phone in the account holders control, mirroring funds held in a legacy bank account, enabling Customers to have one account for funds transfer and receipt for each merchant or where required one account for cross spending to a range of merchants.

The earthport payment infrastructure enables users to make cash, credit, debit and smart card and on-line cheque payments (from micro-payments to major fund transfers), bi-directional, online or offline, to move money around the world in any amount and in any currency quickly, securely and affordably via any Internet enabled device. UPN is the only system that handles B2B, B2C and P2P for global Clients.

Review of the Business

Requirements for new payment solutions and services are being identified daily in virtually every B2B and B2C business and e-commerce sector. In response to Client demand earthport developed revenue sharing at source as a vital feature and requirement of a global electronic payments e-business for all its products

earthport's UPN supports white-labelled product solutions and services for Clients including Ladbrokes and Citywebwatch to enable them to promote their recognised brand to their customers.

earthport has also developed and launched own branded products including ensurePay, mediaPay, travelPay, SendCash and mobilePay, all supported by UPN and the global banking network. All have access to stored value functionality, features and benefits.

Directors report

Product Strategy

The earthport experience is that the UPN is now being adopted by a range of market sectors and industries and is the payment solution of the future. UPN has already been launched into six diverse markets, focusing on different features of the functionality within the earthport electronic payments solution with integral revenue sharing functionality:

- **Media** micro-payments enabling purchase of music downloads, CDs, DVDs, videos, movies, printed articles, city news, interactive games, iTV content, video games, information, club and social networks
- **Gaming** pay-ins, payouts, cross-border, multi-currency, automatic forex, stored value virtual wallets, payment gateways, credit and debit cards, on-line cheques – casinos, sport books, matched betting, lotteries.
- **Mobile** real time content billing and revenue sharing for content providers, network operators, handset manufacturers, advertisers, any form of downloadable content, full audit trail, statement generation, spend & charge of stored value wallets all via J2ME, 2.5 & 3G GPRS and hand held devices.
- **Travel & Hospitality** GDS global distribution systems companies, airlines, hotel groups, travel companies, car hire, hospitality, on-line booking agencies requiring real-time settlement, security, no chargebacks or rolling reserve
- **Retail** cleared cash real time secure payment services with real-time settlement, no charge backs or rolling reserve alternative to credit card transactions
- **Government** national online virtual banking payment services with stored value functionality enabling the general public, un-banked, youth sector and non-credit cardholders to transact online
- **Financial Services** Escrow services (replacing LCs) corporate ledger management, SME forex, white-labelled micro-payment stored value solutions for the card market, insurance ledger management and settlement.

Market Sector Report

earthport is experiencing success in the online gaming and media sectors.

Gaming - Ladbrokes' global e-gaming and tele-betting business is using UPN for Ladbrokes' own label cleared cash transactions. Following the successful launch of this service, Ladbrokes has expanded the usage of UPN to include new territories. Through earthport's wholly owned subsidiary **ensurePay Limited** the following gaming Clients have gone live since July: SportingBet, Bet365, Betfair, Bet and Win and BetInternet. The Pool and the Gaming Federation went live in October. At least 15 other e-gaming Clients are being implemented at this time. Not only is the number of new Clients growing exponentially, existing Clients are utilising our services for a global access to territories.

Media (Music) - July 2003 saw earthport sign the Music Engine as a **mediaPay** reseller to provide payments for both standard and micro-payments for bands and record companies allowing the online purchase of physical merchandise and music downloads.

Directors report

Media (Games) - Project Entropia, the Swedish based Massively Multiplayer Online Role Playing Game (MMORPG), is now implementing UPN for all global cash transactions. On the basis of this other MMORPGs are being progressed.

Travel - negotiations are underway with significant players in the Industry. **travelPay** delivers real-time payments, ledger management and settlement allowing significant improvement in cash flows, security and reduction in trading risk from credit cards and working capital deficiencies arising from legacy systems and trading practices.

Mobile - is being covered directly as an industry sector and as a channel to market as in the case of Pocket Entertainment, a gaming site accessed via mobiles. **mobilePay** is being marketed horizontally as a real-time solution for payments, purchasing, information, access and delivery, marketing, interactive play and entertainment.

Future Developments

In addition to the sectors already targeted and prospected earthport intends to engage in other sectors as the universality of the UPN becomes acceptable. earthport expects to launch products targeting the following sectors in 2004:

- **Insurance**
- **P2P**
- **On-line retail**
- **Escrow services**

Banking

The Company intends to continue extending its global banking coverage by increasing the number of territories where it has banking relationships. In some territories it will seek to increase the number of banks available to service Clients' requirements.

The Company has also embarked on a strategy to extend its banking relationships into the two largest markets in the world, China and the US, and has begun negotiations with potential partners to enable these aims to be achieved.

Cards - PSP Status

The Company intends to secure PSP status by June 2004, which will provide the opportunity for earthport to deal directly with credit card and debit card issuing and acquiring banks. The Company's existing card payments relationships satisfy its immediate requirements.

e-Money Licence

The Company has submitted an application for a small e-money certificate from the FSA and is submitting an application for a full e-Money Licence to enable it to deliver the services which are increasingly required by the market.

Directors report

Events Since the Balance Sheet Date

On 31 July 2003 as a result of the issue of Ordinary Shares for cash and the conversion of loans into Ordinary Shares at a price of 2.5p, 33,371,491 new Ordinary Shares were issued, allotted and admitted to trading on AIM on Friday 1 August 2003.

The total number of Ordinary Shares in issue on that date was 261,661,852.

On September 9 the Board of earthport announced that it had completed arrangements to issue a total of 107,160,000 new Ordinary Shares of 2.5p each at a price of 2.5p per share by way of a placing for cash, raising £2,679,000. Seymour Pierce, the Company's broker, placed 87,070,000 new Ordinary Shares with institutions and private investors. The Company in addition received subscriptions for 20,090,000 new Ordinary Shares directly and also issued 1,313,478 Ordinary Shares in settlement of miscellaneous staff payments and commissions.

The Company also announced that it had exchanged an agreement for the issue of £400,000 of Convertible Loan Notes ("the Convertible") to raise a total of £3,079,000 for the Company (before expenses).

The Convertible was subscribed for by investors including funds advised by Park Place Capital ("Park Place Investors"). This funding, together with the amount of £427,500 raised in July 2003 and announced on 31 July 2003, brought the total raised during the period of July to September 2003 to £3,506,500, (before expenses).

On 29 September 2003 an additional 14,328,571 new Ordinary Shares were issued for cash at a price of 2.5 pence per share, which were allotted and admitted to trading on AIM on Wednesday 1 October 2003 and, together with 114,284 Ordinary Shares issued to staff, brought the total number of Ordinary Shares in issue at that date to 384,578,185.

In November 2003 the Board of earthport announced that it had agreed a variation of the proposed investment of funds in the Company by Park Place Investors announced on 9 September 2003 following a number of inquiries from existing shareholders and potential investors.

The previous intention to accept investment of £400,000 and rights to invest a further £1,200,000 by way of a Convertible for 2.5p per Ordinary Shares bearing a coupon of 10% with additional warrants on the same terms ("the Old Warrants") as the Convertible with an anti-dilution provision were renegotiated. In addition all other conditions and rights of the announcement of 9 September 2003 were replaced by a new agreement.

The Board of earthport announced on 14 November 2003 that investors including funds advised by Park Place Investors have subscribed £200,000 for 8,000,000 Ordinary Shares at 2.5p each. In addition, the Park Place Investors have been issued with warrants to invest a further £300,000 up to 30 June 2004 and a further £100,000 up to 31 December 2004 on the same terms ("the New Warrants"). The Park Place Investors have given an undertaking that they will not increase their shareholding in the Company without the consent of the earthport Board. Exercise of the New Warrants is not subject to the undertaking.

The new Ordinary Shares represented approximately 2.04% of the enlarged issued share capital of earthport.

The proceeds of the issue will be used to provide additional working capital for the development of the earthport group.

Following the above issues of new Ordinary Shares together with an issue of 3,591,909 Ordinary Shares on 18 November, there was a total of 396,170,094 Ordinary Shares in issue as at 24 November 2003.

Directors report

Directors and their interests

The directors who served during the year were as follows:

L Ljungwaldh	(resigned 30 December 2002)
R Flood	(resigned 14 July 2003)
R Mennie	(resigned 19 September 2003)
R Rakison	
A Ripley	
C Keen	(appointed 1 November 2002)
R Manchanda	(appointed 1 November 2002)

In addition to the directors listed above, P Townsend was appointed a director on 14 July 2003 and C Hall and Ms C Rawlins were appointed as directors on 1 August 2003. Ms C Rawlins resigned on 8 September 2003.

The directors at 30 June 2003 and their beneficial interests in the shares of the company were as stated below:

	<i>At 30 June</i>	<i>At 1 July</i>
	<i>2003 appointment</i>	<i>2002 or subsequent</i>
	<i>New Ordinary</i>	<i>Ordinary</i>
	<i>Shares of</i>	<i>Shares of</i>
	<i>2.5p each</i>	<i>2.5p each</i>
R Flood	715,000	–
C Keen	–	–
R Manchanda	–	–
R Mennie	1,390,000	390,000
R Rakison	6,285,713	4,285,713
A Ripley	–	–

Since 30 June 2003 R Mennie purchased an additional 1,788,880 Ordinary Shares of 2.5p each.

Directors report

Directors and their interests (continued)

The company has a share option scheme under which options to subscribe for the company's shares have been granted to certain employees. The interests of the directors were as follows:

		<i>Exercise price</i>	<i>At 30 June 2002</i>	<i>Granted</i>	<i>Exercised</i>	<i>Lapsed</i>	<i>At 30 June 2003</i>
		£	No.	No.	No.	No.	No.
R Mennie	(a)	0.10	180,000	–	–	–	180,000
	(b)	0.25	50,000	–	–	–	50,000
	(c)	0.60	100,000	–	–	–	100,000
	(d)	1.60	20,000	–	–	–	20,000
R Rakison	(e)	0.05	–	250,000	–	–	250,000
A Ripley	(f)	0.05	–	500,000	–	–	500,000
C Keen	(g)	0.05	–	250,000	–	–	250,000
R Manchanda	(h)	0.05	–	250,000	–	–	250,000

The options are exercisable between the following dates:

- (a) 1 March 1999 to 1 March 2005
- (b) 1 January 2001 to 31 December 2006
- (c) 1 July 2001 to 30 June 2006
- (d) 1 May 2002 to 1 May 2007
- (e) 1 July 2002 to 1 July 2004
- (f) 15 November 2002 to 15 November 2004
- (g) 1 May 2003 to 1 May 2005
- (h) 1 May 2003 to 1 May 2005

Since the year-end, options to subscribe for Ordinary Shares have been granted to the following directors at an exercise price of 5p:

C Hall	2,000,000	(Exercisable between 1 September 2004 and 31 August 2006)
P Townsend	2,000,000	(Exercisable between 1 September 2004 and 31 August 2006)
R Mennie	2,000,000	(Exercisable between 1 September 2004 and 31 August 2006)
R Flood	600,000	(Exercisable between 1 July 2005 and 31 December 2005)

In addition to the options listed above, P Townsend was granted 300,000 options to subscribe for Ordinary Shares at an exercise price of 5p exercisable between 1 July 2003 and 1 July 2007.

Major interest in shares

On 24 November 2003, the company was aware of the following major interests in the share capital of the company:

	<i>No. of shares held</i>	<i>%</i>
Metropole Europe Corporation	49,571,428	12.5
Tallulah Properties Limited	20,607,650	5.2
Savoy Investment Management Limited	18,343,000	4.6
Gelande Holdings (Overseas Undertakings) Limited	15,853,280	4.0
Java Services Limited	15,572,805	3.9
Braevista Limited	12,315,450	3.1

No other person has notified an interest in the ordinary shares of the company required to be disclosed to the company in accordance with sections 198 to 208 of the Companies Act 1985.

Directors report

Creditor payment policy

Due to working capital difficulties, the Company has not adhered to its creditor payment policy during the year, but has been working with creditors in restructuring the payment profile of legacy creditors. The Company expects to return to its normal creditor payment policy of paying suppliers in the month following the invoice date. Suppliers who have a specific contract with the Company are paid according to the contract terms.

As at 30 June 2003, the Company had an average of 252 days purchases outstanding in trade creditors (2002 – 203 days).

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

Secretary
J Ellison

24 November 2003