

# Contents and Company Information

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for the year ended 31 December 2004

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**DIRECTORS**

D Svendsen  
K Ertugrul  
G Baz  
D Matthey  
A Can

**REGISTERED OFFICE**

2711 Centerville Road  
Suite 400  
City of Wilmington 19808  
County of New Castle  
USA Delaware

**HEAD OFFICE**

Goldencross House  
8 Duncannon Street  
London WC2N 4JF

**US COMPANY NUMBER**

3533689

**TICKER**

OTO

**COMPANY SECRETARY**

Berkeley Company Management Limited  
1 Great Cumberland Place  
London W1H 7AL

**NOMINATED ADVISER**

John East & Partners Limited  
Crystal Gate  
28-30 Worship Street  
London EC2A 2AH

**BROKER**

Canaccord Capital (Europe) Limited  
1st Floor, Brook House  
27 Upper Brook Street  
London W1K 7QF

**AUDITORS**

H.W. Fisher & Company  
Acre House  
11/15 William Road  
London NW1 3ER

**SOLICITORS**

Nabarro Nathanson  
Lacon House  
Theobald's Road  
London WC1X 8RW

**REGISTRAR**

Capita IRG (Offshore) Limited  
Victoria Chambers  
Liberation Square  
1/3 The Esplanade  
St Helier  
Jersey

**TRANSFER AGENT**

Capita IRG plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU

## Chairman's Statement

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for the year ended 31 December 2004

### INTRODUCTION

2004 was a very important year for the company, during which 121Media's business model was proven, exponential growth in revenues achieved, losses narrowed substantially and the company's flotation on AIM successfully achieved.

As a result of this progress, the company now has a very sound platform from which to take the business forward in 2005.

### RESULTS

The company generated turnover for the financial year ended 31 December 2004 of \$4.17 million (2003: \$222,129).

This top line growth led to a significant reduction in operating losses, to \$116,543 (2003 loss: \$1.10 million), and in pre-tax losses narrowing to \$45,230 (2003 loss: \$1.10 million).

At the year end, at which time the proceeds of the placing connected with admission to AIM had not been received in full, the company had net assets of \$3.7 million including cash and share calls of \$2.9 million; the share calls related to part of our IPO proceeds which were delayed due to the Christmas holidays. These monies were received in cash shortly after the year end.

No dividend is proposed for the year to 31 December 2004.

### STRATEGIC DEVELOPMENTS

The results for 2004 include commissions paid to Conducive LLC, a US on-line media agency, of \$1.3 million (2003: \$82,383), under a joint venture arrangement through which they acted as our sales office in the US and facilitated the receipt of revenue, in exchange for a proportion of the income generated. This was a necessary expedient, but had a major adverse effect on our net margins. It was clear to the directors, however, that operating our own US sales and marketing team would materially improve margins but would require more working capital.

Following completion of the placing, the joint venture was dissolved at the year-end, allowing us to focus instead on establishing our own sales and marketing presence in the US. To this end, an office was opened in New York in September 2004, and since then we have invested in expanding our UK and US sales teams.

We have also invested, in the latter part of 2004 and early 2005, in our technologies and particularly the PageSense Javascript application. The Javascript approach is able to replicate the functionality and revenues of the desktop application, without being installed on an end user's computer. In that respect, it removes many of the general challenges associated with the desktop solutions while opening up substantial new areas of partnership. These include Internet Service Providers, Web Publishers and Ad Networks. Our efforts at the start of this year have been to ensure that the application is sufficiently robust and scaleable, ahead of a full commercial launch.

Ongoing, our focus therefore is on progressing discussions with potential partners about embedding the PageSense Javascript application within their solutions, and on progressing direct routes to market for the application. Given the potential scale and value of the opportunity that the application represents to 121Media, we need to take care to ensure that the appropriate infrastructure is in place at all levels within the company.

## Chairman's Statement

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continued

### **BOARD CHANGES**

In order to capitalise fully on the opportunity in the US Ahmet Can has joined the company and has been appointed to the Board from 21 April 2005. Ahmet joins 121Media from WhenU.com, the US-based contextual online advertising company, and will be responsible for our US operations, an important new role for which he has directly relevant experience.

Jordan Mitchell has stepped down from the Board with effect from 21 April 2005 and has left the company to pursue other business opportunities. Jordan has played a valuable role in developing 121Media to the point it has reached today, and we are very grateful to him.

As a result of this appointment and others made in 2004, the Board now comprises two Executive Directors, Kent Ertugrul and Ahmet Can, with detailed knowledge of our industry, and three non-executive Directors – Gerard Baz and David Matthey and myself – with many years' experience of business management generally and the software and Internet industries specifically. We expect to strengthen the Board further as the company develops and, specifically, we intend to appoint a full-time Finance Director during the course of the current year.

### **CURRENT TRADING AND OUTLOOK**

With robust technologies and a strengthened senior management team, we are now clearly focused to ensure that we maximise the opportunities open to us, and that we have in place the infrastructure to achieve this.

The results for the early part of 2005 have inevitably been impacted by the investment in both people and infrastructure. Furthermore, whilst it is in pre-launch phase, the potential of our Javascript application has yet to be reflected in our results. However, there are signs that the investment in infrastructure is already starting to pay off both in terms of growth in the user base of the desktop application and revenue per user. Given the progress made with the Javascript application in the first quarter, both in terms of technical and commercial developments, we believe that it has the potential to transform our business.

Against this background, and the rapidly increasing recognition of the value of targeted online advertising, we are pleased with the progress and investments made in the first quarter and encouraged by the outlook for 2005 and beyond.

**David Svendsen**

Chairman

21 April 2005

# Report of the Directors

for the year ended 31 December 2004

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2004. The company is incorporated in the State of Delaware.

## PRINCIPAL ACTIVITY

The principal activity of the group in the year under review was that of the delivery and management of targeted, contextual online advertising campaigns on behalf of its clients. These clients are primarily the owners of well known consumer brands or online advertising agencies.

## REVIEW OF BUSINESS

The results for the year and financial position of the company and the group are as shown in the annexed financial statements.

## DIVIDENDS

No dividends will be distributed for the year ended 31 December 2004.

## RESEARCH AND DEVELOPMENT

Research and development in the software delivery systems of the company is concentrated on the development of new products capable of generating greater turnover.

## DIRECTORS

The directors during the year under review were:

D Svendsen appointed 26.11.04  
 K Ertugrul  
 G Baz appointed 26.11.04  
 D Matthey appointed 26.11.04  
 J Mitchell appointed 26.11.04 and resigned 21.04.05

The beneficial interests of the directors holding office on 31 December 2004 in the issued share capital of the company were as follows:

	31 December 2004	1/1/04 or date of appointment if later
<b>Common stock \$.001 shares</b>		
D Svendsen	18,824	18,824
K Ertugrul	1,215,073	1,215,073
G Baz	1,729,161	879,199
D Matthey	—	—
J Mitchell	—	—

## Stock options

K Ertugrul 454,184 Shares granted on 31 August 2003 at an exercise price of \$0.61327  
 180,707 Shares granted on 23 December 2004 at an exercise price of £2.45

J Mitchell 120,000 Shares granted on 31 August 2003 at an exercise price of \$0.61327  
 72,093 Shares granted on 1 September 2004 at an exercise price of \$1.3871

D Svendsen 60,263 Shares granted on 23 December 2004 at an exercise price of £2.45

D Matthey 48,189 Shares granted on 23 December 2004 at an exercise price of £2.45

A Can was appointed as a director of the company on 21 April 2005.

## Report of the Directors

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continued

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The rules of the Alternative Investment Market require 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 period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- 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 the group and to enable them to ensure that the financial statements comply with United Kingdom generally accepted accounting practice. 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.

### CREDITOR PAYMENT POLICY

The group's current policy concerning the payment of trade creditors is to:

- (a) settle the terms of the payment with suppliers when agreeing the terms of each transaction.
- (b) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts.
- (c) pay in accordance with the Group's contractual or other legal obligations.

Trade creditors at the year-end relate to sundry administrative overheads and disclosure of the number of days' purchases represented by the year end creditors is not meaningful, due to the nature of the Group's activities.

### AUDITORS

H.W. Fisher & Company, were appointed as auditors during the year and will be proposed for re-appointment.

ON BEHALF OF THE BOARD

**David Svendsen**

Director

21 April 2005

# Report of the Independent Auditors

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TO THE MEMBERS OF 121MEDIA, INC.

We have audited the financial statements of 121Media, Inc for the year ended 31 December 2004 on pages 7 to 20. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein, on page 12.

This report is made solely to the company's members, as a body, in accordance with the instructions dated 28 February 2005 for an audit to be conducted in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 auditors' 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 on page 6 the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

## 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 of affairs of the company and the group as at 31 December 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with United Kingdom generally accepted accounting practice.

## H.W. Fisher & Company

Acre House  
11/15 William Road  
London NW1 3ER

13 May 2005

## Consolidated Profit and Loss Account

for the year ended 31 December 2004

	Notes	31 December 2004 \$	31 December 2003 \$
<b>TURNOVER</b>	2	4,165,203	222,129
Cost of distribution partners		(912,559)	(74,574)
Commissions paid to Conducive LLC		(1,305,339)	(82,383)
<b>GROSS PROFIT</b>		1,947,305	65,172
Administrative expenses		(2,063,848)	(1,166,573)
<b>OPERATING LOSS</b>	4	(116,543)	(1,101,401)
Interest receivable and similar income	6	82,274	–
		(34,269)	(1,101,401)
Interest payable and similar charges	7	(10,961)	(369)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(45,230)	(1,101,770)
Tax on loss on ordinary activities	8	(130)	–
<b>LOSS FOR THE FINANCIAL YEAR AFTER TAXATION</b>		(45,360)	(1,101,770)
<b>DEFICIT FOR THE YEAR FOR THE GROUP</b>		(45,360)	(1,101,770)
Loss per share – Basic		(\$0.01)	(\$0.25)
– Diluted		(\$0.01)	(\$0.20)

### CONTINUING OPERATIONS

None of the group's activities were acquired or discontinued during the current and previous years.

### TOTAL RECOGNISED GAINS AND LOSSES

The group has no recognised gains or losses other than those passing through the profit and loss account.

The notes on pages 12 to 20 form part of these financial statements.

## Consolidated Balance Sheet

at 31 December 2004

	Notes	31 December 2004 \$	31 December 2003 \$
<b>FIXED ASSETS</b>			
Tangible assets	11	676,591	8,745
<b>CURRENT ASSETS</b>			
Debtors	13	2,641,929	83,334
Cash at bank and in hand		878,327	15,641
		3,520,256	98,975
<b>CREDITORS</b>			
Amounts falling due within one year	14	(508,000)	(614,165)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		3,012,256	(515,190)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,688,847	(506,445)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	7,104	4,925
Share premium	17	4,731,608	1,229,318
Warrants	17	769,392	33,209
Profit and loss account	17	(1,819,257)	(1,773,897)
<b>SHAREHOLDERS' FUNDS</b>		3,688,847	(506,445)

ON BEHALF OF THE BOARD

**Kent Ertugrul**  
Director

Approved by the Board on 21 April 2005

The notes on pages 12 to 20 form part of these financial statements.

## Company Balance Sheet

at 31 December 2004

	Notes	31 December 2004 \$	31 December 2003 \$
<b>FIXED ASSETS</b>			
Tangible assets	11	668,459	8,745
Investments	12	186	–
		668,645	8,745
<b>CURRENT ASSETS</b>			
Debtors	13	3,023,487	83,334
Cash at bank		872,138	15,641
		3,895,625	98,975
<b>CREDITORS</b>			
Amounts falling due within one year	14	(472,251)	(614,165)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		3,423,374	(515,190)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		4,092,019	(506,445)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	7,104	4,925
Share premium	17	4,731,608	1,229,318
Warrants	17	769,392	33,209
Profit and loss account	17	(1,416,085)	(1,773,897)
<b>SHAREHOLDERS' FUNDS</b>		4,092,019	(506,445)

ON BEHALF OF THE BOARD

**Kent Ertugrul**

Director

Approved by the Board on 21 April 2005

The notes on pages 12 to 20 form part of these financial statements.

## Consolidated Cash Flow Statement

for the year ended 31 December 2004

	Notes	31 December 2004 \$	31 December 2003 \$
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	1	(1,923,196)	(765,347)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	2	(10,949)	(369)
<b>TAXATION</b>		(130)	–
<b>CAPITAL EXPENDITURE</b>	2	(898,349)	(8,141)
		(2,832,624)	(773,857)
<b>FINANCING</b>	2	3,695,310	790,510
<b>INCREASE IN CASH IN THE PERIOD</b>		862,686	16,653
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>	3		
Increase in cash in the period		862,686	16,653
Cash outflow/(inflow) from decrease/(increase) in debt		100,000	(100,000)
Change in net debt resulting from cash flows		962,686	(83,347)
<b>MOVEMENT IN NET DEBT IN THE PERIOD</b>		962,686	(83,347)
<b>NET DEBT AT 1 JANUARY</b>		(84,359)	(1,012)
<b>NET FUNDS/(DEBT) AT 31 DECEMBER</b>		878,327	(84,359)

The notes on pages 12 to 20 form part of these financial statements.

## Notes to the Consolidated Cash Flow Statement

for the year ended 31 December 2004

### 1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	31 December 2004 \$	31 December 2003 \$
Operating loss	(116,543)	(1,101,401)
Depreciation charges	230,503	5,655
Issue of warrants	527,604	32,210
Increase in debtors	(2,558,595)	(79,933)
(Decrease)/Increase in creditors	(6,165)	378,122
<b>Net cash outflow from operating activities</b>	<b>(1,923,196)</b>	<b>(765,347)</b>

### 2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	31 December 2004 \$	31 December 2003 \$
<b>Returns on investments and servicing of finance</b>		
Interest received	12	–
Interest paid	(10,961)	(369)
<b>Net cash outflow for returns on investments and servicing of finance</b>	<b>(10,949)</b>	<b>(369)</b>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(898,349)	(8,141)
<b>Net cash outflow for capital expenditure</b>	<b>(898,349)</b>	<b>(8,141)</b>
<b>Financing</b>		
Other short term loans	(100,000)	100,000
Share issue	3,795,310	690,510
<b>Net cash inflow from financing</b>	<b>3,695,310</b>	<b>790,510</b>

### 3. ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2004 \$	Cash flow \$	At 31 December 2004 \$
Net cash:			
Cash at bank and in hand	15,641	862,686	878,327
	15,641	862,686	878,327
Debt:			
Debts falling due within one year	(100,000)	100,000	–
	(100,000)	100,000	–
<b>Total</b>	<b>(84,359)</b>	<b>962,686</b>	<b>878,327</b>

The notes on pages 12 to 20 form part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 December 2004

## 1. ACCOUNTING POLICIES

### Accounting convention

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

### Basis of consolidation

The group financial statements consolidate the financial statements of 121Media, Inc and its subsidiary undertaking drawn up to 31 December 2004. No profit and loss account is presented for 121Media, Inc as permitted by United Kingdom generally accepted accounting practice. 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.

### Turnover

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

### Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer Hardware	– 50% on cost
Software Development costs	– 50% on cost
Fixtures and fittings	– 50% on cost
Plant & Machinery	– 50% on cost

### Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Research and development

Expenditure up to 31 December 2004 on research and development is capitalised in the year in which it is incurred, if it relates to software development. Product maintenance and support is written off as incurred.

### Foreign currencies

Assets and liabilities in foreign currencies are translated into US dollar at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into US dollar at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

### Pensions

The group operates a defined contribution pension scheme. Contributions payable for the year are charged in the profit and loss account.

### Subsidiary Company

Profits and losses of overseas subsidiaries are translated from sterling into US dollar at the closing rate at the year end. Gains or losses arising on the translation of the net assets of the overseas subsidiaries are taken to reserves. Other exchange differences are taken direct to the profit and loss account.

### Functional Currency

The financial statements have been prepared in US dollars as the majority of the group's trade occurs in this currency.

## Notes to the Financial Statements

continued

### 2. TURNOVER

The turnover and loss before taxation are attributable to the one principal activity of the group.

An analysis of turnover by geographical market is given below:

	31 December 2004 \$	31 December 2003 \$
North America	3,539,532	215,423
Europe	625,671	6,706
	<u>4,165,203</u>	<u>222,129</u>

### 3. STAFF COSTS

	31 December 2004 \$	31 December 2003 \$
Wages and salaries	272,424	–
Social security costs	29,891	–
Other pension costs	10,058	–
	<u>312,373</u>	<u>–</u>

The average monthly number of employees during the year was as follows:

	31 December 2004 Number	31 December 2003 Number
Sales	4	–

### 4. OPERATING LOSS

This is stated after charging:

	31 December 2004 \$	31 December 2003 \$
Auditors remuneration – audit services	6,579	–
– non-audit services	–	–
Depreciation – owned assets	230,503	5,655
Foreign exchange differences	(42,516)	–
Research and development	564,440	479,474
Operating lease rentals – land and buildings	61,345	–
– plant and machinery	–	–
Directors Emoluments	48,498	–

None of the directors exercised share options during the year.

### 5. COMMISSIONS PAID TO CONDUCTIVE LLC

Turnover includes an amount of \$2,023,961 (2003: \$215,775) for the provision of contextual advertising services received under an agreement with Conducive LLC.

During the period, commissions totalling \$1,305,339 (2003: \$82,383) were paid to Conducive LLC under the agreement. These costs were included within cost of sales.

The agreement to which these revenues and costs relate was dissolved on 30th June 2004. The dissolution agreement allowed for a transitional period of 180 days subsequent to this date.

## Notes to the Financial Statements

continued

<b>6. INTEREST RECEIVABLE AND SIMILAR INCOME</b>	<b>31 December 2004</b>	<b>31 December 2003</b>
	<b>\$</b>	<b>\$</b>
Interest received	12	—
Foreign exchange gain	82,262	—
	<u>82,274</u>	<u>—</u>

<b>7. INTEREST PAYABLE AND SIMILAR CHARGES</b>	<b>31 December 2004</b>	<b>31 December 2003</b>
	<b>\$</b>	<b>\$</b>
Interest expense	10,961	369

### 8. TAXATION

The tax charge on the loss on ordinary activities for the year was as follows:

	<b>31 December 2004</b>	<b>31 December 2003</b>
	<b>\$</b>	<b>\$</b>
Current tax:		
Delaware State tax	130	—
Tax on loss on ordinary activities	130	—

The group now has tax losses carried forward which will significantly reduce tax payments in future years when the company is profitable.

The group's overseas tax rate is lower than that in the USA primarily because profits earned in the UK are taxed at between 19% to 30%.

### 9. PROFIT OF PARENT COMPANY

As permitted by United Kingdom generally accepted accounting practice, the profit and loss account of the parent company is not presented as part of the financial statements. The parent company's profit for the financial year was \$357,812 (2003: \$1,101,770 loss).

### 10. EARNINGS PER SHARE

The calculation of the basic earnings per share and diluted earnings per share is based on the loss attributable to ordinary shareholders of \$45,360 (2003: \$1,101,770) divided by the weighted average number of shares in issue during the year.

The weighted average number of shares used in the calculations are set out below:

<b>Year ended 31 December 2004</b>	<b>Year ended 31 December 2003</b>
<b>Number of shares</b>	<b>Number of shares</b>
5,400,638	4,450,063

## Notes to the Financial Statements

continued

### 11. TANGIBLE FIXED ASSETS

<b>GROUP</b>	<b>Computer Hardware \$</b>	<b>Software Development costs \$</b>	<b>Fixtures and fittings \$</b>	<b>Plant &amp; Machinery \$</b>	<b>Totals \$</b>
<b>Cost</b>					
At 1 January 2004	–	–	–	15,531	15,531
Additions	412,974	467,364	5,450	12,561	898,349
At 31 December 2004	412,974	467,364	5,450	28,092	913,880
<b>Depreciation</b>					
At 1 January 2004	–	–	–	6,786	6,786
Charge for year	86,697	134,462	954	8,390	230,503
At 31 December 2004	86,697	134,462	954	15,176	237,289
<b>Net book value</b>					
At 31 December 2004	326,277	332,902	4,496	12,916	676,591
At 31 December 2003	–	–	–	8,745	8,745

<b>COMPANY</b>	<b>Computer Hardware \$</b>	<b>Software Development costs \$</b>	<b>Plant &amp; Machinery \$</b>	<b>Totals \$</b>
<b>Cost</b>				
At 1 January 2004	–	–	15,531	15,531
Additions	412,974	467,364	8,595	888,933
At 31 December 2004	412,974	467,364	24,126	904,464
<b>Depreciation</b>				
At 1 January 2004	–	–	6,786	6,786
Charge for year	86,697	134,462	8,060	229,219
At 31 December 2004	86,697	134,462	14,846	236,005
<b>Net book value</b>				
At 31 December 2004	326,277	332,902	9,280	668,459
At 31 December 2003	–	–	8,745	8,745

## Notes to the Financial Statements

continued

### 12. FIXED ASSET INVESTMENTS

	Company Shares held in group undertakings \$
<b>Cost</b>	
Additions	186
At 31 December 2004	186
<b>Net book value</b>	
At 31 December 2004	186

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

#### Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company held	Country of Registration or incorporation	Shares Class	%
<b>Subsidiary undertakings</b>			
121Media (Europe) Limited	United Kingdom	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last financial period were as follows:

	Capital and Reserves \$	Profit for the year \$
121Media (Europe) Limited	(402,984)	(403,172)

### 13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 31 December 2004 \$	Group 31 December 2003 \$	Company 31 December 2004 \$	Company 31 December 2003 \$
Trade debtors	438,550	74,686	4,335	74,686
Amounts owed by group undertakings	–	–	850,817	–
Other debtors	86,846	5,247	55,060	5,247
Outstanding share calls	2,069,012	3,401	2,069,012	3,401
VAT	2,465	–	4,294	–
Prepayments and accrued income	45,056	–	39,969	–
	2,641,929	83,334	3,023,487	83,334

## Notes to the Financial Statements

continued

### 14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 31 December 2004 \$	Group 31 December 2003 \$	Company 31 December 2004 \$	Company 31 December 2003 \$
Other loans (see note 15)	–	100,000	–	100,000
Trade creditors	264,709	345,455	262,209	345,455
Social security and other taxes	14,367	–	–	–
Other creditors	81,060	168,710	81,060	168,710
Accruals and deferred income	147,864	–	128,982	–
	508,000	614,165	472,251	614,165

### 15. LOANS

An analysis of the maturity of loans is given below:

	Group 31 December 2004 \$	Group 31 December 2003 \$	Company 31 December 2004 \$	Company 31 December 2003 \$
Amounts falling due within one year or on demand:				
Other loans	–	100,000	–	100,000

### 16. CALLED UP SHARE CAPITAL

Number	Class	Nominal value	31 December 2004 \$	31 December 2003 \$
<b>Authorised</b>				
10,000,000	Common stock	\$.001	10,000	10,000
<b>Allotted, issued and fully paid</b>				
7,103,686 (2003 – 4,924,792)	Common stock	\$.001	7,104	4,925

The following fully paid shares were issued during the year at a premium as shown below:

14/01/04	113,061	at \$0.61 per share
20/01/04	50,000	at \$0.61 per share
27/05/04	72,093	at \$1.39 per share
13/07/04	114,044	at \$0.97 per share
01/09/04	76,046	on the exercise of warrants granted 30/06/04 at \$0.001
04/11/04	249,512	on the exercise of warrants granted 01/08/02 at \$0.001
04/11/04	24,031	on the exercise of warrants granted 27/05/04 at \$0.001
08/11/04	400,000	on the exercise of warrants granted 01/08/02 at \$0.001
12/11/04	109,934	for a consideration of \$265,643
On admission to AIM	75,295	for a consideration of \$181,939
On admission to AIM	894,878	for a consideration of \$3,827,278

## Notes to the Financial Statements

continued

### 17. RESERVES

	Profit and loss account	Share premium	Warrants	Totals
<b>GROUP</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
At 1 January 2004	(1,773,897)	1,229,318	33,209	(511,370)
Deficit for the year	(45,360)	–	–	(45,360)
Cash share issue	–	3,502,290	736,183	4,238,473
At 31 December 2004	(1,819,257)	4,731,608	769,392	3,681,743

	Profit and loss account	Share premium	Warrants	Totals
<b>COMPANY</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
At 1 January 2004	(1,773,897)	1,229,318	33,209	(511,370)
Retained profit for the year	357,812	–	–	357,812
Cash share issue	–	3,502,290	736,183	4,238,473
At 31 December 2004	(1,416,085)	4,731,608	769,392	4,084,915

### 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 December 2004	31 December 2003
<b>GROUP</b>	<b>\$</b>	<b>\$</b>
Loss for the financial year	(45,360)	(1,101,770)
Proceeds from issue of shares	3,504,469	690,510
Warrants issued	736,183	32,210
<b>Net addition/(reduction) to shareholders' funds</b>	4,195,292	(379,050)
Opening shareholders' funds	(506,445)	(127,395)
<b>Closing shareholders' funds</b>	3,688,847	(506,445)
Equity interests	3,688,847	(506,445)

	31 December 2004	31 December 2003
<b>COMPANY</b>	<b>\$</b>	<b>\$</b>
Profit/(Loss) for the financial year	357,812	(1,101,770)
Proceeds from issue of shares	3,504,469	690,510
Warrants issued	736,183	32,210
<b>Net addition/(reduction) to shareholders' funds</b>	4,598,464	(379,050)
Opening shareholders' funds	(506,445)	(127,395)
<b>Closing shareholders' funds</b>	4,092,019	(506,445)
Equity interests	4,092,019	(506,445)

## Notes to the Financial Statements

continued

### 19. SHARE OPTIONS

At 31 December 2004 the share options outstanding under the company's unapproved share option plan are set out below:

Date of Grant	Number of Shares	Exercise Price	Vesting Date
31 August 2003	227,092	\$0.61327	All at Admission
31 August 2003	227,092	\$0.61327	1/6th after 6 months, then 1/36th per month, for a total vesting of 3 years
31 August 2003	35,000	\$0.61327	100% at grant date
31 August 2003	120,000	\$0.61327	25% at grant date, then 1/6th of the remainder after 6 months, then 1/36th per month after 6th month, for total vesting of 3 years
1 June 2004	472,788	\$1.38710	25% at grant date, then 1/6th of the remainder after 6 months, then 1/36th per month after 6th month, for total vesting of 3 years
22 July 2004	186,894	£2.45	100% at IPO
31 August 2004	13,836	\$1.38710	100% at grant date
1 September 2004	72,093	\$1.38710	1/36th per month for a total of 36 months
1 September 2004	50,000	\$1.38710	1/36th per month for total of 36 months
5 September 2004	100,000	\$2.84415	1/6th after 6 months, then 1/36th per month, for total vesting of 3 years
17 December 2004	5,000	\$2.84415	1/6th after 6 months, then 1/36th per month, for total vesting of 3 years
23 December 2004	35,000	£2.45	1/6th after 6 months, then 1/36th per month, for total vesting of 3 years
23 December 2004	60,236	£2.45	1/36th per month for total of 36 months
23 December 2004	48,189	£2.45	50% on grant, then 25% at 12 and 24 months
23 December 2004	180,707	£2.45	No earlier than 31 December 2004
23 December 2004	18,023	£2.45	1/6th after 6 months, then 1/36th per month, for total vesting of 3 years.

The majority of share options have a lapse date of 10 years from date of grant.

### 20. WARRANTS

During the year warrants for 448,416 (2003: 52,523) ordinary shares were issued as consideration for services rendered with a fair value of \$736,830 (2003: \$32,210) and 749,589 such warrants with a fair value of \$750 were exercised.

102,577 (2003: 999,143) warrants for ordinary shares were issued to investors generating net proceeds of \$103 (2003: \$999).

853,070 (2003: 1,051,666) warrants remained outstanding at the balance sheet date.

The majority of warrants lapse 5 years from the date of grant.

## Notes to the Financial Statements

continued

### 21. OPERATING LEASE COMMITMENTS

The following operating lease payments are committed to be paid within one year:

	Land and buildings	
	31 December 2004	31 December 2003
<b>GROUP</b>	\$	\$
Expiring:		
Within one year	57,563	—

### 22. PENSION COMMITMENTS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £5,536.

### 23. RELATED PARTY DISCLOSURES

During the year \$152,105 (2003: \$197,624) was paid to Kent Ertugrul, and \$88,475 to Jordan Mitchell, both directors of the company, for contractor services. At the end of the year a loan of \$50,000 was due to Gerard Baz, a director of the company.

During the year the company incurred costs associated with the AIM flotation of \$79,704 from Investory Limited who also received options over 93,447 shares at a strike price of £2.45. In addition, during the year 75,295 shares in the company were issued to Investory Limited for a consideration of \$181,939. Director David Matthey has a significant interest in Investory Limited.

## Notice of Annual General Meeting

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Notice is given that the annual meeting of the stockholders of 121Media, Inc., a Delaware corporation (the "Company") will be held at Drake Conference Room, Strand Palace Hotel, 372 The Strand, London WC2R 0JJ on 23 June 2005 at 10.00 am for the purposes of the following:

### RESOLUTIONS

1. To receive the accounts and reports for the year ended 31 December 2004.
2. To reappoint H.W. Fisher & Company as auditors and to authorise the directors to fix their remuneration.
3. To re-elect David Matthey as a director of the Company for a three year term expiring at the 2008 annual meeting.
4. To approve an amendment to the Company's Certificate of Incorporation that increases the company's authorized shares of Common Stock from Ten Million (10,000,000) shares to Thirteen Million (13,000,000) shares.
5. To transact any and all other business that may properly come before the meeting or any adjournment(s) thereof.

Only stockholders of record at the close of business on 12 May 2005 are entitled to notice of and to vote at the annual meeting or any adjournment(s) thereof. A form of proxy is provided if you are unable to attend the meeting.

By order of the board

**Berkeley Company Management Limited**  
Company Secretary

Registered office:  
2711 Centreville Road  
Suite 400  
Wilmington  
New Castle  
Delaware

Date: 12 May 2005

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**121Media, Inc**  
**Form of Proxy**

**FOR USE AT THE ANNUAL GENERAL MEETING**

I/We am/are a stockholder of 121Media Inc., a Delaware corporation (the "Company"), entitled to attend and vote at any annual meeting of the Company. I/We appoint the person named below, or failing him, the chairman of the meeting, with full power of substitution, as my/our proxy to vote, execute, consent and otherwise represent all shares on my/our behalf at the annual meeting of the Company to be held at the following place and time, and at any adjournment thereof, with all the powers the undersigned stockholder would possess if present:

Name of stockholder:	
Name of proxy:	
Place of meeting:	The Drake Conference Room, Strand Palace Hotel, 372 the Strand, London WC2R 0JJ
Date of meeting:	23 June 2005 at 10.00 am

The proxy will vote on the following resolutions, as indicated:

<b>RESOLUTIONS</b>	<b>FOR</b>	<b>AGAINST</b>
1. To receive the accounts and reports for the year ended 31 December 2004		
2. To re-appoint H.W. Fisher & Company as auditors and to authorise the directors to fix their remuneration		
3. To re-elect David Matthey as a director of the Company for a three year term expiring at the 2008 annual meeting		
4. To approve an amendment to the Company's Certificate of Incorporation that increases the company's authorized shares of Common Stock from Ten Million (10,000,000) shares to Thirteen Million (13,000,000) shares		
5. To transact any and all other business that may properly come before the meeting or any adjournment(s) thereof		

*Please indicate with an X in the space provided how you wish your votes to be cast on the resolution. If you sign and return this form without indicating how the proxy is to vote, he/she will have discretion to vote either way or to abstain.*

The undersigned stockholder hereby ratifies and confirms all acts the proxy agent may do or cause to be done by virtue of this Proxy. This Proxy revokes all proxies previously given by the undersigned for any meeting of the stockholders of the Company.

The undersigned stockholder acknowledges receipt of the Notice of the Annual Meeting and this Proxy.

Signature \_\_\_\_\_ Dated \_\_\_\_\_ 2005



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