
BANGO.NET LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 MARCH 2003**

BANGO.NET LIMITED

COMPANY INFORMATION

DIRECTORS	R Anderson A Malhotra D Cleevely G Seabrook L Bury (Chairman) M Rigby M Boase
SECRETARY	K L Oakley
COMPANY NUMBER	03854965
REGISTERED OFFICE	5 Westbrook Centre Milton Road Cambridge CB4 1YG
AUDITORS	Imray & Co. Chartered Accountants & Registered Auditors 38 Station Road Cambridge CB1 2JH

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DIRECTORS' REPORT
For the year ended 31 March 2003

The directors present their report and the financial statements for the year ended 31 March 2003.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

PRINCIPAL ACTIVITIES

The company's principal activity during the period was the development, marketing and sale of technology for mobile phones.

DIRECTORS

The directors who served during the year and their beneficial interests in the company's issued share capital were:

	'A' Ordinary shares of 1p each		'B' Ordinary shares of 1p each	
	<u>31/3/03</u>	<u>1/4/02</u>	<u>31/3/03</u>	<u>1/4/02</u>
R Anderson	-	-	285,912	235,000
A Malhotra	-	-	200,250	200,250
D Cleevely	-	-	2,500	2,500
G Seabrook	-	-	2,000	2,000
L Bury (Chairman)	-	-	28,696	10,000
M Rigby	-	-	-	-
M Boase	-	-	-	-

M Rigby has a beneficial interest in 28,447 'A' Ordinary shares and 16,000 'B' Ordinary shares as a result of his interest in QTP (General Partner) Limited.

DIRECTORS' REPORT
For the year ended 31 March 2003

AUDITORS

The auditors, Imray & Co., will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

The report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the board on 28 January 2004 and signed on its behalf.

R Anderson
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANGO.NET LIMITED

We have audited the financial statements of Bango.Net Limited for the year ended 31 March 2003 set out on pages 5 to 13. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002) under the historical cost convention and the accounting policies set out on pages 7 to 8.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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 the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report 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.

GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures made on page 6 (Note 1.2) of the financial statements concerning the future of the company. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANGO.NET LIMITED

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Imray & Co.

Chartered Accountants
& Registered Auditors

38 Station Road
Cambridge
CB1 2JH

28/01/2004

BANGO.NET LIMITED

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2003

	Note	2003 £	2002 £
TURNOVER	1	312,454	98,799
Cost of sales		<u>(37,035)</u>	<u>(2,309)</u>
GROSS PROFIT		275,419	96,490
Administrative expenses		<u>(1,152,189)</u>	<u>(1,270,092)</u>
OPERATING LOSS	2	(876,770)	(1,173,602)
Interest receivable		<u>12,567</u>	<u>12,189</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(864,203)	(1,161,413)
TAX ON LOSS ON ORDINARY ACTIVITIES	4	<u>43,014</u>	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>£ (821,189)</u>	<u>£ (1,161,413)</u>

The notes on pages 7 to 13 form part of these financial statements.

BANGO.NET LIMITED**BALANCE SHEET
As at 31 March 2003**

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible fixed assets	5	49,400	87,086
CURRENT ASSETS			
Stocks		-	1,223
Debtors	6	283,441	248,576
Cash at bank		348,385	764,785
		<u>631,826</u>	<u>1,014,584</u>
CREDITORS: amounts falling due within one year	7	<u>(198,400)</u>	<u>(221,856)</u>
NET CURRENT ASSETS		<u>433,426</u>	<u>792,728</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>£ 482,826</u>	<u>£ 879,814</u>
CAPITAL AND RESERVES			
Called up share capital	8	8,480	7,528
Share premium account	10	3,874,851	3,451,605
Other reserves	10	3	-
Profit and loss account	10	(3,400,508)	(2,579,319)
SHAREHOLDERS' FUNDS		<u>£ 482,826</u>	<u>£ 879,814</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

The financial statements were approved by the board on 28 January 2004 and signed on its behalf.

R Anderson
Director

The notes on pages 7 to 13 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2003

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

1.2 Going concern

During the year under review, the company has raised sufficient cash to continue its development programme, which is still in the early stages. Subsequent to the year end, a further £230,000 has been raised from shareholders, and funding of £250,000 has been secured from the company's bankers, and the directors are currently investigating further sources of finance so that development and marketing of the company's products can continue.

The financial statements have been prepared on a going concern basis, which the directors believe is appropriate.

Failure to secure additional funding would mean that adjustments would have to be made to the balance sheet value of assets, provisions for future liabilities that might arise would be required and changes to the balance sheet classification of assets and liabilities would be needed.

1.3 Cash flow

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective June 2002).

1.4 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	20%	straight line
Computer equipment	-	33.3%	straight line
Office equipment	-	20%	straight line

1.6 Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

1.7 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on the straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2003

1.8 Foreign currencies

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

1.9 Pensions

The company contributes to the pension funds of various employees and the pension charge represents the amounts payable by the company to these funds in respect of the year.

1.10 Revenue recognition

Income on the sale of licences and maintenance contracts is recognised in the financial statements over the term of the contract. Revenue raised through premium line sales is recognised on the basis of premium line usage.

1.11 Research and development

Research and development expenditure is written off to the financial statements as it is incurred.

2. OPERATING LOSS

The operating loss is stated after charging:

	2003 £	2002 £
Depreciation of tangible fixed assets:		
- owned by the company	44,099	40,535
Auditors' remuneration	5,650	4,500
Pension costs	13,950	20,245
Difference on foreign exchange	455	-
Research and development	105,596	83,569
	<u> </u>	<u> </u>

3. DIRECTORS' REMUNERATION

	2003 £	2002 £
Aggregate emoluments	£ 123,900	£ 123,300
	<u> </u>	<u> </u>

During the year retirement benefits were accruing to one director (2002 - one) in respect of money purchase pension schemes.

4. TAXATION

	2003 £	2002 £
Analysis of tax charge in year		
UK corporation tax (credit) on (loss) of the year	(22,957)	-
Adjustments in respect of prior periods	(20,057)	-
	<u> </u>	<u> </u>
Tax on loss on ordinary activities	£ (43,014)	£ -
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2003

Factors affecting tax charge for year

No corporation tax arises in the year due to trading losses.

Factors that may affect future tax charges

Corporation tax losses of approximately £3,211,000 are being carried forward and are available to offset against corporation tax arising on future trading profits.

5. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Computer equipment £	Office equipment £	Total £
Cost				
At 1 April 2002	27,168	101,780	23,888	152,836
Additions	-	5,567	846	6,413
At 31 March 2003	<u>27,168</u>	<u>107,347</u>	<u>24,734</u>	<u>159,249</u>
Depreciation				
At 1 April 2002	6,661	51,697	7,392	65,750
Charge for the year	5,434	33,626	5,039	44,099
At 31 March 2003	<u>12,095</u>	<u>85,323</u>	<u>12,431</u>	<u>109,849</u>
Net book value				
At 31 March 2003	<u>£ 15,073</u>	<u>£ 22,024</u>	<u>£ 12,303</u>	<u>£ 49,400</u>
At 31 March 2002	<u>£ 20,507</u>	<u>£ 50,083</u>	<u>£ 16,496</u>	<u>£ 87,086</u>

6. DEBTORS

	2003 £	2002 £
Due within one year		
Trade debtors	77,359	31,767
Other debtors	206,082	216,809
	<u>£ 283,441</u>	<u>£ 248,576</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2003

7. CREDITORS:

Amounts falling due within one year

	2003	2002
	£	£
Bank loans and overdrafts	-	75,967
Trade creditors	113,159	88,275
Social security and other taxes	25,284	15,598
Other creditors	59,957	42,016
	<u>£ 198,400</u>	<u>£ 221,856</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2003

8. SHARE CAPITAL

	2003	2002
	£	£
Authorised		
28,447 'A' Ordinary shares of 1p each	285	285
797,509 'B' Ordinary shares of 1p each	7,975	7,975
87,022 'C' Ordinary shares of 1p each	870	870
87,022 'D' Ordinary shares of 1p each	870	870
	<u>£ 10,000</u>	<u>£ 10,000</u>
Allotted, called up and fully paid		
28,447 'A' Ordinary shares of 1p each	285	285
645,483 'B' Ordinary shares of 1p each (see below)	6,455	5,503
87,022 'C' Ordinary shares of 1p each	870	870
87,022 'D' Ordinary shares of 1p each	870	870
	<u>£ 8,480</u>	<u>£ 7,528</u>

At 31st March 2002, there were 550,275 'B' Ordinary shares in issue and, during the year, 95,208 'B' Ordinary shares were issued at between £0.01 and £6.20 per share.

SHARE RIGHTS

As regards income all the classes of Ordinary shares shall be entitled to receive dividends pari passu amongst all holders of the shares as though one class of share.

On a sale of capital, change of control, return of assets, winding up or reduction of capital, the consideration shall be applied as follows:

(1) In the event of a liquidation, winding up or a qualifying sale (as defined in the Articles) the amount per

share shall be the aggregate of the subscription price and premium, plus, arrears of unpaid dividends and related accrued interest, and shall be applied as follows:

For a qualifying sale:

First to the 'C' and 'D' Ordinary shareholders, pari passu as though one class of share.

Second to the 'A' and 'B' Ordinary shareholders, in the same method.

For a liquidation:

First to the 'D' Ordinary shareholders, and second to the 'A', 'B' and 'C' Ordinary shareholders, pari passu, as though one class of share.

Any balance available after a qualifying sale or liquidation shall be distributed as follows:

First to the 'A' ordinary shareholders, and second to the 'B', 'C' and 'D' ordinary shareholders as though one class of share, according to the amount paid up thereon, but disregarding any premium paid.

(2) In the event of all the other circumstances referred to above, the consideration paid for the issued shares or surplus assets of the company, remaining after payment of its liabilities shall be applied in making payments to the holders of the 'A' Ordinary, the 'B' Ordinary, the 'C' Ordinary and the 'D' ordinary shares pari passu as though constituted one class of share.

As regards voting, every shareholder who is present at a meeting and shall have one vote for every share of which he is the holder, save that if any 'Event of Default' occurs the holders of the 'C' and 'D' Ordinary shares shall be entitled to 20 votes in respect of each 'C' and 'D' ordinary share, of which they are the holder. An 'Event of Default' shall exist if, in general terms, the company becomes insolvent,

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2003

fails to observe any covenants contained in the Investor Agreement, and if any warranties or representations made in connection with the Investment Agreement were known to be false or misleading.

9. SHARE OPTIONS

At 31 March 2003 the following options to purchase ordinary shares have been granted:

125 at a price of £0.01 exercisable at specified dates between 31.01.02 - 31.01.12
 4,000 at a price of £1.00 exercisable at specified dates between 19.08.00 - 19.08.10
 5,950 at a price of £6.20 exercisable at specified dates between 24.07.02 - 24.07.12
 11,050 at a price of £6.20 exercisable at specified dates between 02.08.02 - 02.08.12
 7,400 at a price of £6.20 exercisable at specified dates between 25.11.02 - 25.11.12
 6,100 at a price of £6.20 exercisable at specified dates between 24.05.03 - 24.05.13
 6,000 at a price of £10.00 exercisable at specified dates between 28.07.00 - 28.07.10
 3,000 at a price of £10.00 exercisable at specified dates between 02.08.00 - 02.08.10
 1,300 at a price of £17.68 exercisable at specified dates between 25.11.00 - 25.11.10
 2,000 at a price of £20.00 exercisable at specified dates between 14.05.01 - 14.05.11

10. RESERVES

Share premium account	£
At 1 April 2002	3,451,605
Premium on shares issued during the year	442,830
Expenses of share issue	(19,584)
	<hr/>
At 31 March 2003	£ 3,874,851
	<hr/> <hr/>
Profit and loss account	£
At 1 April 2002	(2,579,319)
Loss retained for the year	(821,189)
	<hr/>
At 31 March 2003	£(3,400,508)
	<hr/> <hr/>
Other reserves	£
At 1 April 2002	-
Other reserves	3
	<hr/>
At 31 March 2003	£ 3
	<hr/> <hr/>

11. PENSION COMMITMENTS

The company contributes to the pension funds of various employees. The pension cost charge represents contributions payable by the company to these funds and amounted to £13,950 (2002 £20,245). Contributions totalling £770 (2002, £1,820) were owed at the balance sheet date and are included in creditors.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2003

12. OPERATING LEASE COMMITMENTS

At 31 March 2003 the company had annual commitments under non-cancellable operating leases as follows:

	2003	<i>2002</i>
	£	£
Expiry date:		
After more than 5 years	30,900	<i>30,900</i>
	<u><u>30,900</u></u>	<u><u>30,900</u></u>

BANGO.NET LIMITED**DETAILED TRADING AND PROFIT AND LOSS ACCOUNT**
For the year ended 31 March 2003

	Page	2003 £	2002 £
TURNOVER	15	312,454	98,799
COST OF SALES	15	(37,035)	(2,309)
GROSS PROFIT		275,419	96,490
Gross profit %		88.1 %	97.7 %
Less: OVERHEADS			
Administration expenses	15	(1,152,189)	(1,270,092)
OPERATING LOSS		(876,770)	(1,173,602)
Interest receivable	16	12,567	12,189
LOSS FOR THE YEAR		£ (864,203)	£ (1,161,413)

BANGO.NET LIMITED

SCHEDULE TO THE DETAILED ACCOUNTS
For the year ended 31 March 2003

	2003 £	2002 £
TURNOVER		
Sales - UK	62,096	98,799
Sales - UK	250,358	-
	<u>£ 312,454</u>	<u>£ 98,799</u>
	2003 £	2002 £
COST OF SALES		
Purchases	152	2,185
Commission	19,040	94
Payment provider costs	17,843	30
	<u>£ 37,035</u>	<u>£ 2,309</u>
	2003 £	2002 £
ADMINISTRATION EXPENSES		
Directors salaries	123,900	120,000
Staff salaries	404,009	423,611
National Insurance	55,929	60,366
Staff training	8,642	1,548
Directors pension costs	-	3,300
Staff pensions	13,950	16,945
Recruitment expenses	3,558	11,165
Internet hosting	15,000	16,571
Entertainment	-	6,371
Hotels, travel and subsistence	30,644	40,365
Conferences	3,906	8,569
Consultancy	28,256	61,570
Printing and postage	5,022	8,061
Telephone and fax	35,997	34,586
Computer costs	6,389	2,644
Advertising and promotion	138,095	196,385
Stationery	3,461	3,377
Trade subscriptions	6,776	4,275
Charity donations	-	140
Legal and professional	50,473	48,790
Auditors' remuneration	5,650	4,500
Bank charges	9,282	8,140
Difference on foreign exchange	455	-
Equipment hire	-	140
Equipment leasing (operational)	1,392	1,449
Rent - operating leases	95,696	103,052
Service charges	18,639	3,816
Rates	25,761	25,008
Cleaning	5,331	2,384
Canteen	2,922	4,968
	<u>1,099,135</u>	<u>1,222,096</u>
Sub-total carried forward		

SCHEDULE TO THE DETAILED ACCOUNTS
For the year ended 31 March 2003

	2003 £	2002 £
ADMINISTRATION EXPENSES (Contd)		
Sub-total brought forward	1,099,135	1,222,096
Insurances	2,680	2,877
Repairs and maintenance	3,567	3,689
Depreciation - office equipment	44,100	40,535
Sundry expenses	1,166	-
Translation costs	1,541	895
	<u>£ 1,152,189</u>	<u>£ 1,270,092</u>
	2003 £	2002 £
INTEREST RECEIVABLE		
Bank interest receivable	<u>£ 12,567</u>	<u>£ 12,189</u>