121Media, Inc.

Annual Report & Accounts

for the year ended
31 December 2005

Contents and Company Information

for the year ended 31 December 2005

Directors
D Svendsen
K Ertugrul
D Gwozdz
T Bowen
G Baz

Company Secretary
J Bottomley

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OTO

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& Registered Auditors
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Chairman's Statement

for the year ended 31 December 2005

RESULTS AND DIVIDEND

I am pleased to announce the results for the year ended 31 December 2005. Overall the Group made much progress during its first year of trading on the Alternative Investment Market ("AIM"), including repositioning the business to take advantage of the fast moving Internet Service Provider ("ISP") marketplace.

Turnover for the Group for the year to 31 December 2005 increased by 25% to $5.2 million (2004: $4.17 million). Operating losses were $3.3 million (2004 loss: $0.03 million), as a result of the significant investment in the PageSense Javascript application necessary to support the repositioning of the business.

Losses before taxation were $3.3 million (2004 loss: $0.04 million). Losses per share were 0.44 cents (2004: 0.01 cents).

The Board is not recommending the payment of a dividend in respect of 2005. It is the Board's intention to commence the payment of dividends as soon as practicable, and to pursue a progressive but prudent dividend policy thereafter.

STRATEGY AND BUSINESS UPDATE

In early 2005, it became clear to the Directors that a strategic opportunity existed for 121Media to enter into revenue sharing contracts with ISP's to provide them with a highly targeted contextual advertising solution. As pricing pressure and new forms of access drive internet connectivity pricing downwards, advertising will become an increasingly important element of ISPs' revenue models. In this context, we believe that the benefits of 121Media's PageSense Javascript application will become increasingly compelling to them.

Our PageSense Javascript application analyses the meaning and context of a web page being viewed by a user in real time, allowing us to deliver targeted advertisements to that user. By marketing our PageSense solution to ISPs, we can enable targeted advertisements to be delivered to each ISP's user base. In return, the ISPs earn a share of the advertising revenue which we generate, thereby allowing them to offer more competitive connection fees to their customers. This relationship model is made possible by 121Media's precision targeting, which results in an acceptable level of targeted advertising being shown to users with the potential to generate value for the advertiser, and therefore the ISPs.

Following a significant re-orientation towards this opportunity, and away from the Group's previous business model of desktop distribution, we made very encouraging progress in the second half of the year with our ISP partnering strategy. As at April 2006, we have signed agreements with ten entities to implement our PageSense technology, and have now established relationships with most of the largest US ISPs. A number of the signed partnerships are currently in testing phase, and the full revenue benefits are expected to flow during 2006.

BOARD

During the course of the past year, we have significantly strengthened our Board and our senior management team.

In December, David Gwozdz, who had joined us earlier in the year as Senior Vice President, Business Development and Sales, was appointed to the Board as a Director. David was one of the founding team of DoubleClick, the previously NASDAQ-listed internet advertising solutions corporation.

Also in December, Tim Bowen joined the Group and was appointed to the Board as a Director and as Chief Financial Officer. Tim has over 10 years experience of managing fast growing, IT-related businesses.

Chairman's Statement

continued

At the same time, David Mattey stepped down from his role as Non-Executive Director due to his expanding business interests elsewhere. Ahmet Can stepped down from his position as a Director, but remains with the Company as Senior Vice President, Corporate Development. We are very grateful to both David and Ahmet for their contributions to 121Media at Board level. Earlier in 2005, Jordan Mitchell left the Group to pursue other interests.

I am confident that our Board now has the right experience and breadth of skills to capitalise fully on the significant opportunities that exist for 121Media.

PEOPLE

We have invested in our people and sales infrastructure during the year, in particular building our US sales and marketing presence, and now have in place an experienced team to deliver on the ISP opportunity.

On behalf of the Board, I would like to thank them all for their significant contribution to 121Media's strategic and operational progress during 2005.

2006 PROSPECTS

The losses in 2005 reflect the significant levels of investment during the year.

In January 2006, the Group raised $4.2 million (before expenses) by way of a placing with UK and US-based institutional investors, to ensure that we can capitalise fully on the ISP partnering opportunity for our PageSense Javascript application.

We believe that 121Media is now extremely well positioned as the current sole provider of a turnkey technology to introduce high value, targeted advertising technology to companies in the business of Internet connectivity and that, during 2006, the Group will play a leading role in the development of new revenue models for these ISPs. We are very encouraged by the success in signing agreements with ISPs to date.

We therefore look forward to a year of continued strategic, operational and financial progress, and remain highly confident of the long-term prospects for the Group.

David Svendsen
Chairman

18 April 2006

Report of the Chief Executive Officer

for the year ended 31 December 2005

During the year under review, we repositioned the Group to take advantage of a significant opportunity to partner with Internet Service Providers using PageSense Javascript technology. These partnerships allow Internet Service Providers ("ISPs") to tap into a major new source of advertising revenue at a time of increasing need for greater margins.

Our technology currently enjoys a strong competitive advantage in the ISP space, and during 2005 we devoted considerable effort and investment to ensure that we are properly positioned to exploit this market-leading position.

THE ISP MARKET OPPORTUNITY

121Media's PageSense application allows us to deliver contextual advertising solutions directly to users of Internet Service Providers (ISP), allowing ISPs for the first time to directly participate in the online advertising market as advertisers in their own right.

The ISP marketplace is undergoing considerable turmoil at present. Dialup providers are facing a rapidly shrinking user base as the market migrates to broadband; ADSL providers' margins are shrinking rapidly as they engage in a price war and their traditional telephony business comes under threat from Voice Over IP; and cable providers are losing market share to ADSL providers based upon price. Substantial discounts are now being offered by ISPs trying to both attract new users and maintain their existing user base. Furthermore, examples of free wired broadband are starting to appear as evidenced by Carphone Warehouse's recent announcement in the UK.

In addition, all of these segments are directly threatened by the growing momentum of city-wide wireless networks, which provide a wi-fi broadband connection, often free, to entire cities – a recent example being the award of a contract to Google to blanket San Francisco with free wi-fi coverage, paid for by advertising from local businesses. There are currently 115 cities actively deploying citywide municipal wireless in the US, and this model is starting to migrate to Europe. The trend strongly suggests that all major metropolitan areas will have universal free or low-cost broadband wireless access within a few years, suggesting that current, subscription-based, ISP revenue models is are not sustainable in the medium term.

At a time when the costs associated with bandwidth are rising, ISP revenues are, therefore, under considerable margin pressure. This is particularly true for those with substantial capital investments to recover.

Until recently, ISPs have generally not viewed advertising as a key revenue stream, largely because the number of advertisements required to generate meaningful levels of revenue were incompatible with a quality user experience.

The combination of high value per advertisement resulting from 121Media's targeting capability and the changing economic and competitive landscape is causing these assumptions to be revisited, in the process creating a significant opportunity for the Group.

Following extensive development work over the past two years, 121Media's PageSense technology offers a unique ability to interpret all of the content transmitted to an ISP's user base in real time, while completely preserving the anonymity of the user. This, combined with our ability to show advertisements to users only between web domains, and our operational and advertising sales capability, provides ISPs with a turnkey solution for delivering highly targeted advertising.

As a result of these developments, ISPs can shift from being a simple "pipe" connecting people to the internet to being a broadcaster of known content able to target advertising directly to users independently of web sites themselves. In addition to the ability to tap into advertising revenue inventory between third party web sites, implementation of the PageSense solution brings with it valuable additional opportunities such as showing messaging to the ISP's user base aimed at reducing churn, as well as improving security and the overall user experience. It also substantially improves advertising revenue on the ISP's portal page through knowledge of the specific user base being targeted.

Report of the Chief Executive Officer

continued

REVENUE MODEL

ISP's using our PageSense technology can therefore begin to view themselves as analogous to a television broadcaster broadcasting billions of web pages or "channels". Knowledge of these channels is a precondition to showing advertising. The Directors believe that combining this information with the Group's operational and ad sales capability as well as its ability to show advertising only between web domains through its proprietary Bridge Ad format creates a turnkey revenue solution for ISPs amounting to $1 to $2 per active users per month.

We see an addressable market measured in many tens of millions of users in the United States alone with an even larger international market and our focus is now fully on business development, beginning in the United States. In November we announced our first ISP partnership and, as mid April, we had signed ten such partnerships, with a total potential user base in excess of one million subscribers. We are pleased with the results of our first implementations and expect that, as the number of implementations increases, adoption will accelerate. We are in advanced discussions with a significant number of very large ISPs and this pipeline represents a user base in excess of 70 million users.

OPERATIONAL REVIEW

During the course of 2005, as the scale and potential of the ISP opportunity became increasingly clear, it also became apparent that no matter how carefully the Group followed best practices, a combination of public perception and legal and technological challenges would limit the ultimate potential for growth from the desktop advertising model. Although revenue from desktop advertising had formed the basis for the Group's historical earnings, the decision was therefore taken in the last quarter of 2005 to shift the Group's focus away from the desktop and towards the Group's Javascript PageSense technology.

Shifting from the desktop to the ISP market requires a different level and quality of infrastructure across the Group. Accordingly, the New York office has become the centre of operations with many key appointments now made, creating a senior management team fully capable of converting the opportunity ahead of us. Our Moscow office remains the centre for software development and we are fortunate to have such a dedicated team creating pioneering intellectual property for the Group. In addition, a research team featuring two professors from Technion, the leading Israeli technical institute, is assisting in the development of advanced methods for the automatic interpretation of textual content.

To help fund this re-orientation of the business, we raised $4.2 million (before expenses) through a placing with UK and US based institutional investors in February 2006. We expect it to take between three and six months for revenue to flow from the bulk of an ISP's target user base, and therefore that significant revenue will only begin to flow in the second half of the year. When taking into account the significant recent investment and increase in monthly overhead and the exit from the desktop model, we expect to report a loss for 2006.

We enjoy a very strong competitive head start as a result of our development of the PageSense technology but, over time, the competitive landscape will inevitably become more challenging. Success in maintaining our leadership position will depend upon achieving the highest possible standard of execution across all of the key fields of business development, ad sales and operations, software development, account management, and financial controls and procedures. With that in mind, we will continue to invest in our team further.

The unique qualities of our technology, the strategic and operational progress we have made to date, and the strength of the executive team we have put together, combine to give the Board confidence that our chosen strategy will deliver substantial shareholder value over time.

Kent Ertugrul
Chief Executive Officer

18 April 2006

Directors and Officers

for the year ended 31 December 2005

DAVID SVENDSEN

Non-executive Chairman

David Svendsen has over 30 years of business management experience. Until February 2000, David was chairman of Microsoft UK and vice president of Microsoft EMEA (Europe, Middle-East & Africa) and prior to that was managing director of Microsoft UK from 1988 to 1998. Before joining Microsoft UK, he was marketing director of Microsoft Australia, where he oversaw the development of the business from inception in 1984.

KENT ERTUGRUL

Chief Executive Officer

Kent Ertugrul has been an innovator and entrepreneur in finance and technology for nearly two decades. Kent has led 121Media through its history of tremendous growth, including its successful public offering. Prior to starting 121Media, he founded Life.com, a desktop software and online interactive diary, as well as Voxster, a company enabling Instant Messaging for email, MIGs Etc., and other ventures. Kent oversaw, as director and chief financial officer, the growth of Compass Technology from 5 to 170 employees. As it became a leading PC-based voice mail company in the US, Compass merged in 1991 with Octel, which in turn was later acquired by Lucent Technology. He began his career with positions at JP Morgan, Credit Suisse First Boston and Morgan Stanley in London.

DAVID GWOZDZ

Director and SVP, Business Development and Sales

David Gwozdz joined 121Media in August 2005. He has spent 18 years in advertising and was part of the founding team of DoubleClick, the NASDAQ-listed internet advertising solutions corporation recently acquired for $1.1 billion by Private Equity interests in the US. He devised and implemented DoubleClick's original media sales products and strategies and built, trained and managed multiple industry-leading sales teams in all areas of online advertising, sponsorships, and promotions.

TIM BOWEN

Director and Chief Financial Officer (Part Time)

Tim Bowen has over 10 years experience of managing fast growing IT-related businesses. From 2000 until earlier this year, he was Chief Operating Officer and Chief Financial Officer of IDOX plc, the information management group. During his five years at IDOX he played a significant role in the company's listing on the AIM and oversaw three subsequent acquisitions and related fundraisings. Previously Tim was Chief Financial Officer of Channelfly plc, the music and media group which listed on AIM in 1999. From 1995 to 1999, he was Finance Director and Company Secretary of Definitive Group, a privately-owned IT services group.

GERARD BAZ

Non-Executive Director

Gerard Baz spent 11 years at Microsoft Corporation in Redmond, WA where he held several positions. Most notably, he headed the Microsoft Word program management group for several years with overall responsibility for product design and project management for all versions of Word. Later, he joined the newly created MSN group to be in charge of business development and relations with content providers, before moving to Paris to prepare the European launch of MSN in the major European markets. An 'angel' investor since 1998, he has invested in several European and US based internet and high technology ventures.

Report of the Directors

for the year ended 31 December 2005

The Directors present their report and the financial statements of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the parent company and of the Group during the year was that of the delivery and management of targeted, contextual online advertising campaigns on behalf of its clients. The Review of Business is included in the Chairman's and CEO's reports.

RESULTS AND DIVIDENDS

The trading results for the year and the Group's financial position at the end of the year are shown in the attached financial statements.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise cash and other items, including trade debtors and trade creditors that arise directly from its operations. The Group seeks to reduce or eliminate financial risk and to invest cash assets safely and profitably. It operates within policies and procedures approved by the Board, which include strict controls on the use of financial instruments in managing the Group's risk. The Group does have transactional currency exposure as it deals in multi-currencies however the Directors do seek to limit this risk as much as possible.

RESEARCH AND DEVELOPMENT

Research and development is undertaken on an ongoing basis in order to further develop and enhance the Group's software products.

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year together with their beneficial interests in the shares of the Company were as follows:

	At 31 December 2005	At 1 January 2005 or later date of appointment
D Svendsen	18,824	18,824
K Ertugrul	1,215,073	1,215,073
G Baz[1]	1,729,161	1,729,161
D Gwozdz	3,400	–
T Bowen	5,000	–

[1]These shares are held by Gestrust SA, in a trust in which G Baz has a beneficial interest.

A Can was appointed as a Director on 21 April 2005 and resigned on 1 December 2005.

D Gwozdz and T Bowen were appointed as Directors on 1 December 2005.

J Mitchell resigned as a Director on 21 April 2005 and D Mattey resigned as a Director on 1 December 2005.

Report of the Directors

continued

SUBSTANTIAL SHAREHOLDINGS

As at 31 December 2005 the Company was aware of the following interests in 3% or more of its issued share capital:

Shareholder	Number of Shares	% Holding
Gestrust SA	1,729,161	21.1%
Kent Ertugrul	1,215,073	14.8%
Fidelity	652,705	7.97%
Aventis Investments Ltd	692,420	8.45%
Dartley Bank & Trust Ltd	629,527	7.69%
Wassef Haroun	561,540	6.86%
Daniel Hechter	436,510	5.33%
Valerie Boffy	400,000	4.88%

EMPLOYEE CONSULTATION

The policy of informing and consulting with employees is maintained by means of regular team briefs, conference calls and meetings. Employees are encouraged to present their views and suggestions in respect of the Group's performance.

POST BALANCE SHEET EVENTS

During January 2006 1,600,000 shares were issued for a consideration (before expenses) of $4,200,000. No other circumstances have arisen since the balance sheet date in respect of matters, which would require adjustment or disclosure in the accounts.

CREDITOR PAYMENT POLICY

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

(i) settle the term of the payment with suppliers when agreeing the terms of each transaction.

(ii) ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts.

(iii) pay in accordance with the Group's contractual or other legal obligations.

The average trade creditor days for the year was 35 days (2004: 120 days).

AUDITORS

A resolution to re-appoint H.W Fisher & Company as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

J Bottomley
Company Secretary

18 April 2006

Directors' Remuneration Report

for the year ended 31 December 2005

REMUNERATION COMMITTEE

The Remuneration Committee operates within defined terms of reference. The Remuneration Committee comprises the Non-Executive Directors and is chaired by David Svendsen.

REMUNERATION POLICY

The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key staff. The packages are designed to be competitive in value to those offered to the Directors of similar sized public companies in related sectors.

NON-EXECUTIVE DIRECTORS

The Board, based on a recommendation by the Non-Executive Chairman or, in the case of the Chairman, the remainder of the Board, determines the remuneration of the Non-Executive Directors. The Non-Executive Directors are not eligible to join the pension scheme.

SERVICE CONTRACTS

Kent Ertugrul has entered into a service contract with the Group that is terminable by either party on not less than twelve months prior notice. David Gwozdz has entered into a standard 121Media, Inc. US employment contract and Tim Bowen's services, which are part time, are subject to a 3 month notice period from either party.

SHARE OPTIONS

Director	At start of year	Granted during year	Exercised	Lapsed	At end of year	Exercise price
K Ertugrul	227,092	–	–	–	227,092	$0.61327
K Ertugrul	227,092	–	–	–	227,092	$0.61327
J Mitchell	120,000	–	90,000	30,000	–	$0.61327
D Svendsen	60,236	–	–	–	60,236	£2.45
D Mattey	48,189	–	–	48,189	–	£2.45
K Ertugrul	180,707	–	–	–	180,707	£2.45
A Can	–	60,000	–	–	60,000	£2.465
D Gwozdz	–	75,000	–	–	75,000	£1.715
T Bowen	–	100,000	–	–	100,000	£1.580

The mid market price at the close of business on 31 December 2005 was 147.5p and the high and low share price during the year were 252.9p and 147.5p respectively.

DIRECTORS REMUNERATION

Director	Salary $'000	Consultancy $'000	Benefits $'000	Total 2005 $'000	Total 2004 $'000	Pension 2005 $'000	Pension 2004 $'000
D Svendsen	–	45	–	45	–	–	–
K Ertugrul	–	305	–	305	152	–	–
T Bowen (Dec 05)	–	11	–	11	–	–	–
D Gwozdz (Dec 05)	17	–	1	18	–	–	–
A Can (Apr-Dec 05)	93	–	1	94	–	–	–
G Baz	–	28	–	28	–	–	–
D Mattey	–	31	–	31	–	–	–
J Mitchell	74	–	–	74	111	–	–

Corporate Governance Report

for the year ended 31 December 2005

The Group is committed to applying the highest principles of corporate governance commensurate with its size. The Board confirms that the Group has voluntarily complied with the provisions set out in Section 1 of the Combined Code published in July 2003, with the certain following exceptions, which the Board considers are not appropriate for the Group at the present time:

- Code provision B.2.1 whereby given the small size of the Board the Remuneration Committee be comprised of independent Non-Executive Directors
- Code provision C.3.1 whereby given the small size of the Board the Audit Committee comprises two Non-Executives rather than three as recommended.
- Code provision A.3.2 and A.3.3 whereby given the small size of the Board, the Group has not identified a senior independent Non-Executive Director.

Given the current size and scope of the operations of the Group, the full Board has assumed those responsibilities that are ordinarily assigned to a Nomination Committee.

INTERNAL CONTROLS

The Company has voluntarily complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance issued in July 2003 and by reporting in accordance with that guidance.

The Board takes overall responsibility for establishing and maintaining reliable systems of control in all areas of the Group's operations. These systems of control, especially of financial control, is designed to manage rather than eliminate the risk of failure to the achievement of business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute, assurance that against material loss or misstatement.

The Board's policy has been determined by reference to:

(a) **'Combined Code'**: the principles of good governance and code of best practice prepared by the Committee on Corporate Governance issued in July 2003.

(b) **'Internal Control'**: Guidance for Directors on the Combined Code (the "Turnbull Guidance"

Throughout the year, and up to date of this report, the Board has applied various processes for identifying, evaluating and managing the risks faced by the Group.

The key features of the system of internal control are set out below:

- 121Media, Inc. has established an operational management structure with clearly defined responsibilities and regular performance reviews
- The Group operates a financial reporting system, where actual results are monitored against budgets, forecasts and other performance indicators with action dictated accordingly at least monthly
- A structured approval process based on assessment of risk and value delivered
- Sufficient resource is focused to maintain and develop internal control procedures and information systems, especially in financial management
- The Group has an ongoing process for identifying, evaluating and managing the significant risks that it faces
- During the year the Board considers reports from management and external audit on the system of internal control and any material control weaknesses and discusses with management the actions taken on problem areas identified by the Board members and the auditors

Corporate Governance Report

continued

The Board considers that there have been no substantial weaknesses in internal financial controls that have resulted in any material losses, contingencies or uncertainties, which need to be disclosed in the accounts. The Board has considered the need for an internal audit function and concluded that there is no current need for such a function within the Group. Following publication of Internal Control: Guidance for Directors on the Combined Code (the "Turnbull Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, and that this process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board and is consistent with the Turnbull Guidance.

ACCOUNTING POLICIES

The Board considers the appropriateness of its accounting policies on an annual basis and in respect to research and development, bi-annually. The Board believes that its accounting policies and estimation techniques are appropriate in particular in relation to income recognition and research and development.

BOARD OF DIRECTORS

The Board, comprising three Executive Directors, a Non-Executive Chairman and a further Non-Executive Director, is responsible for the overall strategy and direction of 121Media, Inc as well as for approving potential acquisitions, major capital expenditure items and financing matters. The Board has a formal schedule of business reserved to it and meets regularly during the year. The Board is supplied in a timely manner with information in a form and of a suitable quality appropriate to enable it to discharge its duties. Advice from independent sources is available if required. The Board monitors exposure to key business risks and reviews the strategic direction of the Group, the annual budgets as well as their progress against those budgets.

The Board members and their roles are described on page 6.

SHAREHOLDER RELATIONS

121Media, Inc is committed to open communication with all its shareholders. The Directors hold regular meetings with institutional shareholders to discuss and review the Group's activities and objectives. Communication with private shareholders is principally through the Annual General Meeting, where participation is encouraged and where the Board is available to answer questions.

Every shareholder is sent a full annual report each year-end and at the half-year they are sent an interim report. Care is taken to ensure that any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London Stock Exchange requirements.

121Media, Inc strives to give a full, timely and realistic assessment of its business in a balanced way, in all price-sensitive reports and presentations.

AUDIT COMMITTEE

The Audit Committee is formally constituted with terms of reference. The Committee is chaired by David Svensden who is the Non-Executive Chairman, and the other member Gerard Baz who is a Non-Executive Director of the Group. The Committee meets at least once a year and receives reports from the Group's auditors. The Committee also reviews the interim and final accounts prior to approval by the Board. Additionally the Committee also ensures the independence and objectivity of the external auditors and also reviews the provision of non-audit services by external auditors.

GOING CONCERN

The Directors have reviewed the Group's budget and cash flows for 2006 and the medium term plan, produced to the year 2007 and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to prepare the accounts on a going concern basis.

Statement of Directors' Responsibilities

for the year ended 31 December 2005

United Kingdom company law requires the Directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Group and Company, and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- Select suitable accounting policies and 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.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with United Kingdom company law. They are also responsible for ensuring that the Annual Report includes information required by the AIM Market Rules.

Legislation in the United Kingdom governing the preparation and the dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

Report of the Independent Auditors

TO THE MEMBERS OF 121MEDIA, INC.

We have audited the financial statements of 121Media, Inc. for the year ended 31 December 2005 on pages 14 to 28 which have been prepared on the basis of the accounting policies set out on pages 18 and 19.

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As described on page 12 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 United Kingdom generally accepted accounting practice. 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 other transactions is not disclosed.

We read the Directors' Report, Chairman's Report and the CEO's Report and consider the implications for our report if we become aware of any apparent misstatements within them.

BASIS OF AUDIT 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 Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs and of the Group as at 31 December 2005 and of the loss of the Group for the year then ended.

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

18 April 2006

Group Profit and Loss Account

for the year ended 31 December 2005

	Notes	2005 $	2004 $
GROUP TURNOVER	2	5,207,136	4,165,203
Cost of sales		(2,171,486)	(2,217,898)
GROSS PROFIT		3,035,650	1,947,305
Sales and Administrative expenses		(6,182,798)	(2,063,848)
(Loss)/profit on foreign exchange		(174,184)	82,262
OPERATING LOSS	3	(3,321,332)	(34,281)
Interest receivable		15,695	12
Interest payable and similar charges	7	(27,962)	(10,961)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,333,599)	(45,230)
Tax on loss on ordinary activities	8	–	(130)
LOSS FOR THE FINANCIAL YEAR	9	(3,333,599)	(45,360)
(Loss) per share – Basic (cent)	10	(0.44)	(0.01)

All of the activities of the Group are classed as continuing.

The Group has no recognised gains or losses other than the results for the year as set out above.

The Company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

The notes on pages 18 to 28 form part of these financial statements.

Group Balance Sheet

at 31 December 2005

	Notes	2005 $	2005 $	2004 $	2004 $
FIXED ASSETS					
Tangible assets	11		504,803		676,591
CURRENT ASSETS					
Debtors	13	1,975,086		2,641,929	
Cash at bank and in hand		570,533		878,327	
		2,545,619		3,520,256	
CREDITORS:					
Amounts falling due within one year	14	(973,422)		(508,000)	
NET CURRENT ASSETS			1,572,197		3,012,256
TOTAL ASSETS LESS CURRENT LIABILITIES			2,077,000		3,688,847
CREDITORS:					
Amounts falling due after one year	15		(76,714)		–
NET ASSETS			2,000,286		3,688,847
CAPITAL AND RESERVES					
Called-up share capital	19		8,190		7,104
Share premium account	21		6,734,601		4,731,608
Other reserves	21		410,351		769,392
Profit and loss account	21		(5,152,856)		(1,819,257)
SHAREHOLDERS' FUNDS	22		2,000,286		3,688,847

These financial statements were approved by the Directors on
18 April 2006 and are signed on their behalf by:

David Svendsen
Chairman

The notes on pages 18 to 28 form part of these financial statements.

Company Balance Sheet

at 31 December 2005

	Notes	2005 $	2005 $	2004 $	2004 $
FIXED ASSETS					
Tangible assets	11		498,483		668,459
Investments	12		186		186
			498,669		668,645
CURRENT ASSETS					
Debtors	13	4,555,067		3,023,487	
Cash at bank		271,363		872,138	
		4,826,430		3,895,625	
CREDITORS:					
Amounts falling due within one year	14	(926,213)		(472,251)	
NET CURRENT ASSETS			3,900,217		3,423,374
TOTAL ASSETS LESS CURRENT LIABILITIES			4,398,886		4,092,019
CREDITORS:					
Amounts falling due after one year	15		(76,714)		–
NET ASSETS			4,322,172		4,092,019
CAPITAL AND RESERVES					
Called-up share capital	19		8,190		7,104
Share premium account	21		6,734,601		4,731,608
Other reserves	21		584,572		769,392
Profit and loss account	21		(3,005,191)		(1,416,085)
SHAREHOLDERS' FUNDS			4,322,172		4,092,019

These financial statements were approved by the Directors on
18 April 2006 and are signed on their behalf by:

David Svendsen
Chairman

The notes on pages 18 to 28 form part of these financial statements.

Group Cash Flow Statement

for the year ended 31 December 2005

	Notes	2005 $	2004 $
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24	(1,921,916)	(1,923,196)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	24	(11,956)	(10,949)
TAXATION	24	–	(130)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	24	(288,321)	(898,349)
CASH OUTFLOW BEFORE FINANCING		(2,222,193)	(2,832,624)
FINANCING	24	1,914,399	3,695,310
(DECREASE)/INCREASE IN CASH	24	(307,794)	862,686

The notes on pages 18 to 28 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2005

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention, on a going concern basis, and in accordance with applicable 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 2005. Intra-group sales and profits are eliminated fully on consolidation.

Turnover

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

Research and development

Certain expenditure 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.

Fixed assets

All fixed assets are initially recorded at cost, and then stated at cost less depreciation.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and machinery	– 50% on cost
Fixtures and fittings	– 33% on cost
Computer hardware	– 50% on cost
Software development costs	– 50% on cost

Fixed asset investments

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

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are treated as if they had been purchased outright at the present value of the rentals payable, less finance charges, over the primary period of the agreements. The corresponding obligations under these agreements are included in creditors. The finance element of the rentals payable is charged to the profit and loss account so as to produce a constant rate of charge on the outstanding balance in each period.

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

Pension costs

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

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the accounts. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

continued

1. ACCOUNTING POLICIES continued

Foreign currencies

Assets and liabilities in foreign currencies are translated into US dollars at the closing 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 the transaction. Exchange differences are taken into account in arriving at the operating profit.

Subsidiary Company

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

Functional currency

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

2. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the Group.

The geographical analysis of turnover is given below:	2005 $	2004 $
North America	4,073,132	3,539,532
Europe	1,134,004	625,671
	5,207,136	4,165,203

3. OPERATING LOSS

Operating loss is stated after charging/(crediting):	2005 $	2004 $
Research and development expenditure written off	488,017	564,440
Depreciation of owned fixed assets	560,109	230,503
Auditor's remuneration		
– as auditor	10,000	6,579
– for other services	13,356	–
Net loss/(profit) on foreign currency translation	4,665	(42,516)

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the Group during the financial year amounted to:

	2005 Number	2004 Number
Number of administrative staff	2	–
Sales	18	4
	20	4

The aggregate payroll costs of the above were:	2005 $	2004 $
Wages and salaries	2,297,271	272,424
Social security costs	251,043	29,891
Other pension costs	21,127	10,058
	2,569,441	312,373

Notes to the Financial Statements

continued

5. DIRECTORS' EMOLUMENTS

The Directors' aggregate emoluments in respect of qualifying services were:

	2005 $	2004 $
Emoluments receivable	606,162	262,878

Emoluments of highest paid director:	2005 $	2004 $
Total emoluments (excluding pension contributions)	305,356	152,015

See report on remuneration.

6. COMMISSIONS PAID TO CONDUCIVE LLC

The agreement under which the revenues and costs relating to Commissions paid to Conducive LLC was dissolved on the 30th June 2004. The dissolution agreement allowed for the transitional period of 180 days subsequent to this date.

Turnover includes an amount of $nil (2004: $2,023,961) for the provision of contextual advertising services received under the agreement with Conducive LLC.

During the period, commissions totalling $nil (2004: $1,305,339) were paid to Conducive LLC under the agreement. These costs were included within the cost of sales.

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 $	2004 $
Interest payable:		
Finance lease interest	15,000	–
Other loan interest	12,962	10,961
	27,962	10,961

8. TAXATION ON ORDINARY ACTIVITIES

	2005 $	2005 $	2004 $	2004 $
Current tax:				
Delaware state tax	–		130	
Total current tax		–		130
Factors affecting the tax charge for the period				
Loss on ordinary activities before taxation		(3,333,599)		(45,230)
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (31 December 2004: 30%)		(1,000,080)		(13,569)
Effects of:				
Expenses not deductible for tax purposes		19,330		38,349
Capital allowances for the period in excess of depreciation		97,299		(134,421)
Other tax adjustments		–		130
Movement on tax losses		883,451		109,641
Current Tax charge		–		130

Notes to the Financial Statements

continued

9. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent company was $(1,534,036) (2004: profit of $357,812).

10. LOSS PER SHARE

The calculation of the basic loss per share and diluted loss per share is based on the loss attributable to ordinary shareholders of $3,333,599 (2004: $45,360) divided by the weighted average number of shares in issue during the year.

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

	Year ended 31 December 2005 Number of shares	Year ended 31 December 2004 Number of shares
	7,491,507	5,400,638

11. TANGIBLE FIXED ASSETS

Group	Plant & Machinery $	Fixtures & Fittings $	Computer Hardware $	Software Development $	Total $
Cost					
At 1 January 2005	28,092	5,450	412,974	467,364	913,880
Additions	59,710	8,270	–	320,341	388,321
At 31 December 2005	87,802	13,720	412,974	787,705	1,302,201
Depreciation					
At 1 January 2005	15,176	954	86,697	134,462	237,289
Charge for the year	23,368	1,900	206,487	328,354	560,109
At 31 December 2005	38,544	2,854	293,184	462,816	797,398
Net Book Value					
At 31 December 2005	49,258	10,866	119,790	324,889	504,803
At 31 December 2004	12,916	4,496	326,277	332,902	676,591

Company	Plant & Machinery $	Fixtures & Fittings $	Computer Hardware $	Software Development $	Total $
Cost					
At 1 January 2005	24,126	–	412,974	467,364	904,464
Additions	56,960	8,269	–	320,341	385,570
At 31 December 2005	81,086	8,269	412,974	787,705	1,290,034
Depreciation					
At 1 January 2005	14,846	–	86,697	134,462	236,005
Charge for the year	20,475	230	206,487	328,354	555,546
At 31 December 2005	35,321	230	293,184	462,816	791,551
Net Book Value					
At 31 December 2005	45,765	8,039	119,790	324,889	498,483
At 31 December 2004	9,280	–	326,277	332,902	668,459

Notes to the Financial Statements

continued

12. INVESTMENTS

Company	Subsidiary undertakings $
Cost	
At 1 January 2005 and 31 December 2005	186
Net book value	
At 31 December 2005	186
At 31 December 2004	186

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
All held by the Company:				
121Media (Europe) Limited	England	Ordinary shares	100%	Contextual online advertising

13. DEBTORS

	Group 2005 $	Group 2005 $	Company 2004 $	Company 2004 $
Trade debtors	1,639,899	438,550	–	4,335
Amounts owed by Group undertakings	–	–	4,270,708	850,817
VAT recoverable	31,521	2,465	26,054	4,294
Other debtors	289,828	2,155,547	244,467	2,124,072
Prepayments and accrued income	13,838	45,367	13,838	39,969
	1,975,086	2,641,929	4,555,067	3,023,487

14. CREDITORS: Amounts falling due within one year

	Group 2005 $	Group 2005 $	Company 2004 $	Company 2004 $
Trade creditors	383,377	264,709	376,001	262,209
Obligations under finance leases and hire purchase contracts	18,426	–	18,426	–
Other taxation and social security costs	56,205	14,367	16,372	–
Other creditors	–	81,060	–	81,060
Accruals and deferred income	515,414	147,864	515,414	128,982
	973,422	508,000	926,213	472,251

Notes to the Financial Statements

continued

15. CREDITORS: Amounts falling due after one year

	Group 2005 $	Group 2005 $	Company 2004 $	Company 2004 $
Net obligations under finance leases and hire purchase contracts	76,714	–	76,714	–
Net obligations under finance leases and hire purchase contracts				
Repayable within one year	18,426	–	18,426	–
Repayable between one and five years	76,714	–	76,714	–
	95,140	–	95,140	–
Included in liabilities falling due within one year	(18,426)	–	(18,426)	–
	76,714	–	76,714	–

16. PENSIONS

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 $21,127 (2004: $10,058). At the year end a creditor of $nil (2004: $2,332) was owed in respect of unpaid contributions.

17. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2005 the Group had annual commitments under non-cancellable operating leases as set out below:

Group	Land and buildings 2005 $	Land and buildings 2004 $
Operating leases which expire:		
Within 1 year	–	57,563
Within 2 to 5 years	139,398	–
	139,398	57,563

18. RELATED PARTY TRANSACTIONS

During the year consultancy payments of $305,356 (2004: $152,105) were made to Kent Ertugrul, $nil (2004: $88,475) to Jordan Mitchell, $11,106 (2004: $nil) to Bowen Limited on behalf of Tim Bowen, $45,412 (2004: $nil) to David Svendsen, $27,189 (2004: $nil) to Investory Limited. During the year consultancy fees of $3,334 (2004: $nil) were paid to Duet Private Equity Limited, a company of which David Mattey is a Director, for contractual services provided by him to the Group.

At the end of the year a loan of $nil (2004: $50,000) was due to Gerard Baz, a Director of the Company.

Notes to the Financial Statements

continued

19. SHARE CAPITAL

	2005 $	2004 $
Authorised share capital		
13,000,000 Ordinary shares of $0.001 each	13,000	10,000

	2005 Number	2005 $	2004 Number	2004 $
Allotted, called up and fully paid				
Ordinary shares of $0.001 each	8,190,110	8,190	7,103,686	7,104

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

02/02/05	4,505	on the exercise of options granted 01/06/04 at $1.3871
02/02/05	14,728	on the exercise of warrants granted 31/08/03 at $0.61327
02/02/05	32,441	on the exercise of warrants granted 31/01/04 at $0.77061
02/02/05	8,651	on the exercise of warrants granted 31/01/04 at $1.3871
02/02/05	247,500	on the exercise of warrants granted 06/01/05 at $0.001
02/02/05	7,210	on the exercise of warrants granted 31/08/04 at $1.3871
02/02/05	8,000	on the exercise of warrants granted 31/08/02 at $0.001
02/02/05	13,836	on the exercise of warrants granted 31/08/04 at $1.3871
02/02/05	12,934	on the exercise of warrants granted 31/08/04 at $1.3871
02/02/05	12,972	on the exercise of warrants granted 31/10/04 at $1.46465
23/05/05	6,000	on the exercise of warrants granted 31/04/03 at $0.1327
23/05/05	3,776	on the exercise of warrants granted 15/10/04 at $1.46465
05/05/05	4,000	on the exercise of options granted 01/06/04 at $1.3871
05/05/05	15,000	on the exercise of options granted 01/06/04 at $1.3871
05/05/05	8,000	on the exercise of options granted 01/06/04 at $1.3871
20/07/05	14,675	on the exercise of warrants granted 13/08/03 at $0.61327
20/07/05	19,465	on the exercise of warrants granted 31/01/04 at $0.77061
20/07/05	25,769	on the exercise of warrants granted 31/08/04 at $1.3871
20/07/05	2,484	on the exercise of warrants granted 30/09/04 at $1.3871
20/07/05	2,250	on the exercise of options granted 01/06/04 at $1.3871
22/07/05	517,500	secondary placement on AIM for a consideration of $1,815,390
31/08/05	17,607	on the exercise of options granted 31/08/03 at $0.61327
31/08/05	2,812	on the exercise of options granted 01/06/04 at $1.3871
02/11/05	9,000	on the exercise of options granted 01/06/04 at $1.3871
02/11/05	2,917	on the exercise of options granted 01/06/04 at $1.3871
24/12/05	72,393	on the exercise of options granted 31/08/03 at $0.61327

19. SHARE CAPITAL continued

Share options

At 31 December 2005 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
1 June 2004	424,304	$1.38710	25% at grant, then1/6th of the remainder after 6 months, then 1/36th per month after 6th month, for total vesting of 3 years
31 August 2004	13,836	$1.38710	100% at grant date
1 September 2004	50,000	$1.38710	1/36th per month for total of 36 months
5 September 2004	22,222	$2.84415	1/6th after 6 months, then 1/36th per month for a total vesting of 3 years
23 December 2004	60,236	£2.45	1/36th per month for total of 36 months
23 December 2004	180,707	£2.45	No earlier than 31 December 2004
27 April 2005	139,264	£2.465	1/6th after 6 months, then 1/36th per month for a total vesting of 3 years
15 June 2005	6,667	£2.135	1/6th after 6 months, then 1/36th per month for a total vesting of 3 years
3 October 2005	105,000	£1.715	1/6th after 6 months, then 1/36th per month for a total vesting of 3 years
2 November 2005	74,000	£1.705	1/6th after 6 months, then 1/36th per month for a total vesting of 3 years
1 December 2005	100,000	£1.580	30,000 at grant, 20,000 6 months later, remaining 50,000 over 20 months
1 December 2005	30,000	£1.580	1/6th after 6 months, then 1/36th per month for a total vesting of 3 years

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

20. WARRANTS

During the year warrants for nil (2004: 448,416) ordinary shares were issued as consideration for services rendered with a fair value of $nil (2004: $736,830) and 430,441 such warrants with a fair value of $184,820 (2004: $750) were exercised.

430,441 (2004: 102,577) warrants for ordinary shares were issued to investors generating net proceeds of $181,934 (2004: $103)

422,629(2004: 853,070) warrants remain outstanding at the balance sheet date.

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

Notes to the Financial Statements

continued

21. RESERVES

Group	Share premium account $	Warrants $	Foreign exchange reserve $	Profit and loss account $
Balance brought forward	4,731,608	769,392	–	(1,819,257)
Loss for the year	–	–	–	(3,333,599)
Other movements:				
– New equity share capital subscribed	2,002,993	–	–	–
– transfer to other reserves	–	–	(174,221)	–
– Other	–	(184,820)	–	–
Balance carried forward	6,734,601	584,572	(174,221)	(5,152,856)

Company	Share premium account $	Warrants $	Profit and loss account $
Balance brought forward	4,731,608	769,392	(1,416,085)
Loss for the year	–	–	(1,589,106)
Other movements:			
– New equity share capital subscribed	2,002,993	–	–
– Other	–	(184,820)	–
Balance carried forward	6,734,601	584,572	(3,005,191)

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 $	2004 $
Loss for the financial year	(3,333,599)	(45,360)
New equity share capital subscribed	1,086	–
Premium on new share capital subscribed	2,002,993	3,502,290
Warrants cash share issue	(184,820)	736,183
Foreign exchange	(174,221)	–
Net (reduction)/addition to shareholders' funds/(deficit)	(1,688,561)	4,193,113
Opening shareholders' funds/(deficit)	3,688,847	(504,266)
Closing shareholders' funds	2,000,286	3,688,847

23. FINANCIAL INSTRUMENTS

The Group's financial instruments consist principally of cash, liquid resources and various other items such as trade debtors and trade creditors. At 31 December 2005 there were no material differences between the net book value and the fair value of the Group's financial assets and liabilities. The Group's main risks in respect of financial instruments are interest rate and liquidity risk.

Financial Liabilities

The interest rate risk and financial maturity of the Group's financial liabilities, excluding short term trading items are set out in note 15.

Financial Assets

The interest rate risk profile of the Group's financial assets, excluding short term trading items, are floating rate interest earnings $15,695 (2004: $12).

Notes to the Financial Statements

continued

24. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of operating loss to net cash outflow from operating activities

	2005 $	2004 $
Operating loss	(3,321,332)	(34,281)
Depreciation	560,109	230,503
Issue of warrants	–	527,604
Exchange difference taken to reserves	(174,221)	–
Decrease/(increase) in debtors	566,532	(2,653,187)
Increase in creditors	446,996	6,165
Net cash outflow from operating activities	(1,921,916)	(1,923,196)

Returns on investments and servicing of finance

	2005 $	2004 $
Interest received	16,006	12
Interest paid	(27,962)	(10,961)
Net cash outflow from returns on investments and servicing of finance	(11,956)	(10,949)

Taxation

	2005 $	2004 $
Taxation	–	(130)

Capital expenditure

	2005 $	2004 $
Payments to acquire tangible fixed assets	(388,321)	(898,349)
Receipts from sale and leaseback	100,000	–
Net cash outflow from capital expenditure	(288,321)	(898,349)

Financing

	2005 $	2004 $
Issue of equity share capital	1,086	2,179
Share premium on issue of equity share capital	2,002,993	3,793,131
Capital element of finance lease	95,140	–
Issue of Warrants	(184,820)	–
Other short term loans	–	(100,000)
Net cash inflow from financing	1,914,399	3,695,310

Notes to the Financial Statements

continued

24. NOTES TO THE STATEMENT OF CASH FLOWS continued

Reconciliation of net cash flow to movement in net funds

	2005 $	2005 $	2004 $	2004 $
Increase in cash in the period	(307,794)		862,686	
Net cash outflow/(inflow)from changes in net debt	(95,140)		100,000	
		(402,934)		962,686
Change in net funds		(402,934)		962,686
Net funds/(debt) at 1 January 2005		878,327		(84,359)
Net funds at 31 December 2005		475,393		878,327

Analysis of changes in net funds

	At 1 January 2005 $	Cash flows $	At 31 December 2005 $
Net cash:			
Cash in hand and at bank	878,327	(307,794)	570,533
	878,327	(307,794)	570,533
Debt:			
Debts falling due within one year	–	(18,426)	(18,426)
Debts falling due after one year	–	(76,714)	(76,714)
	–	(95,140)	(95,140)
Net funds	878,327	(402,934)	475,393

25. CAPITAL COMMITMENTS

At the balance sheet date the Company had no capital commitments (2004: $nil) other than to ongoing software development.

26. ULTIMATE CONTROLLING PARTY

The Directors are of the opinion that no one party has sufficient interest in the share capital of the Company to be able to control the Group.

27. CONTINGENT LIABILITIES

At the balance sheet date the Company had no contingent liabilities (2004: $nil)

28. POST BALANCE SHEET EVENTS

During January 2006 1,600,000 shares were issued for a consideration (before expenses) of $4,200,000.

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