

**XSN plc**  
**(formerly Sports Network Group plc)**

Annual report

For the year ended 31 December 2006

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## DIRECTORS AND ADVISERS

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<b>Directors</b>	David Elstein ( <i>Non-Executive Chairman</i> ) Simon Metcalf FCA ( <i>Non-Executive Director</i> ) Adam Singer ( <i>Non-Executive Director</i> )
<b>Secretary</b>	H L Secretaries Limited 1 Threadneedle Street London EC2R 8AY
<b>Registrars</b>	Share Registrars Limited Craven House West Street Farnham Surrey GU9 7EN
<b>Registered number</b>	03891345
<b>Registered office</b>	1 Threadneedle Street London EC2R 8AY
<b>Auditors</b>	Gerald Edelman Chartered Accountants and Registered Auditors 25 Harley Street London W1G 9BR
<b>Solicitors</b>	Halliwells LLP 1 Threadneedle Street London EC2R 8AY
<b>Nominated Adviser and Broker</b>	Blue Oar Securities Plc 30 Old Broad Street London EC2N 1HT
<b>Principal bankers</b>	Natwest Bank 4th Floor 132 High Street Southend on Sea Essex SS1 1JY

## CHAIRMAN'S STATEMENT

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These are the final results for Sports Network Group on which I report to you as chairman. As shareholders are aware, there was overwhelming support at an Extraordinary General Meeting held on 26 March 2007 for the proposal by your board to de-merge Sports Network Limited – the main operating subsidiary – from the Group, thereby creating a cash shell, and to change the company's name to XSN plc. At the same time, I reported that non-binding heads of agreement had been reached with a company proposing to reverse into our shell. Further discussions with that company are continuing.

The last full year of operations serve to confirm the view of the board that a de-merger was in the best interests of shareholders. Although turnover in 2006 was almost the same as in 2005, higher costs converted last year's profit into a loss of £670k prior to exceptional legal costs, amortisation and taxation. These are disappointing results, and are further evidence that, in the absence of significant diversification, the boxing promotions business in its own right cannot always generate sufficient profit to justify the costs associated with a public listing. This is because each promotion has to be hand-crafted, with arena, broadcasting and ticketing arrangements tailored to each date, and with further uncertainty in relation to boxer availability, propensity to injury, and willingness to face specific opponents.

Even after a highly successful promotion, such as Joe Calzaghe's brilliant defence of his world title against the much-vaunted American fighter, Jeff Lacy, an injury to Joe's hand forced a delay to his next contest, with the resultant loss of significant broadcast revenues.

Nonetheless, my fellow non-executive directors, Simon Metcalf and Adam Singer whom I thank for their efforts on your behalf join me in wishing our colleagues, led by Frank Warren, every success in the future. The talents with which Frank is working – Amir Khan, Calzaghe, Alex Arthur, Enzo Maccarinelli and their like – are exceptional.

We are conscious that many shareholders will feel disappointed that the value of the company has declined significantly from its peak, and we have spent much of the last six months seeking an operating business which was both scaleable and active in an expanding market, which could restore that lost value.

**David Elstein**

*Non-Executive Chairman*

20 June 2007

## DIRECTORS' REPORT

### for the year ended 31 December 2006

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The Directors present their annual report and the audited financial statements for the year ended 31 December 2006.

The Company changed its name to XSN plc from Sports Network Group plc on 11 May 2007 following the demerger after the year end as described in Note 27 to the financial statements.

#### Directors

The following Directors have held office since 1 January 2006:

David Elstein  
 Simon Metcalf  
 Adam Singer  
 Frank Warren (resigned 9 May 2007)  
 Gavin Simons (resigned 9 May 2007)

#### Principal activities

The principal activity of the Group during the year continued to be that of management of sports rights and events.

#### Review of the business

The review of the business for the year is covered in the Chairman's statement. Financial instruments are covered in Note 26 to the financial statements. In May 2007 the boxing promotion and management business was demerged and the Directors are seeking a suitable business to reverse into the Company. Accordingly no description is included on the principal risks and uncertainties facing the Company.

#### Results

The consolidated profit and loss account for the year ended 31 December 2006 is set out on page 8.

#### Dividend

No dividends were paid during the year.

#### Directors and their interests

The Directors' beneficial interests in the shares of the Company are stated below:

	<i>Interest at 31 December 2006</i>			<i>Interest at 1 January 2006</i>		
	<i>Ordinary shares of 5p each</i>	<i>Warrants</i>	<i>Options</i>	<i>Ordinary shares of 5p each</i>	<i>Warrants</i>	<i>Options</i>
David Elstein	13,698,412	–	100,000	13,698,412	–	100,000
Frank Warren	136,489,088	–	–	136,489,088	–	–
Gavin Simons	440,000	1,083,333	200,000	440,000	1,083,333	200,000
Simon Metcalf	–	–	100,000	–	–	100,000
Adam Singer	–	–	–	–	–	–

Details of Directors' share options are disclosed in the Report of Directors' Remuneration.

The shares of Frank Warren and Gavin Simons and the options and warrants of all directors were cancelled after the year end (Note 27).

**DIRECTORS' REPORT** *(continued)***Substantial shareholdings**

At 18 June 2007 notification had been received of the following interests which exceed a 3% interest in the issued share capital of the Company.

<i>Name of holder</i>	<i>Number</i>	<i>% of issued share capital</i>
David Elstein	13,489,088	21.5
Giltspur Nominees Limited	10,941,000	17.2
W B Nominees Limited	9,478,000	14.9
HSBC Global Custody Nominee (UK) Limited	2,870,000	4.5
Pershing Keen Nominees Limited	2,568,000	4.0
David Johnston	2,000,000	3.1

**Employee involvement**

The Group is committed to employees' involvement in the business. Staff are kept informed of the performance and objectives of the Group through the publication of results and staff meetings.

**Payment to suppliers**

The Group's policy for the year to 31 December 2006 for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure that each supplier is aware of those terms and to abide by the agreed terms of payment. Trade creditors at the year end represented 30 (2005: 29) days' purchases.

**Auditors**

A resolution will be proposed at the Annual General Meeting for the re-appointment of Gerald Edelman as auditors for the forthcoming year.

**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 the Group and of the profit or loss of the Group for that year. 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business; and
- prepare the financial statements in accordance with applicable accounting standards.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**DIRECTORS' REPORT** *(continued)*

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**Statement of disclosure to auditor**

So far as the directors are aware, there is no relevant audit information of which the Group's auditors are unaware. The Directors have taken all the steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the Board

**David Elstein**

*Non-executive Chairman*

20 June 2007

## **CORPORATE GOVERNANCE STATEMENT**

### **for the year ended 31 December 2006**

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The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company.

#### **The workings of the board and its committees**

The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out in the Directors' Report.

The Board has a formal schedule of matters specifically reserved to it for decision. All Directors have access to advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

#### **Remuneration Committee and Audit Committee**

The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive and Non-Executive Directors, including performance-related bonus schemes, pension rights and compensation payments. Further details of the Company's policies on remuneration and service contracts are given in the Report of Directors' Remuneration.

The Audit Committee provides a forum for reporting by the Company's external auditors. The Committee is responsible for reviewing a wide range of matters, including half-year and annual results before their submission to the Board, and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders. The Committee advises the board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature, scope and results of the audit with the external auditors. The Committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors.

#### **Internal control and risk management**

The Board is responsible for establishing and maintaining the Group's financial controls. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatements or loss. The key procedures which the Directors are establishing with a view to providing effective internal control are as follows:

##### ***Management structure***

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has responsibility for specific aspects of the Group's affairs. The Executive Directors constitute the management committee, which meets regularly to discuss day to day operational matters.

##### ***Corporate accounting procedures***

Responsibility levels are communicated throughout the Group, setting out the ethos of the Group, delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures.

##### ***Identification and business risks***

The Board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage those risks.

##### ***Budgetary process***

Each year the Board will approve the annual budget and key risk areas identified. Performance is monitored and relevant action taken throughout the year through the monthly reporting to the board of variances from the budget.

##### ***Investment appraisal***

Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board. Major overruns are investigated. Due diligence work is carried out if a business is to be acquired.

## REPORT OF DIRECTORS' REMUNERATION

### for the year ended 31 December 2006

The Board is responsible for an overall remuneration package for Executive and Non-Executive Directors. The package consists of basic salary and benefits.

#### Fees

Full details of all elements in the remuneration package of each Director for the year are set out below.

	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2005</i>
	<i>Pension</i>	<i>Salary and</i>	<i>Pension</i>	<i>Salary and</i>
	<i>Contributions</i>	<i>Benefits</i>	<i>Contributions</i>	<i>Benefits</i>
	£	£	£	£
<b>Executive Directors</b>				
Frank Warren	30,000	113,976	28,597	113,976
Edward Simons	–	–	1,417	14,167
Gavin Simons	–	65,000	–	65,000
<b>Non-Executive Directors</b>				
David Elstein	–	32,000	–	32,000
Simon Metcalf	–	24,000	–	24,000
Adam Singer	–	24,000	–	24,000
	<u>30,000</u>	<u>258,976</u>	<u>30,014</u>	<u>273,143</u>

No Director waived emoluments in respect of the year ended 31 December 2006.

#### Share incentives and arrangements

The current and former directors who had been granted warrants over 5,250,000 ordinary shares and options over 1,000,000 ordinary shares have agreed as part of the scheme of arrangement to give up all the rights to their warrants and options except for the following options granted to a former Director:

<i>Director</i>	<i>Date of grant</i>	<i>Number of options</i>	<i>Exercise price</i>
Clive Garston	25 April 2003	200,000	13p

The options were exercisable between the third and tenth anniversary of the date of grant or earlier date approved by the Board of Directors. No options were exercised by the Directors during the year.

#### Contracts of service

David Elstein entered into a service agreement with the Company on 21 July 2004 in respect of his services as non-executive director and chairman, terminable upon three months' notice by either party.

Simon Metcalf provides his services as a non-executive director on a non-permanent basis.

Adam Singer entered into an agreement with the Company on 21 July 2004 in respect of his services as non-executive director. The agreement was initially for a fixed period of one year.

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF XSN plc**

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We have audited the group and parent company financial statements (the "financial statements") of XSN plc for the year ended 31 December 2006 which comprises the Consolidated Profit and Loss Account, Balance Sheet, Cash Flow Statement, Notes to the Consolidated Financial Statements and Report of Directors' Remuneration. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

### **Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 director 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.

**INDEPENDENT AUDITOR'S REPORT** *(continued)*

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**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and the group as at 31 December 2006 and of the results of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

**Gerald Edelman**

*Registered Auditors and Chartered Accountants*

25 Harley Street  
London W1G 9BR  
20 June 2007

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2006

	<i>Note</i>	<i>2006</i> £ '000	<i>2005</i> £ '000
<b>Turnover</b>	2	12,806	12,982
Cost of sales		(9,763)	(9,010)
<b>Gross profit</b>		3,043	3,972
Amortisation of intangible assets	9	(410)	(7,445)
Exceptional legal costs		(236)	(206)
Other administrative expenses		(3,693)	(3,229)
<b>Operating loss</b>	3	(1,296)	(6,908)
Other interest received and similar income		15	19
Interest payable and similar charges	5	(35)	(34)
<b>Loss on ordinary activities before taxation</b>		(1,316)	(6,923)
Taxation	6	76	159
<b>Retained loss for the financial year</b>	8,17	(1,240)	(6,764)
		<i>Pence</i>	<i>Pence</i>
<b>Loss per share</b>	7		
Basic and diluted loss per ordinary share		(0.61)	(3.3)

There are no recognised gains and losses other than those passing through the profit and loss account.

**BALANCE SHEETS**  
 as at 31 December 2006

	Note	Group 2006 £'000	Group 2005 £'000	Company 2006 £'000	Company 2005 £'000 <i>as restated</i>
<b>Fixed assets</b>					
Intangible asset	9	4,512	4,922	–	3,629
Tangible assets	10	311	249	–	–
		<u>4,823</u>	<u>5,171</u>	<u>–</u>	<u>3,629</u>
<b>Current assets</b>					
Debtors	12	2,083	2,785	1,165	2,457
Cash at bank and in hand		220	368	6	–
		<u>2,303</u>	<u>3,153</u>	<u>1,171</u>	<u>2,457</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(2,672)</u>	<u>(2,645)</u>	<u>(76)</u>	<u>(31)</u>
<b>Net current (liabilities)/assets</b>		<u>(369)</u>	<u>508</u>	<u>1,095</u>	<u>2,426</u>
<b>Total assets less current liabilities</b>		4,454	5,679	1,095	6,055
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(185)</u>	<u>(170)</u>	<u>–</u>	<u>–</u>
		<u>4,269</u>	<u>5,509</u>	<u>1,095</u>	<u>6,055</u>
<b>Capital and reserves</b>					
Called up share capital	16	10,109	10,109	10,109	10,109
Share premium account	17	2,982	2,982	2,982	2,982
Profit and loss account	17	<u>(8,822)</u>	<u>(7,582)</u>	<u>(11,996)</u>	<u>(7,036)</u>
<b>Shareholders' funds – equity interests</b>	18	<u>4,269</u>	<u>5,509</u>	<u>1,095</u>	<u>6,055</u>

The financial statements were approved by the Board on 20 June 2007.

**David Elstein**

*Non Executive Chairman*

**CONSOLIDATED CASH FLOW STATEMENT**  
for the year ended 31 December 2006

	<i>Note</i>	<i>2006</i> £'000	<i>2006</i> £'000	<i>2005</i> £'000	<i>2005</i> £'000
<b>Net cash (outflow)/inflow from operating activities</b>	22		(47)		473
<b>Returns on investments and servicing of finance</b>					
Interest received		15		19	
Interest paid		(35)		(34)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(20)		(15)
<b>Taxation</b>			–		–
<b>Capital expenditure</b>					
Payments to acquire tangible assets		(51)		(70)	
Receipts on disposal of tangible assets		212		30	
<b>Net cash inflow/(outflow) from capital expenditure</b>			161		(40)
<b>Net cash inflow before management of liquid resources and financing</b>			94		418
<b>Financing</b>					
Hire purchase repayments		(239)		(16)	
Repayment of convertible debt		–		(750)	
<b>Net cash outflow from financing</b>			(239)		(766)
<b>Decrease in cash in the year</b>	23		(145)		(348)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the year ended 31 December 2006

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### 1. Accounting policies

#### 1.1 Accounting convention

The financial statements have been prepared under the historical cost convention.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

#### 1.3 Basis of preparation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2006. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

The consolidated profit and loss account reflects the results of the boxing promotion and management business which was discontinued as part of the group after 31 March 2007 and which is therefore not disclosed as a discontinued business under the provisions of Financial Reporting Standard No. 3.

Following the demerger described in Note 27 the assets and liabilities contained in the consolidated balance sheet which related to the boxing business were transferred to YellBond Limited and the Company became a cash shell.

#### 1.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

#### 1.5 Intangible fixed asset and amortisation

Acquired goodwill is written off over its estimated useful economic life of 15 years and is reviewed for impairment if events or circumstances indicate that the carrying value may not be recoverable.

#### 1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures, fittings and office equipment	25% reducing balance
Motor vehicles	25% reducing balance

#### 1.7 Deferred Taxation

Provision is made at current rates for tax deferred in respect of all material timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Deferred tax assets are only recognised when they are regarded as recoverable against future taxable profits. The Group has not adopted a policy of discounting deferred tax assets and liabilities.

#### 1.8 Pensions

The pension costs charged in the financial statements represent the contributions payable by the Group during the year.

#### 1.9 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

#### 1.10 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at an average rate for the year. All differences are taken to profit and loss account.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**1. Accounting policies (continued)****1.11 Leasing**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the assets have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts on a straight-line basis.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

**1.12 Prior year adjustment**

The Company's balance sheet at 31 December 2005 has been restated to take account of the sale of goodwill of £9,268,237 by the Company to its wholly owned subsidiary, Sports Network Limited on 23 August 2004. This resulted in a reduction in intangible assets by £3,629,000, an increase in debtors by £9,268,000 and a reduction in retained losses carried forward by £5,639,000 at the year ended 31 December 2005.

**1.13 Share-based payments**

The Group has applied the requirements of FRS 20 share-based payments for the first time and represents a change in accounting policy. FRS 20 requires the recognition of share-based payments to employees at fair value at the date of grant. The Company issued equity-settled share-based payments to directors (including former directors). Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The adoption of the standard does not require a prior year adjustment.

**2. Turnover**

	2006 £'000	2005 £'000
<i>Geographical market</i>		
United Kingdom and Europe	12,582	12,594
Rest of World	224	388
	<u>12,806</u>	<u>12,982</u>

**3. Operating loss**

The operating loss is stated after charging:

	2006 £'000	2005 £'000
Operating lease rentals	48	80
Amortisation of intangibles	410	7,445
Depreciation of tangible assets	78	79
(Profit)/loss on disposal of tangible assets	(56)	13
Auditors' remuneration – audit services	30	30
– non audit services	–	2
	<u>–</u>	<u>7,547</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**4. Employees**

(a) Employment costs (including directors' emoluments) comprises:	2006	2005
	£'000	£'000
Wages and salaries	763	703
Social security	87	80
Other pension costs	30	30
	<u>880</u>	<u>813</u>
(b) Number of employees	<i>Number</i>	<i>Number</i>
The average number of persons employed by the Group, including directors, during the year was:	<u>19</u>	<u>19</u>

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The number of directors for whom retirement benefits are accruing under the defined contribution pension scheme amounted to 1 (2005: 1).

Details of directors' remuneration are disclosed in the Report of Directors' Remuneration.

**5. Interest payable and similar charges**

	2006	2005
	£'000	£'000
On bank loan and overdrafts	3	1
On convertible loan stock	–	19
On hire purchase	32	14
	<u>35</u>	<u>34</u>

**6. Taxation**

	2006	2005
	£'000	£'000
<b>Corporation tax</b>		
UK corporation tax charge	–	–
<b>Current tax charge</b>	–	–
<b>Deferred taxation</b>		
Deferred tax credit	(76)	(159)
	<u>(76)</u>	<u>(159)</u>
<b>Reconciliation of tax charge</b>		
Loss on ordinary activities before taxation	<u>(1,316)</u>	<u>(6,923)</u>
Tax charge on loss on ordinary activities before taxation at standard rate of 19% (2005: 19%)	(250)	(1,315)
Factors affecting credit:		
Expenses not deductible for tax purposes	43	72
Depreciation	15	14
Capital allowances	(7)	(11)
Amortisation of intangibles	78	1,030
Current year losses carried forward	121	210
<b>Current tax charge</b>	<u>–</u>	<u>–</u>

There is no provision for UK corporation tax for the year due to losses incurred during the year, subject to agreement with HM Revenue and Customs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**7. Loss per share**

The calculation of the basic loss per share is based on the loss after tax of £1,240,000 (2005: £6,764,000) and on 202,186,201 (2005: 202,186,201) ordinary shares being the weighted average number of ordinary shares in issue during the year. There is no dilutive effect of options, warrants and on conversion of the convertible loan stock.

**8. Results of the holding company**

As permitted by Section 230 of the Companies Act 1985, the holding Company's profit and loss account has not been included in these financial statements. The loss for the financial years is made up as follows:

	2006	2005
	£'000	£'000
Parent company's loss for the financial year	10,599	5,676

**9. Intangible fixed asset**

	<i>Goodwill</i>
	£'000
<b>Group</b>	
<b>Cost</b>	
At 1 January 2006 and 31 December 2006	13,526
<b>Amortisation</b>	
At 1 January 2006	8,604
Charge for the year	410
At 31 December 2006	9,014
<b>Net book value</b>	
At 31 December 2006	4,512
At 31 December 2005	4,922
	<i>Goodwill</i>
	£'000
<b>Company</b>	
<b>Cost</b>	
At 1 January 2006	9,268
Prior year adjustment (see Note 1.12)	(9,268)
At 31 December 2006	-
<b>Amortisation</b>	
At 1 January 2006	5,639
Prior year adjustment (see Note 1.12)	(5,639)
At 31 December 2006	-
<b>Net Book Value</b>	
At 1 January 2006 and 31 December 2006	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***10. Tangible fixed assets**

<b>Group</b>	<i>Fixtures, fittings &amp; office equipment</i> £'000	<i>Motor vehicles</i> £'000	<i>Total</i> £'000
<b>Cost</b>			
1 January 2006	46	299	345
Additions	51	245	(238)
Disposals	–	(238)	(238)
At 31 December 2006	97	306	403
<b>Depreciation</b>			
At 1 January 2006	27	69	96
Charge for the year	8	70	78
Elimination on disposal	–	(82)	(82)
At 31 December 2006	35	57	92
<b>Net Book Values</b>			
At 31 December 2006	62	249	311
At 31 December 2005	19	230	249

Included above are assets held under hire purchase contracts as follows:

	<i>Motor vehicles</i> £'000
<b>Net Book Values</b>	
At 31 December 2006	249
At 31 December 2005	230
<b>Depreciation</b>	
At 31 December 2006	70
At 31 December 2005	69

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**11. Fixed asset investments**

<b>Company</b>	<i>Shares in subsidiary undertakings</i>
<b>Cost</b>	£
At 1 January 2006 and 31 December 2006	<u>4</u>

In the opinion of the directors the aggregate value of the Company's investment in subsidiary undertakings and participating interests are not less than the amount included in the balance sheet.

**Holdings of more than 20%**

<i>Subsidiary undertakings</i>	<i>Country of registration or Incorporation</i>	<i>Class</i>	<i>Shares held</i>
Sports & Leisure Boxing Limited	England and Wales	Ordinary	100%
Sports Network Limited	England and Wales	Ordinary	100%

The principal activity of these undertakings for the last relevant financial year was as follows:

	<i>Principal activity</i>
Sports Network Limited	Boxing promotion and management
Sports & Leisure Boxing Limited	Dormant

Since the year end the Company has disposed of its investment in subsidiary undertakings (Note 27).

**12. Debtors**

	<i>Group</i> <i>2006</i> £'000	<i>Group</i> <i>2005</i> £'000	<i>Company</i> <i>2006</i> £'000	<i>Company</i> <i>2005</i> £'000
Trade debtors	132	271	–	4
Amount owed by group undertakings	–	–	1,150	2,450
Other debtors	303	8	13	–
Prepayments and accrued income	1,338	2,272	2	3
Deferred tax asset (Note 15)	310	234	–	–
	<u>2,083</u>	<u>2,785</u>	<u>1,165</u>	<u>2,457</u>

**13. Creditors: amounts falling due within one year**

	<i>Group</i> <i>2006</i> £'000	<i>Group</i> <i>2005</i> £'000	<i>Company</i> <i>2006</i> £'000	<i>Company</i> <i>2005</i> £'000
Bank loans and overdraft	–	3	–	3
Net obligations under hire purchase	42	51	–	–
Trade creditors	724	713	66	18
Other taxes and social security	316	254	–	–
Accruals and deferred income	1,590	1,624	10	10
	<u>2,672</u>	<u>2,645</u>	<u>76</u>	<u>31</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**14. Creditors: amounts falling due after more than one year**

	<i>Group</i> <i>2006</i> <i>£'000</i>	<i>Group</i> <i>2005</i> <i>£'000</i>	<i>Company</i> <i>2006</i> <i>£'000</i>	<i>Company</i> <i>2005</i> <i>£'000</i>
Net obligations under hire purchase	185	170	-	-
<b>Net obligations under hire purchase</b>				
Repayable within one year	51	63	-	-
Repayable between one and five years	225	212	-	-
	276	275	-	-
Finance charges and interest allocated in future accounts periods	(49)	(54)	-	-
	227	221	-	-
Included in liabilities due within one year	(42)	(51)	-	-
	185	170	-	-

**15. Deferred tax**

<b>Group</b>	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
At 1 January 2006	(234)	(75)
Tax credit for the year	(76)	(159)
At 31 December 2006	(310)	(234)

Deferred taxation accounted for in the financial statements is as follows:

	<i>2006</i> <i>£'000</i>	<i>2005</i> <i>£'000</i>
Excess depreciation over capital allowances	(8)	(12)
Tax losses carried forward	(302)	(222)
	(310)	(234)

The Group has accounted for the deferred tax asset arising from tax losses carried forward and excess depreciation over capital allowances. The Directors are of the opinion that suitable profits will arise in the future in its operating subsidiary against which this asset can be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)***16. Share capital**

	<i>2006</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>
<b>Authorised</b>		
340,000,000 ordinary shares of 5p each	17,000	17,000
<b>Allotted, issued and fully paid</b>		
202,186,201 ordinary shares of 5p each	10,109	10,109

Following the year end and the redesignation of 138,546,588 ordinary shares of 5p each into 'S' shares of 5p each and the subsequent cancellation of the 'S' Share, the Company's authorised share capital of £17,000,000 divided into 138,546,588 'S' Shares of 5p each and 201,453,412 ordinary shares of 5p each was reduced to £10,072,670.60 divided into 201,453,412 ordinary shares of 5p each, of which 63,639,613 such ordinary shares have been issued and are deemed to be fully paid and the remainder of which are unissued. The Company had granted warrants over 5,250,000 ordinary shares to former directors exercisable between 5p and 15p. The former directors have agreed as part of the scheme of arrangement (Note 27) to give up all the rights to their warrants.

The Company had also granted options to directors and former directors to acquire 1,000,000 ordinary shares between 8.5p and 13p per ordinary share, exercisable any time between the third and tenth anniversary of the date of grant. All the option holders (with the exception of a former director holding 200,000 options) have agreed as part of the scheme of arrangement to give up all the rights to their options. Further details are disclosed in the Report of Directors' Remuneration.

**17. Statement of movement on reserves**

	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>
<b>Group</b>		
At 1 January 2006	2,982	(7,582)
Retained loss for the year	–	(1,240)
At 31 December 2006	2,982	(8,822)
	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>
<b>Company</b>		
At 1 January 2006 (as previously reported)	2,982	(7,036)
Prior year adjustment (see Note 1.12)	–	5,639
Balance at 1 January 2006 as restated	2,982	(1,397)
Retained loss for the year	–	(10,599)
At 31 December 2006	2,982	(11,996)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**18. Reconciliation of movements in shareholders' funds**

	2006	2005
	£'000	£'000
<b>Group</b>		
Loss for the financial year	(1,240)	(6,764)
Opening shareholders' funds	5,509	12,273
Closing shareholders' funds	<u>4,269</u>	<u>5,509</u>
	2006	2005
	£'000	£'000
<b>Company</b>		<i>As restated</i>
Loss for the financial year	(10,599)	(5,258)
Opening shareholders' funds	11,694	11,952
Closing shareholders' funds	<u>1,095</u>	<u>11,694</u>

**19. Net assets per share**

On the basis of net assets of £4,269,000 and of 202,186,201 ordinary shares in issue at the balance sheet date the Group net assets per ordinary share amounted to 2.1p.

**20. Financial commitments**

At 31 December 2006 the Group had annual commitments under non-cancellable operating leases as follows:

	<i>Land and Buildings</i>	
	2006	2005
	£'000	£'000
Expiry date:		
Between two and five years	<u>41</u>	<u>41</u>

**21. Contingent liabilities**

The Group had no material contingent liabilities at 31 December 2006.

**22. Reconciliation of operating loss with net cash (outflow)/inflow from operating activities**

	2006	2005
	£'000	£'000
Operating loss	(1,296)	(6,908)
Amortisation of intangible assets	410	7,445
Depreciation of tangible fixed assets	78	79
(Profit)/loss on disposal of tangible assets	(56)	13
Increase/(decrease) in debtors	778	(976)
Increase in creditors	39	820
Net cash (outflow)/inflow from operating activities	<u>(47)</u>	<u>473</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**23. Analysis of changes in cash and cash equivalents during the year**

	<i>1 January 2006 £'000</i>	<i>Cashflow changes £'000</i>	<i>Non-cash changes £'000</i>	<i>31 December 2006 £'000</i>
<b>Net cash:</b>				
Cash at Bank	368	(148)	–	220
Bank overdraft	(3)	3	–	–
	<u>365</u>	<u>(145)</u>	<u>–</u>	<u>220</u>
<b>Debt:</b>				
Finance lease	(221)	239	(245)	(227)
	<u>(221)</u>	<u>239</u>	<u>(245)</u>	<u>(227)</u>
<b>Net funds/(debts)</b>	<u>144</u>	<u>94</u>	<u>(245)</u>	<u>(7)</u>

**24. Reconciliation of net cash flow to movement in net (debt)/fund**

	<i>2006 £'000</i>	<i>2005 £'000</i>
Decrease in cash in the year	(145)	(348)
Cash outflow from decrease in debt and lease financing	239	766
Changes in net funds resulting from cash flows	94	418
New finance leases	(245)	–
Movements in net (debt)/funds in the year	(151)	418
Opening net funds	144	(274)
Closing net (debt)/funds	<u>(7)</u>	<u>144</u>

**25. Related party transactions**

Material transactions with, and balances due from, related parties:

<i>Party</i>	<i>Relationship</i>	<i>Nature of Transaction</i>	<i>Debtor/ Value (Creditor)</i>		<i>Debtor/ Value (Creditor)</i>	
			<i>2006 £'000</i>	<i>2006 £'000</i>	<i>2005 £'000</i>	<i>2005 £'000</i>
Frank Warren	Former director of XSN plc	Loan account movements	228	236	66	8
Frank Warren	Former director of XSN plc	Consultancy fees	1,311	–	925	(25)
Edward Simons	Key member of management and former director of XSN plc	Consultancy fees	266	–	226	(25)

Subsequent to the year end date the outstanding balance on loan account of Frank Warren was assumed by De-merged Sports Network Limited.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

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**26. Financial instruments**

The Group's financial instruments comprise cash at bank and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions and does not trade in financial instruments as a matter of policy. The main future risks arising from the Group's financial instruments are interest rate risk and currency risk.

Operations to date have been financed through a placing of shares and it is Board policy to keep borrowings to a minimum. The Company has no long-term borrowings.

The Company continues to apply FRS 13 and has taken advantage of the exemption contained in the Standard in respect of short-term debtors and creditors.

***Interest rate risk profile of financial assets and liabilities******Financial assets***

The only financial assets (other than short-term debtors) are cash at bank held at variable interest rates. Amounts held at 31 December 2006 were £178,000 (2005: £363,000) in sterling and the dollar equivalent of £42,000 in sterling (2005: £2,000).

***Financial liabilities, excluding non-debt current liabilities***

During the year to 31 December 2006 the Group incurred interest charges of £Nil (2005: £19,000) on convertible loan notes, interest on bank loans and overdrafts of £3,000 (2005: £1,000) and interest on hire purchase of £32,000 (2005: £14,000).

***Currency risk***

In the opinion of the Directors the currency risk arising from overseas foreign currency held is minimal.

***Fair value***

In the opinion of the Directors there is no material difference between the book and fair value of financial assets and liabilities.

**27. Post balance sheet event**

Pursuant to (i) a scheme of arrangement under section 425 of the Companies Act 1985 dated 2 March 2007 (as amended); (ii) special resolution passed by the shareholders of the Company at the Company's Extraordinary General Meeting on 26 March 2007; and (iii) pursuant to a court order entered on 9 May 2007, which became effective on 11 May 2007:

1. 138,546,588 ordinary shares of 5p each held by Frank Warren, his three children (George Warren, Faye Hannah Warren and Henry Alexander Warren), Edward Simons, Gavin Simons, Francis Warren, Edward Simons Pensions Scheme and Alliance Trust Pensions Limited were redesignated as 'S' shares of 5p each;
2. the 138,546,588 'S' shares were cancelled and repaid to the relevant holders by transferring in specie to YellBond Limited the entire issued share capital of Sports Network Limited and Sports and Leisure Boxing Limited;
3. the authorised share capital of the Company was reduced from £17,000,000 divided into 138,546,588 'S' shares of 5p each and 201,453,412 ordinary shares of 5p each to £10,072,670.60 divided into 201,453,412 ordinary shares of 5p each; and
4. the Company's name was changed from Sports Network Group plc to XSN plc.

The above arrangements had the effect of disposing of the boxing business subsidiaries from the Company to a private company controlled by certain former directors of the Company, in return for the repayment of inter-company debt of £1.15m and the cancellation of the shareholding specified above.

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## NOTICE OF ANNUAL GENERAL MEETING

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# XSN plc

*(Incorporated in England and Wales under the Companies Act 1985 with registered no. 3891345)*

NOTICE IS HEREBY GIVEN THAT an Annual General Meeting of XSN plc (the "Company") will be held at the offices of Halliwells LLP, 1 Threadneedle Street, London EC2R 8AY on 20 July 2007 at 10 a.m. for the following purposes:

### Ordinary Business

- 1 To receive and adopt the financial statements and the report of the directors and auditors of the Company for the year ended 31 December 2006.
- 2 To re-elect as a director Adam Singer who retires as a director in accordance with the Company's articles of association.
- 3 To re-appoint Gerald Edelman as auditors of the Company and to authorise the directors of the Company to determine their remuneration.

### Special Business

To consider and if thought fit pass the following resolutions of which number 1 will be proposed as an ordinary resolution and number 2 will be proposed as a special resolution.

#### ORDINARY RESOLUTION

- 1 That, in substitution for any and all authorities previously conferred upon the directors of the Company for the purposes of section 80(1) of the Companies Act 1985 as amended (the "Act"), the directors of the Company be and are hereby generally and unconditionally authorised for the purposes of section 80(1) of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £1,060,650.21 to such persons at such times and upon such terms as they may determine (subject always to the articles of association of the Company) provided that this power and authority shall, unless renewed, varied or revoked expire on the earlier of 15 months from the passing of this resolution and the conclusion of the next annual general meeting of the Company and provided further that the Company may before the expiry of such period make any offer, agreement or arrangement which would or might require relevant securities to be allotted after the expiry of such period and the directors of the Company may then allot relevant securities pursuant to any such offer, agreement or arrangement as if the authority or power hereby conferred had not expired.

#### SPECIAL RESOLUTION

- 2 That, the Directors of the Company be authorised and empowered pursuant to section 95(1) of the Companies Act 1985 as amended (the "Act"), to allot equity securities (as defined in section 94(2) of the Act) of the Company for cash pursuant to the authority conferred upon them by resolution 4 passed at the Annual General Meeting of the Company held on 23 August 2006 as if section 89(1) of the Act did not apply to such an allotment, provided that this authority and power shall be limited to:
  - (i) the allotment of equity securities pursuant to a rights issue or other offer to ordinary shareholders of the Company and other persons entitled to participate therein where the equity securities respectively attributable to the interest of all ordinary shareholders and such other persons are proportionate or as nearly as practical (and taking into account any prohibitions against or difficulties concerning the making of an offer or allotment to shareholders whose registered address or place of residence is overseas and subject to such exclusions and other arrangements as the directors of the Company may deem necessary or expedient to deal with fractional entitlements and any legal and practical difficulties under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or record dates) to the respective numbers of ordinary shares held by them;

**NOTICE OF ANNUAL GENERAL MEETING** *(continued)*

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- (ii) the allotment of equity securities (otherwise than pursuant to sub-paragraph (i) above) pursuant to options or warrants granted by the Company prior to the date of the passing of this resolution;
- (iii) the allotment of equity securities (otherwise than pursuant to sub-paragraphs (i) and (ii) above) for cash of equity securities up to an aggregate nominal amount of £318,195.06.

provided that the authority, unless renewed, varied or revoked prior to their expiry date, shall expire on the earlier of 15 months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company but such authority shall enable the Company to make an offer or agreement which will or might require equity securities to be allotted after the authority expires and, in that event, the Directors of the Company may allot equity securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired. This authority shall be in substitution for, any authority conferred upon the Directors of the Company in accordance with the said section prior to the passing of this resolution, which authorities (to the extent they remain in force and unexercised) are hereby revoked.

By order of the Board

HL Secretaries Limited

*Registered office:*

1 Threadneedle Street  
London EC2R 8AY

Dated: 20 June 2007

Notes:

1. A member of the Company may appoint one or more proxies to attend and, on a poll, to vote, instead of the member. A proxy of a member need not also be a member.
  2. The instrument appointing a proxy, and the power of attorney or another authority (if any) under which it is signed, or a notarially certified copy of that power or authority must be deposited with the Company's Registrars, Share Registrars Limited, Craven House, West Street, Farnham, Surrey FU9 7EN not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
  3. A form of proxy is enclosed with his notice. Completion and return of a form of proxy will not preclude a member from attending and voting in person.
  4. Any corporation which is a member of the Company may authorise a person (who need not be a member of the Company) to act as its representative to attend, speak and vote (on a show of hands or a poll) on its behalf.
  5. As permitted by Regulation 41 of the Uncertified Securities Regulations 2001, only those holders of ordinary shares who are registered on the Company's share register as at 10am on 18 July 2007 shall be entitled to attend the AGM and to vote in respect of the number of ordinary shares registered in their names at that time. Changes to entries on the share register after 10am on the 14 July 2007 shall be disregarded in determining the rights of any person to attend and/or vote at the Annual General Meeting.
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