

**THEMUTUAL.NET PLC  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 APRIL 2003**

**Company Registration Number 03925319**



**THEMUTUAL.NET PLC**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED 30 APRIL 2003**

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**THEMUTUAL.NET PLC**

**OFFICERS AND PROFESSIONAL ADVISERS**

**THE BOARD OF DIRECTORS**

|                 |                          |
|-----------------|--------------------------|
| J. W. Tayler    | - Non-executive Chairman |
| B. J. D. Heaton | - Managing Director      |
| P. N. Coveney   | - Financial Director     |
| A. Soobrattee   | - Technology Director    |
| V. R. Smith     | - Non-executive Director |
| D. J. Arnold    | - Non-executive Director |

**COMPANY SECRETARY**

P. N. Coveney

**REGISTERED OFFICE**

Ground floor  
6-7 Saint Cross Street  
London  
EC1N 8UB

**AUDITORS**

Menzies  
Chartered Accountants  
& Registered Auditors  
Neville House  
55 Eden Street  
Kingston upon Thames  
Surrey  
KT1 1BW

**BANKERS**

Barclays Bank Plc  
50 Pall Mall  
London  
SW1Y 5AX

**SOLICITORS**

Field Fisher Waterhouse  
35 Vine Street  
London EC3N 2AA

**NOMINATED ADVISOR**

Brewin Dolphin Securities Limited  
48 St Vincent Street  
Glasgow  
G2 5TS

**NOMINATED BROKER**

Bell Laurie White  
(a division of Brewin Dolphin Securities Limited)  
48 St Vincent Street  
Glasgow  
G2 5TS

**THEMUTUAL.NET PLC**  
**CHAIRMAN'S STATEMENT**  
**YEAR ENDED 30 APRIL 2003**

**Results for the year ended 30 April 2003**

I joined the Board on 26 September 2002 and was appointed Chairman with effect from 1 December 2002. I am pleased to say that Vince Smith remains on the Board.

I am delighted to announce your Company's first full year of profitable trading. This is a great achievement as very few pure internet companies born in the 'dotcom' period have made the transition to profitability.

The Group has maintained the growth in revenue and profitability reported at the time of the interim results to 31 October 2002. The financial highlights are set out below and demonstrate how far the company has progressed in the last few years.

| <b>Profit and loss account</b> | <b>Year ended<br/>30/4/03</b> | <b>Year ended<br/>30/4/02</b> | <b>Year ended<br/>30/4/01</b> |
|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                | <b>£</b>                      | <b>£</b>                      | <b>£</b>                      |
| Turnover                       | 1,372,000                     | 821,000                       | 476,000                       |
| Gross profit                   | 1,305,000                     | 716,000                       | 476,000                       |
| Net profit/(loss)              | 558,000                       | (28,000)                      | (1,221,000)                   |
| <br><b>Balance Sheet</b>       | <br><b>30/4/03</b>            | <br><b>30/4/02</b>            | <br><b>30/4/01</b>            |
|                                | <b>£</b>                      | <b>£</b>                      | <b>£</b>                      |
| Cash at bank                   | 720,000                       | 199,000                       | 299,000                       |
| Net current assets             | 734,000                       | 303,000                       | 333,000                       |
| Shareholders' funds            | 1,091,000                     | 534,000                       | 562,000                       |

Revenues, profitability, net current assets, cash at bank and shareholders' funds are all showing excellent growth and provide a strong base to continue the development of the company and to take advantage of opportunities that may arise.

What is particularly appealing but not evident from the figures is the improvement in quality of the revenue from the first half to the second half year. During the second half a much higher proportion of the revenue was derived from repeat business.

The Chairman's report has previously highlighted a number of factors giving the Board confidence on the prospects for the company. I update these below:

It was recently reported that online advertising reached a record high in 2002. The total spend figure also revealed that the online market share increased to 1.4% of total media spend - up from 1.2% in 2001. In Q4 of 2002 online market share reached 1.7%. These figures are rising against a downward trend in the majority of other media channels. It was also reported that the industry is on target to take a larger share of the overall marketing budgets as marketers' attitudes to the medium are beginning to change, it is also very much the traditional brands who are fuelling the growth in online advertising spend.

Email marketing is firmly established as part of the marketing mix, allowing advertisers to contact individuals with a personalised message targeted on their demographic profile and interests at a significant cost advantage to direct mail. themutual.net holds, and continues to collect, significant profile data and this is being utilised to better target campaigns resulting in increased response rates leading to higher revenues, and lower unsubscribe rates.

Strong growth in our membership base with 433,000 subscribers at the year end. (2002 - 214,000). We are continuing with our primary member acquisition model of targeting key words through Search Engine advertising and have recently outsourced this function to an Indian company who have demonstrated a high level of expertise in this field, increasing the overall number of clicks while reducing the overall cost per acquisition.

Use of technology and the Internet, continues to allow us to enjoy substantial member and revenue growth without a corresponding increase in staff numbers or costs.

Our low cost base continues to give us a significant competitive advantage.

We have decided to delay our ambitions to replicate themutual.net model overseas as we feel that the UK market still has significant opportunities and will produce better returns at this time.

**THEMUTUAL.NET PLC**

**CHAIRMAN'S STATEMENT** *(continued)*

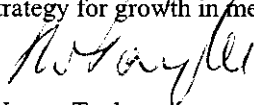
**YEAR ENDED 30 APRIL 2003**

Trading for the start of the current year is in line with our forecasts.

At our AGM you will be asked to vote on a proposal to allow your Company to buy back up to 10% of its shares as and when the Board deem it in the best interests of members. I would ask you to support this proposed resolution.

I would like to thank all the staff for their continuing dedication and hard work during the period, all of who have contributed to our success.

This remains a very exciting time for your company; we are generating profits and cash and are confident for the future. We are committed to developing themutual.net into a mature leader in email marketing, through our strategy for growth in members, revenue and profitability.



Warren Tayler  
Chairman

**THE MUTUAL.NET PLC**  
**THE DIRECTORS' REPORT**  
**YEAR ENDED 30 APRIL 2003**

The directors present their report and the financial statements of the group for the year ended 30 April 2003.

**PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the group during the year was internet based marketing and the provision of financial information.

A review of the business and future developments is contained in the Chairmans statements on page 2.

**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.

The directors have not recommended a dividend.

**THE DIRECTORS AND THEIR INTERESTS**

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

|                 | Class of share                     | At<br>30 April 2003 | At<br>1 May 2002<br>or later date<br>of appointment |
|-----------------|------------------------------------|---------------------|---|
| J. W. Tayler    | Ordinary shares of<br>0.0001p each | 42,505,000          | —   |
|                 | Deferred shares<br>of £1 each      | —                   | —   |
| B. J. D. Heaton | Ordinary shares of<br>0.0001p each | 424,874,118         | 408,374,118   |
|                 | Deferred shares<br>of £1 each      | 21,665              | 21,665  |
| P. N. Coveney   | Ordinary shares of<br>0.0001p each | 127,140,731         | 90,371,976  |
|                 | Deferred shares<br>of £1 each      | 2,647               | 2,647   |
| A. Soobrattee   |                                    | —                   | —   |
| V. R. Smith     |                                    | —                   | —   |
| D. J. Arnold    | Ordinary shares of<br>0.0001p each | 94,207,831          | 94,207,831  |
|                 | Deferred shares<br>of £1 each      | 4,804               | 4,804   |

D.J. Arnold's shares are owned by Profero Limited, a company which he ultimately controls.

J. W. Tayler was appointed as a director on 26 September 2002.

No share options were granted to directors during the period.

# THE MUTUAL.NET PLC

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 30 APRIL 2003

### SUBSTANTIAL SHAREHOLDINGS

On 30 April 2003 the following shareholders had a notifiable interest in the Ordinary shares of the company:

|                               | Number of<br>Ordinary shares | % of issued<br>Ordinary share capital |
|-------------------------------|------------------------------|---------------------------------------|
| Benjamin Heaton               | 424,874,118                  | 11.134                                |
| Schweco Nominees Limited      | 423,599,777                  | 11.101                                |
| Capita IRG Trustees Limited   | 374,926,630                  | 9.825                                 |
| Foresight Technology VCT plc  | 342,730,249                  | 8.982                                 |
| Cairnsford Associates Limited | 274,184,199                  | 7.185                                 |
| Thesis Nominees Limited       | 174,638,149                  | 4.577                                 |
| State Street Nominees Limited | 137,092,100                  | 3.593                                 |
| Peter Coveney                 | 127,140,731                  | 3.332                                 |
| Berdon Investment Corporation | 125,805,900                  | 3.297                                 |

### CORPORATE GOVERNANCE

The directors acknowledge the importance of the 'Principles of Good Governance and Code of Best Practice' published by the London Stock Exchange (usually described as the 'Combined Code') and intend to apply them as appropriate to the company given its size and nature.

The Company holds Board meetings regularly throughout the year at which financial and other reports are considered.

An Audit Committee has been established comprising three non-executive directors. A quorum shall be at least two members. A Remuneration Committee has also been established comprising of the three non-executive directors which will meet as and when necessary but at least annually to review, inter alia, the performance and salaries of the executive directors.

### POLICY ON THE PAYMENT OF CREDITORS

The Group did not have a formal policy for payment of creditors during the period and invoices were paid as received and authorised. At the year end trade creditors of the Group represented 46 days purchases. The parent company did not make any trade purchases.

### 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 group at the end of the year and of the group's profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies, as described on pages 13 to 14, 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 financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

**THEMUTUAL.NET PLC**

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

**YEAR ENDED 30 APRIL 2003**

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

**AUDITORS**

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

Signed by order of the directors



P. N. Covenby  
Company Secretary

Approved by the directors on 27 June 2003

# THE MUTUAL.NET PLC

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

YEAR ENDED 30 APRIL 2003

We have audited the financial statements on pages 8 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 13 to 14.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards are set out in the Statement of Directors' Responsibilities on pages 5 to 6.

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 Chairman's statement and the Directors' Report and consider whether they are consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### BASIS OF 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 group's circumstances, consistently applied and adequately disclosed.

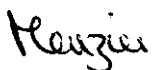
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 the company's affairs and of the group as at 30 April 2003 and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Neville House  
55 Eden Street  
Kingston upon Thames  
Surrey  
KT1 1BW

27 June 2003

  
MENZIES  
Chartered Accountants  
& Registered Auditors

**THE MUTUAL.NET PLC**  
**GROUP PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 30 APRIL 2003**

|   | Note | 2003<br>£             | 2002<br>£              |
|---|------|-----------------------|------------------------|
| <b>GROUP TURNOVER</b>                                       | 2    | 1,372,641             | 821,291                |
| Cost of sales   |      | 67,508                | 104,857                |
| <b>GROSS PROFIT</b>   |      | <u>1,305,133</u>      | <u>716,434</u>         |
| Administrative expenses                                     |      | 757,782               | 749,718                |
| <b>OPERATING PROFIT/(LOSS)</b>                              | 3    | <u>547,351</u>        | <u>(33,284)</u>        |
| Interest receivable   |      | 11,306                | 7,116                  |
| Interest payable  | 6    | (707)                 | (2,071)                |
| <b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b> |      | <u>557,950</u>        | <u>(28,239)</u>        |
| Tax on profit/(loss) on ordinary activities                 | 7    | -                     | -                      |
| <b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR</b>        | 8    | <u><u>557,950</u></u> | <u><u>(28,239)</u></u> |
| Earnings per share (pence)                                  | 9    | <u>0.015075</u>       | <u>(0.00076)</u>       |
| Diluted earnings per share (pence)                          |      | <u>0.014160</u>       | <u>(0.00076)</u>       |

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 13 to 22 form part of these financial statements.

**THEMUTUAL.NET PLC**  
**GROUP BALANCE SHEET**  
**30 APRIL 2003**

|   | Note | 2003           |                  | 2002           |                |
|---|------|----------------|------------------|----------------|----------------|
|   |      | £              | £                | £              | £              |
| <b>FIXED ASSETS</b>   |      |                |                  |                |                |
| Intangible assets   | 10   |                | 343,895          |                | 205,035        |
| Tangible assets   | 11   |                | 13,983           |                | 26,125         |
|   |      |                | <u>357,878</u>   |                | <u>231,160</u> |
| <b>CURRENT ASSETS</b>                                       |      |                |                  |                |                |
| Debtors   | 13   | 243,707        |                  | 357,356        |                |
| Cash at bank  |      | 720,040        |                  | 199,107        |                |
|   |      | <u>963,747</u> |                  | <u>556,463</u> |                |
| <b>CREDITORS: Amounts falling due within one year</b>       | 14   |                | <u>229,853</u>   |                | <u>253,934</u> |
| <b>NET CURRENT ASSETS</b>                                   |      |                | 733,894          |                | 302,529        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                |      |                | <u>1,091,772</u> |                | <u>533,689</u> |
| <b>CAPITAL AND RESERVES</b>                                 |      |                |                  |                |                |
| Called-up share capital                                     | 18   |                | 103,816          |                | 103,683        |
| Share premium account                                       |      |                | 2,275,517        |                | 2,275,517      |
| Other reserves  | 19   |                | 120,374          |                | 120,374        |
| Profit and loss account                                     | 19   |                | (1,407,935)      |                | (1,965,885)    |
| <b>SHAREHOLDERS' FUNDS (including non-equity interests)</b> | 20   |                | <u>1,091,772</u> |                | <u>533,689</u> |

These financial statements were approved by the directors on the 27 June 2003 and are signed on their behalf by:

B. J. D. Heaton

P. N. Coveney

The notes on pages 13 to 22 form part of these financial statements.

**THEMUTUAL.NET PLC**

**BALANCE SHEET**

**30 APRIL 2003**

|   | Note | 2003           |                  | 2002           |                  |
|---|------|----------------|------------------|----------------|------------------|
|   |      | £              | £                | £              | £                |
| <b>FIXED ASSETS</b>   |      |                |                  |                |                  |
| Investments   | 12   |                | 1,965,742        |                | 2,248,463        |
| <b>CURRENT ASSETS</b>                                       |      |                |                  |                |                  |
| Debtors   | 13   | 125            |                  | 42             |                  |
| Cash at bank  |      | 657,800        |                  | 161,464        |                  |
|   |      | <u>657,925</u> |                  | <u>161,506</u> |                  |
| <b>CREDITORS: Amounts falling due within one year</b>       | 14   | 51,366         |                  | 21,573         |                  |
| <b>NET CURRENT ASSETS</b>                                   |      |                | <u>606,559</u>   |                | <u>139,933</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                |      |                | <u>2,572,301</u> |                | <u>2,388,396</u> |
| <b>CAPITAL AND RESERVES</b>                                 |      |                |                  |                |                  |
| Called-up share capital                                     | 18   |                | 103,816          |                | 103,683          |
| Share premium account                                       |      |                | 2,275,517        |                | 2,275,517        |
| Profit and loss account                                     | 19   |                | 192,968          |                | 9,196            |
| <b>SHAREHOLDERS' FUNDS (including non-equity interests)</b> |      |                | <u>2,572,301</u> |                | <u>2,388,396</u> |

These financial statements were approved by the directors on the 27 June 2003 and are signed on their behalf by:

B. J. D. Heaton

P. N. Coveney

The notes on pages 13 to 22 form part of these financial statements.

**THE MUTUAL.NET PLC**  
**GROUP CASH FLOW**  
**YEAR ENDED 30 APRIL 2003**

|   | 2003           |                 | 2002           |                  |
|---|----------------|-----------------|----------------|------------------|
|   | £              | £               | £              | £                |
| <b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>  |                | 777,283         |                | (2,604)          |
| <b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>  |                |                 |                |                  |
| Interest received   | 11,306         |                 | 7,116          |                  |
| Interest paid   | -              |                 | (31)           |                  |
| Interest element of finance leases  | <u>(707)</u>   |                 | <u>(2,040)</u> |                  |
| <b>NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>                             |                | 10,599          |                | 5,045            |
| <b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>   |                |                 |                |                  |
| Payments to acquire intangible fixed assets   | (249,923)      |                 | (84,825)       |                  |
| Payments to acquire tangible fixed assets   | <u>(9,991)</u> |                 | <u>(9,396)</u> |                  |
| <b>NET CASH OUTFLOW FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>                                |                | (259,914)       |                | (94,221)         |
| <b>CASH INFLOW/(OUTFLOW) BEFORE FINANCING</b>   |                | 527,968         |                | (91,780)         |
| <b>FINANCING</b>  |                |                 |                |                  |
| Issue of equity share capital   | 133            |                 | -              |                  |
| Capital element of finance leases   | <u>(7,168)</u> |                 | <u>(8,460)</u> |                  |
| <b>NET CASH OUTFLOW FROM FINANCING</b>  |                | (7,035)         |                | (8,460)          |
| <b>INCREASE/(DECREASE) IN CASH</b>  |                | <u>520,933</u>  |                | <u>(100,240)</u> |
| <b>RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b> |                |                 |                |                  |
|   |                | <b>2003</b>     |                | <b>2002</b>      |
|   |                | <b>£</b>        |                | <b>£</b>         |
| Operating profit/(loss)   |                | 547,351         |                | (33,284)         |
| Amortisation  |                | 111,063         |                | 53,618           |
| Depreciation  |                | 22,133          |                | 41,580           |
| Loss on disposal of fixed assets  |                | -               |                | 3,116            |
| Decrease/(increase) in debtors  |                | 113,649         |                | (100,108)        |
| (Decrease)/increase in creditors  |                | <u>(16,913)</u> |                | <u>32,474</u>    |
| <b>Net cash inflow/(outflow) from operating activities</b>  |                | <u>777,283</u>  |                | <u>(2,604)</u>   |

The notes on pages 13 to 22 form part of these financial statements.

**THEMUTUAL.NET PLC**  
**GROUP CASH FLOW** *(continued)*  
**YEAR ENDED 30 APRIL 2003**

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

|   | 2003              |                | 2002      |                  |
|---|-------------------|----------------|-----------|------------------|
|   | £                 | £              | £         | £                |
| Increase/(decrease) in cash in the period | 520,933           |                | (100,240) |                  |
| Cash outflow in respect of finance leases | 7,168             |                | 8,460     |                  |
| Cash used to decrease liquid resources    | —                 |                | (280,000) |                  |
|   | <u>          </u> | 528,101        |           | (371,780)        |
| <b>Change in net funds</b>                |                   | <u>528,101</u> |           | <u>(371,780)</u> |
| <b>Net funds at 1 May 2002</b>            |                   | 191,939        |           | 283,719          |
| <b>Net funds at 30 April 2003</b>         |                   | <u>720,040</u> |           | <u>191,939</u>   |

**ANALYSIS OF CHANGES IN NET FUNDS**

|                          | At<br>1 May 2002<br>£ | Cash flows<br>£ | At<br>30 Apr 2003<br>£ |
|--------------------------|-----------------------|-----------------|------------------------|
| Net cash:                |                       |                 |                        |
| Cash in hand and at bank | 199,107               | 520,933         | 720,040                |
| Debt:                    |                       |                 |                        |
| Finance lease agreements | (7,168)               | 7,168           | —                      |
| <b>Net funds</b>         | <u>191,939</u>        | <u>528,101</u>  | <u>720,040</u>         |

The notes on pages 13 to 22 form part of these financial statements.

**THEMUTUAL.NET PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 30 APRIL 2003**

**1. ACCOUNTING POLICIES**

**Basis of accounting**

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

**Basis of consolidation**

The consolidated financial statements incorporate the results of the company and all of its subsidiary undertakings using the merger method of accounting.

**Merger accounting**

Where merger accounting is used, the investments are recorded in the company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the group financial statements, the merged parent undertaking along with its subsidiary undertakings are treated as if they had always been members of the group. The corresponding figures for the previous year include the results for the three companies for that period., the assets and liabilities at the previous balance sheet date and the shares issued by the parent as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the company and those issued by the company to acquire them is taken to reserves.

**Turnover**

Turnover represents sales to outside customers at invoiced amounts ( or where applicable, invoicable value of work conducted ) less value added tax.

**Intangible fixed assets**

Intangible fixed assets represent various databases which are used within the internet based marketing of the business.

**Amortisation**

Amortisation 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:

Database - 2 to 4 years straight line

Following a review of the useful life of the database the amortisation period was revised to reflect a more prudent life of 2 years.

**Fixed assets**

All fixed assets are initially recorded at cost.

**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:

Fixtures and fittings - 30 months straight line

**Finance lease agreements**

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the group profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

# THE MUTUAL.NET PLC

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 APRIL 2003

### 1. ACCOUNTING POLICIES *(continued)*

#### Operating lease agreements

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.

#### Deferred taxation

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:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

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 timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### Investments

Fixed asset investments are carried at cost unless the directors are of the opinion that an impairment in value has occurred, in which case a provision is made to reflect the impairment in value.

### 2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the group.

An analysis of turnover is given below:

|                | 2003<br>£ | 2002<br>£ |
|----------------|-----------|-----------|
| United Kingdom | 1,372,641 | 821,291   |

### 3. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

|  | 2003<br>£ | 2002<br>£ |
|--|-----------|-----------|
| Amortisation   | 111,063   | 53,618    |
| Depreciation of owned fixed assets                         | 22,133    | 31,514    |
| Depreciation of assets held under finance lease agreements | -         | 10,066    |
| Loss on disposal of fixed assets                           | -         | 3,116     |
| Auditors' remuneration                                     |           |           |
| - as auditors - company                                    | 4,635     | 4,500     |
| - group  | 12,360    | 12,000    |
| - non-audit  | 2,250     | -         |
| Operating lease costs:                                     |           |           |
| Land and buildings   | 11,920    | 11,920    |

**THE MUTUAL.NET PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 30 APRIL 2003**

**4. PARTICULARS OF EMPLOYEES**

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

|                                | <b>2003</b> | <b>2002</b> |
|--------------------------------|-------------|-------------|
|                                | <b>No</b>   | <b>No</b>   |
| Number of administrative staff | 10          | 8           |

The aggregate payroll costs of the above were:

|                       | <b>2003</b>    | <b>2002</b>    |
|-----------------------|----------------|----------------|
|                       | <b>£</b>       | <b>£</b>       |
| Wages and salaries    | 389,863        | 284,534        |
| Social security costs | 41,337         | 29,482         |
|                       | <u>431,200</u> | <u>314,016</u> |

**5. DIRECTORS' EMOLUMENTS**

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

|                       | <b>2003</b> | <b>2002</b> |
|-----------------------|-------------|-------------|
|                       | <b>£</b>    | <b>£</b>    |
| Emoluments receivable | 204,992     | 139,075     |

**Emoluments of highest paid director:**

|   | <b>2003</b>   | <b>2002</b>   |
|---|---------------|---------------|
|   | <b>£</b>      | <b>£</b>      |
| Total emoluments (excluding pension contributions): | <u>78,333</u> | <u>48,000</u> |

**Share options**

The directors during the period and their beneficial interest in options to purchase ordinary shares in the company which were granted and vested during the period, were as follows:

|              | <b>Date of grant</b> | <b>Number of options granted</b> | <b>Number of options vested in period</b> | <b>Exercise price</b> | <b>Expiry date</b> |
|--------------|----------------------|----------------------------------|---|-----------------------|--------------------|
| P Coveney    | 23 May 2000          | 25,000,000                       | 8,333,334                                 | 0.0001p               | 23 May 2010        |
|              | 5 April 2002         | 181,500,000                      | 121,000,000                               | 0.055p                | 5 April 2012       |
| A Soobrattee | 23 May 2000          | 10,000,000                       | 2,000,000                                 | 0.0001p               | 23 May 2010        |
|              | 31 October 2000      | 10,000,000                       | 3,333,333                                 | 0.2125p               | 31 October 2010    |

Only vested options may be exercised at any time in whole or in part.

No options were exercised during the period.

**6. INTEREST PAYABLE**

|                                    | <b>2003</b> | <b>2002</b>  |
|------------------------------------|-------------|--------------|
|                                    | <b>£</b>    | <b>£</b>     |
| Interest payable on bank borrowing | -           | 31           |
| Finance charges                    | 707         | 2,040        |
|                                    | <u>707</u>  | <u>2,071</u> |

# THE MUTUAL.NET PLC

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 30 APRIL 2003

#### 7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

There is no tax charge for the year due to losses surrendered by group companies and trading losses carried forward from the previous periods.

##### Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of -% (2002 - -%).

|  | 2003<br>£ | 2002<br>£ |
|--|-----------|-----------|
| Profit/(loss) on ordinary activities before taxation | 557,950   | (28,239)  |
| Profit/(loss) on ordinary activities by rate of tax  | 167,385   | -         |
| Expenses not deductible for tax                      | 3,388     | -         |
| Capital allowances in excess of depreciation         | (3,794)   | -         |
| Utilisation of tax losses                            | (166,979) | -         |
| Total current tax                                    | -         | -         |

#### 8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £183,772 (2002 - £(25,468)).

#### 9. EARNINGS PER SHARE

|                             | 2003<br>pence | 2002<br>pence |
|-----------------------------|---------------|---------------|
| Earnings per ordinary share | 0.015075      | (0.00076)     |
| Earnings per ordinary share | 0.014160      | (0.00076)     |

The calculation of the profit per share is based on the profit for the period of £557,950 (2002 - £28,239 loss) and on the weighted average number of shares in issue during the period of 3,701,183,080 (2002 - 3,682,710,214).

The calculation of the diluted profit per share is based on the same profit and weighted average shares of 3,940,266,413 (2002 - 3,682,710,214).

**THEMUTUAL.NET PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 30 APRIL 2003**

**10. INTANGIBLE FIXED ASSETS**

| <b>Group</b>            | <b>Database<br/>£</b> |
|-------------------------|-----------------------|
| <b>COST</b>             |                       |
| At 1 May 2002           | 278,866               |
| Additions               | 249,923               |
| <b>At 30 April 2003</b> | <u>528,789</u>        |
| <b>AMORTISATION</b>     |                       |
| At 1 May 2002           | 73,831                |
| Charge for the year     | 111,063               |
| <b>At 30 April 2003</b> | <u>184,894</u>        |
| <b>NET BOOK VALUE</b>   |                       |
| <b>At 30 April 2003</b> | <u>343,895</u>        |
| At 30 April 2002        | <u>205,035</u>        |

**11. TANGIBLE FIXED ASSETS**

| <b>Group</b>            | <b>Fixtures &amp; Fittings<br/>£</b> |
|-------------------------|--------------------------------------|
| <b>COST</b>             |                                      |
| At 1 May 2002           | 113,280                              |
| Additions               | 9,991                                |
| <b>At 30 April 2003</b> | <u>123,271</u>                       |
| <b>DEPRECIATION</b>     |                                      |
| At 1 May 2002           | 87,155                               |
| Charge for the year     | 22,133                               |
| <b>At 30 April 2003</b> | <u>109,288</u>                       |
| <b>NET BOOK VALUE</b>   |                                      |
| <b>At 30 April 2003</b> | <u>13,983</u>                        |
| At 30 April 2002        | <u>26,125</u>                        |

**Finance lease agreements**

Included within the net book value of £13,983 is £Nil (2002 - £3,422) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £Nil (2002 - £10,066).

| <b>Company</b>                  | <b>Group<br/>companies<br/>£</b> |
|---------------------------------|----------------------------------|
| <b>COST</b>                     |                                  |
| At 1 May 2002 and 30 April 2003 | <u>101,959</u>                   |
| <b>LOANS</b>                    |                                  |
| At 1 May 2002                   | 2,221,411                        |
| Repaid in year                  | (357,628)                        |

**THE MUTUAL.NET PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 30 APRIL 2003**

**11. TANGIBLE FIXED ASSETS** *(continued)*

|                       |                  |
|-----------------------|------------------|
| At 30 April 2003      | <u>1,863,783</u> |
| <b>NET BOOK VALUE</b> |                  |
| At 30 April 2003      | <u>1,965,742</u> |
| At 30 April 2002      | <u>2,323,370</u> |

|                                | Country of<br>incorporation | Holding         | Proportion<br>of voting<br>rights and<br>shares held | Nature of business                   |
|--------------------------------|-----------------------------|-----------------|--|--------------------------------------|
| <b>Subsidiary undertakings</b> |                             |                 |  |                                      |
| All held by the company:       |                             |                 |  |                                      |
| Hague Limited                  | England                     | Ordinary shares | 100%   | Permission based e-mail<br>marketing |
| Freequotes.co.uk<br>Limited    | England                     | Ordinary shares | 100%   | Permission based e-mail<br>marketing |

**13. DEBTORS**

|                                | Group          |                | Company    |           |
|--------------------------------|----------------|----------------|------------|-----------|
|                                | 2003           | 2002           | 2003       | 2002      |
|                                | £              | £              | £          | £         |
| Trade debtors                  | 167,253        | 250,086        | -          | -         |
| VAT recoverable                | -              | -              | 5          | -         |
| Other debtors                  | 120            | -              | 120        | 42        |
| Prepayments and accrued income | 76,334         | 107,270        | -          | -         |
|                                | <u>243,707</u> | <u>357,356</u> | <u>125</u> | <u>42</u> |

**14. CREDITORS: Amounts falling due within one year**

|   | Group          |                | Company       |               |
|---|----------------|----------------|---------------|---------------|
|   | 2003           | 2002           | 2003          | 2002          |
|   | £              | £              | £             | £             |
| Trade creditors   | 87,873         | 111,634        | -             | -             |
| Finance lease agreements                                | -              | 7,168          | -             | -             |
| Other creditors including taxation and social security: |                |                |               |               |
| PAYE and social security                                | 14,633         | 11,395         | -             | -             |
| VAT   | 30,917         | 27,470         | -             | -             |
| Other creditors   | 51,366         | 21,573         | 51,366        | 21,573        |
| Accruals and deferred income                            | 45,064         | 74,694         | -             | -             |
|   | <u>229,853</u> | <u>253,934</u> | <u>51,366</u> | <u>21,573</u> |

Included within other creditors is an amount of £51,366 (2002 - £21,573) which relates to share options which have been granted but not taken up. These are in respect of consideration due for services provided.

**THE MUTUAL.NET PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 30 APRIL 2003**

**15. COMMITMENTS UNDER FINANCE LEASES AGREEMENTS**

Future commitments under finance leases agreements are as follows:

|                               | <b>Group</b> |              | <b>Company</b> |             |
|-------------------------------|--------------|--------------|----------------|-------------|
|                               | <b>2003</b>  | <b>2002</b>  | <b>2003</b>    | <b>2002</b> |
|                               | <b>£</b>     | <b>£</b>     | <b>£</b>       | <b>£</b>    |
| Amounts payable within 1 year | -            | 7,168        | -              | -           |
|                               | <u>-</u>     | <u>7,168</u> | <u>-</u>       | <u>-</u>    |
|                               | <u>-</u>     | <u>7,168</u> | <u>-</u>       | <u>-</u>    |

**16. COMMITMENTS UNDER OPERATING LEASES**

At 30 April 2003 the group had annual commitments under non-cancellable operating leases as set out below.

| <b>Group</b>                   | <b>Land and buildings</b> |               |
|--------------------------------|---------------------------|---------------|
|                                | <b>2003</b>               | <b>2002</b>   |
|                                | <b>£</b>                  | <b>£</b>      |
| Operating leases which expire: |                           |               |
| Within 1 year                  | 4,967                     | -             |
| Within 2 to 5 years            | -                         | 11,920        |
|                                | <u>4,967</u>              | <u>11,920</u> |

**17. RELATED PARTY TRANSACTIONS**

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

There is no ultimate controlling party.

**18. SHARE CAPITAL**

**Authorised share capital:**

|  | <b>2003</b>    | <b>2002</b>    |
|--|----------------|----------------|
|  | <b>£</b>       | <b>£</b>       |
| 10,000,000,000 Ordinary shares of 0.0001p each | 10,000         | 10,000         |
| 100,000 Deferred shares of £1 each             | 100,000        | 100,000        |
|  | <u>110,000</u> | <u>110,000</u> |

**Allotted and called up:**

|                                 | <b>2003</b>          |                | <b>2002</b>          |                |
|---------------------------------|----------------------|----------------|----------------------|----------------|
|                                 | <b>number</b>        | <b>£</b>       | <b>number</b>        | <b>£</b>       |
| Ordinary shares of 0.0001p each | 3,815,949,884        | 3,816          | 3,682,610,214        | 3,683          |
| Deferred shares of £1 each      | 100,000              | 100,000        | 100,000              | 100,000        |
|                                 | <u>3,816,049,884</u> | <u>103,816</u> | <u>3,682,710,214</u> | <u>103,683</u> |

**THEMUTUAL.NET PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 30 APRIL 2003**

**18. SHARE CAPITAL** *(continued)*

During the period 133,339,670 shares of 0.0001p were issued at par.

The rights and restrictions attached to and imposed on the deferred shares are as follows:

- a) The deferred shares shall not confer upon the holders thereof as a class, the right to receive any dividend, distribution or other participation in the profits of the company.
- b) The deferred shares do not entitle the holders to receive notice of or to attend and speak or vote at any general meeting of the company.
- c) On distribution of assets on liquidation or otherwise, the surplus assets of the company remaining after payments of its liabilities shall be applied:
  - i) first in repaying to holders of the deferred shares the nominal amounts and any premium paid up or credited as paid up on such shares; and
  - ii) second, the balance of such assets shall belong to and be distributed amount the holders of the ordinary shares in proportion to the nominal amounts paid up in the ordinary shares held by them respectively.

**Other share options**

At 30 April 2003 the following share options to purchase ordinary shares in the company were in issue:

| <b>Date of grant</b> | <b>Number of options granted</b> | <b>Number of options vested in period</b> | <b>Exercise price</b> | <b>Expiry date</b> |
|----------------------|----------------------------------|---|-----------------------|--------------------|
| 23 May 2000          | 40,833,333                       | 10,333,333                                | 0.0001p               | 23 May 2010        |
| 31 October 2000      | 16,750,000                       | 4,833,333                                 | 0.2125p               | 31 October 2010    |
| 5 April 2002         | 181,500,000                      | 121,000,000                               | 0.055p                | 5 April 2012       |

Only vested options may be exercised at any time in whole or in part.

**19. RESERVES**

| <b>Group</b>                 | <b>Share premium account<br/>£</b> | <b>Merger reserve on consolidation<br/>£</b> | <b>Profit and loss account<br/>£</b> |
|------------------------------|------------------------------------|--|--------------------------------------|
| Balance brought forward      | 2,275,517                          | 120,374                                      | (1,965,885)                          |
| Retained profit for the year | –                                  | –  | 557,950                              |
| Balance carried forward      | <u>2,275,517</u>                   | <u>120,374</u>                               | <u>(1,407,935)</u>                   |
| <b>Company</b>               |                                    | <b>Share premium account<br/>£</b>           | <b>Profit and loss account<br/>£</b> |
| Balance brought forward      |                                    | 2,275,517                                    | 9,196                                |
| Retained profit for the year |                                    | –  | 183,772                              |
| Balance carried forward      |                                    | <u>2,275,517</u>                             | <u>192,968</u>                       |

**THE MUTUAL.NET PLC****NOTES TO THE DETAILED GROUP PROFIT AND LOSS ACCOUNT****YEAR ENDED 30 APRIL 2003****20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****EQUITY SHAREHOLDERS' FUNDS**

|                                      | 2003<br>£      | 2002<br>£       |
|--------------------------------------|----------------|-----------------|
| Profit/(Loss) for the financial year | 557,950        | (28,239)        |
| New equity share capital subscribed  | 133            | -               |
| Net addition/(reduction) to funds    | <u>558,083</u> | <u>(28,239)</u> |
| Opening shareholders' equity funds   | 433,689        | 461,928         |
| Closing shareholders' equity funds   | <u>991,772</u> | <u>433,689</u>  |

**NON-EQUITY SHAREHOLDERS' FUNDS**

|  |                  |                |
|--|------------------|----------------|
| Opening and closing shareholders' non-equity funds | <u>100,000</u>   | <u>100,000</u> |
| <b>TOTAL SHAREHOLDERS' FUNDS</b>                   | <u>1,091,772</u> | <u>533,689</u> |

**21. FINANCIAL INSTRUMENTS**

Other than short term debtors and creditors, which have not been treated as financial assets and liabilities for the purposes of the disclosures required by FRS13 'Financial instruments and similar items', the group's financial assets and liabilities comprise cash at bank, investments, finance lease obligations and non-equity shares issued by the company. The group had not entered into derivatives.

Operations to date have been financed through the placing of shares and it is Board policy for the time being not to finance the groups operations through borrowings, save for a small amount of finance lease obligations.

The company is exposed to interest rate risk only in as much as surplus cash balances are placed on short term deposit, which bear interest at rates which generally moves in accordance with LIBOR. The rate on such deposits during the period end was 3.15%. Holders of the non-equity shares do not receive a return on their investment, and have no specified maturity date.

There is no material difference between the book and fair values of financial assets and liabilities, except for the non-equity shares which have an estimated fair value of £nil.