

GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 30 September 2003



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GAIA TECHNOLOGIES PLC

COMPANY INFORMATION

DIRECTORS	Mr Anas Abdulmawla Mr Ayad Abdulmawla Mr Kevin Evans Mrs K Patouchea
SECRETARY	Mrs K Patouchea
COMPANY NUMBER	3141826
REGISTERED OFFICE	17/19 High Street Bangor Gwynedd LL57 1NP
AUDITORS	Hughes Parry & Co Accountants & Registered Auditors 121 High Street Bangor Gwynedd LL57 1NT
BANKERS	Bank of Wales Aled House St David's Park Deeside Flintshire CH5 3XA

GAIA TECHNOLOGIES PLC

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GAIA TECHNOLOGIES PLC

CHAIRMAN'S STATEMENT For the year ended 30 September 2003

In 2003 Gaia completed a few wireless projects like Alston Cybermoor in Cumbria, and the Eastserve project in Manchester amongst others around the UK. This saw Gaia emerging as the wireless leader in the market place in the UK.

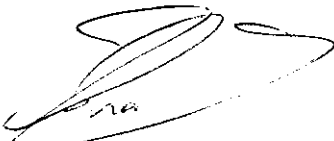
The successful bid of Deudraeth Cyf to the objective one European Fund with Gaia as its technical partner, saw the first wireless community in Wales, in the County of Gwynedd, near the Portmerion village area connecting 10 towns and villages, and with a target to connect 1500 homes and businesses. This project is has been implemented with over 350 clients already connected and with many more being connected on a daily basis. The project is currently applying for more funding to expand both the number of clients connected and geographically to cover more rural areas in Gwynedd.

Locally Gaia has continued to upgrade its own educational network after three years of use by the local schools, by opening it to both home and businesses users, the Gaia Broadband service has started to attract customers. The view is for the network to provide service in all the North Wales area.

Nationally Gaia has positioned itself to partner with large communication companies to deliver wireless broadband where ADSL fails to do so, and thus insuring 100 present broadband coverage required by the UK Government in most places, an example of this cooperation is the project Access in Cumbria, currently under last stage of the tender bid.

Gaia sees a great growth opportunity in the wireless market in both terms of revenues and profit percentage, however Gaia still believes in its core IT business, and working to promote it's newly introduced Managed Service in the education market. This has not contributed to 2003 revenues; however three large educational customers have been signed up more recently.

Gaia is working hard to take advantage of its position and success in both core and wireless business, and hoping that Gaia in 2004 is more profitable and continues to stay ahead of its competitors.



Mr Anas Abdulmawla
Chairman

29 March 2004

GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT **For the year ended 30 September 2003**

The directors present their report and the financial statements for the year ended 30 September 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 group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The group's principal activity continues to be that of delivering advance information technology solutions to our customers, including the supply of computer hardware, consultancy, support and maintenance.

The groups' customers include Local Governments, Schools and Colleges, NHS Trusts and Industrial Corporations. The wireless division of the company has proved successful in delivering wireless communities in many areas of the UK. This has positioned the company as a UK wireless leader in the field.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £157,422 (2002 - £126,847) .

GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT For the year ended 30 September 2003

The fixed dividends on preference shares of £19,901 were paid (2002 - £13,360) and the dividends on ordinary shares totalled £76,924 (2002 - £48,211).

The group turnover for the year was £3.367m, a very similar annual level to the previous 14 month period of £4.024m. Gross profit also increased to £1.556m compared to £1.397, showing a gross profit percentage of 46.2%, up 11.50% points from 34.7%.

Net Assets as of September 30, 2003 were £441k up from £377k; this represents an increase of 17%. The Depreciation total for the year was £211,815 (2002 - £202,853). The investment in capital equipment and development for the year was £234,622 (2002 - £457,694).

While 2003 fell below the directors forecast for year in terms of turnover, it remained almost static in comparison to last year; however the company results were much better in both terms of gross profit and net profit, and were a welcome step in the right direction in the development and growth of the company.

The wireless division accounted for 55% of the revenue of the company for the first time exceeding the IT core business of the company, this was due to the poor education market, where schools have not received enough funding for IT this year. This prompted a change in our product range and in ways to pay for IT investment in education. The company has introduced its **Managed Service** for Education late in the year. The service can be described as follows:

"A managed service is when a supplier undertakes the provision and support of a school's ICT facilities, leaving the school itself free to get on with the business of teaching and learning".

This service follows the BECTA definition of the most comprehensive type of Managed Service
<http://www.ictadvice.org.uk/index.php?section=te&cat=008001&rid=426>

"The supplier is responsible for all ICT requirements, including sourcing and installing all equipment and future maintenance. The school doesn't purchase anything, but keeps to an agreed payment schedule. This can be over three or four years and thus easing any budgetary problems"

The above service has encouraged many schools to buy in, it has started to bare fruits in the company results in terms of turnover and profits and the directors forecast £500K worth of sales for this service over the coming year.

Other projects:

In this year the company completed most of its wireless project in East Manchester and Alston in Cumbria, as well the Digital Vale project in and around the area of Portmerion, where 10 towns have been connected and wireless broadband has been enabled. Currently over 350 homes and businesses are receiving service out of the 1500 planned. The project was successful in gaining local and national assembly support, as well as a European grant under Objective One Regional Aid. The Directors see this project achieving its targets, and currently a second bid is in process to expand the project to other areas.

Project ACCESS in Cumbria aiming to deliver Broadband to all Cumbria's 245,000 homes and 24,000 businesses over the next 3 years. Gaia is working with help from Cisco as partner with other leading communication players in that area. Where Gaia is able to deliver last mile connectivity in areas of the project where traditional ADSL communication methods can not. Gaia has already proved itself capable of delivering connectivity in these areas. Gaia and its partners are anxiously expecting an answer within the next few weeks.

Gaia Technologies Plc has launched its own Broadband Services in the North Wales Area; this saw the company investing heavily in its wireless infrastructure, the company have high hopes for this service and should form the basis of the expansion of broadband in Wales positioning us as the main provider of broadband services in rural Wales. This in turn makes the directors hopeful of company involvement in the forthcoming broadband tender the Wales Assembly Government is planning for next year.

GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT For the year ended 30 September 2003

DIRECTORS

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

	Ordinary shares of 5 each	
	30/9/03	1/10/02
Mr Anas Abdulmawla	1,500,000	1,500,000
Mr Ayad Abdulmawla	1,500,000	1,500,000
Mr Kevin Evans	25,000	25,000
Mrs K Patouchea	1,500,000	1,500,000

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year the group made charitable donations of £916.

FUTURE DEVELOPMENTS

The current forecast for 2004 for Gaia's core business is £1.9m up from 2003 £1.6m, this will be challenging as cost of finished computer goods keeps going down and requiring us to sell a much greater number of units to achieve the revenue. However the directors feels that products like the Managed Service for our education customers will help deliver this. As for the Wireless division it is much harder to predict as it is dependent on winning few and large projects, last year revenue from wireless was £1.7m going up from the pervious year at £1.0m, the directors forecast this trend to continue in the coming years and thus feel that achieving a £2.0m is a realistic target. Although the directors focus as always will be to continue to achieve good gross and net profits margins.

The Gaia's team

With no large project like Access in Cumbria yet signed up, the directors plan to keep the size of team static for the year, however will continue to update their training and the company admin systems internally to be able to cope with a larger number of staff when such project comes along. We have engaged Croners Ltd as consultants in both field of employment and H&S, to standardise the company's contracts and practices.

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

The company's policy is to pay creditors within and no later than 5 days of due date of agreed terms. We have agreed credit terms with all our major suppliers of to the end of the following month of supply, thus giving the company an average term of 45 days. The creditor days calculated on the basis of trade creditors divided by amounts invoiced to the company by suppliers multiplied by 365 days are 54 days.

RESEARCH AND DEVELOPMENT ACTIVITIES

The company saw a more modest research and development budget in the year compared to the year before. However, our effort has given the company the ability to deliver Wireless Technologies Home Broadband with a low financial threshold per home, giving the company an advantage in the market place. Gaia Technologies Plc is planning to expand its research and development team to include the local University and other interested parties.

The Directors are looking to the future with hope and determination for success.

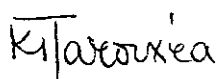
GAIA TECHNOLOGIES PLC

DIRECTORS' REPORT For the year ended 30 September 2003

AUDITORS

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

This report was approved by the board on 29 March 2004 and signed on its behalf.



Mrs K Patouchea
Director

GAIA TECHNOLOGIES PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GAIA TECHNOLOGIES PLC **Under section 247B of the Companies Act 1985**

We have audited the financial statements of Gaia Technologies Plc for the year ended 30 September 2003 set out on pages 7 to 28. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 14 to 15.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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 group 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 and other members of the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. 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 circumstances of the company and the group, 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 affairs of the company and the group as at 30 September 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, as amended.



Hughes Parry & Co

Accountants
Registered Auditors
121 High Street
Bangor
Gwynedd
LL57 1NT

29 March 2004

GAIA TECHNOLOGIES PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 30 September 2003

		12 months 30 September 2003	14 months 30 September 2002
	Note		
TURNOVER	1,2		
Continuing operations		3,366,653	4,024,415
Cost of sales		(1,810,122)	(2,627,387)
GROSS PROFIT		1,556,531	1,397,028
Selling and distribution costs		(72,418)	(50,206)
Administrative expenses		(1,208,543)	(1,096,710)
OPERATING PROFIT	3	275,570	250,112
Interest receivable		836	889
Interest payable	6	(71,482)	(107,065)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		204,924	143,936
TAX ON PROFIT ON ORDINARY ACTIVITIES	7	(47,502)	(17,089)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		157,422	126,847
DIVIDENDS - On equity shares	8	(76,924)	(48,211)
- On non-equity shares	8	(19,901)	(13,360)
RETAINED PROFIT FOR THE FINANCIAL YEAR		60,597	65,276
RETAINED PROFIT BROUGHT FORWARD		5,149	14,873
Capitalisation of reserves		-	(75,000)
RETAINED PROFIT CARRIED FORWARD		£ 65,746	£ 5,149

There were no recognised gains and losses for 2003 or 2002 other than those included in the profit and loss account.

The notes on pages 14 to 28 form part of these financial statements.

GAIA TECHNOLOGIES PLC

COMPANY PROFIT AND LOSS ACCOUNT For the year ended 30 September 2003

		12 months 30 September 2003	14 months 30 September 2002
	Note		
TURNOVER	1,2		
Continuing operations		3,366,653	4,024,415
Cost of sales		<u>(1,810,122)</u>	<u>(2,627,387)</u>
GROSS PROFIT		1,556,531	1,397,028
Selling and distribution costs		<u>(72,418)</u>	<u>(50,206)</u>
Administrative expenses		<u>(1,207,863)</u>	<u>(1,095,719)</u>
OPERATING PROFIT	3	276,250	251,103
Interest receivable		829	889
Interest payable	6	<u>(71,467)</u>	<u>(106,914)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		205,612	145,078
TAX ON PROFIT ON ORDINARY ACTIVITIES	7	<u>(47,502)</u>	<u>(17,155)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		158,110	127,923
DIVIDENDS - On equity shares	8	<u>(76,924)</u>	<u>(48,211)</u>
- On non-equity shares	8	<u>(19,901)</u>	<u>(13,360)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR		61,285	66,352
RETAINED PROFIT BROUGHT FORWARD		34,366	43,014
Capitalisation of reserves		-	<u>(75,000)</u>
RETAINED PROFIT CARRIED FORWARD		<u>£ 95,651</u>	<u>£ 34,366</u>

There were no recognised gains and losses for 2003 or 2002 other than those included in the profit and loss account.

The notes on pages 14 to 28 form part of these financial statements.

GAIA TECHNOLOGIES PLC

CONSOLIDATED BALANCE SHEET As at 30 September 2003

		30 September 2003	30 September 2002
	Note		
FIXED ASSETS			
Intangible fixed assets	9	147,910	195,500
Tangible fixed assets	10	401,336	333,078
		<u>549,246</u>	<u>528,578</u>
CURRENT ASSETS			
Stocks	12	298,148	249,944
Debtors	13	705,151	841,923
Cash at bank and in hand		2,512	306,050
		<u>1,005,811</u>	<u>1,397,917</u>
CREDITORS: amounts falling due within one year	14	<u>(862,763)</u>	<u>(1,218,528)</u>
NET CURRENT ASSETS		<u>143,048</u>	<u>179,389</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>692,294</u>	<u>707,967</u>
CREDITORS: amounts falling due after more than one year	15	(204,527)	(305,871)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	16	(47,253)	(24,996)
NET ASSETS		<u><u>£ 440,514</u></u>	<u><u>£ 377,100</u></u>

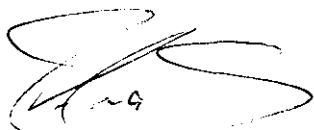
GAIA TECHNOLOGIES PLC

CONSOLIDATED BALANCE SHEET (continued) As at 30 September 2003

		30 September 2003	30 September 2002
CAPITAL AND RESERVES			
Called up share capital	17	373,518	370,701
Share premium account	18	1,250	1,250
Profit and loss account		65,746	5,149
SHAREHOLDERS' FUNDS	19	<u>£ 440,514</u>	<u>£ 377,100</u>

Shareholders' funds include non-equity interests.

The financial statements were approved by the board on 29 March 2004 and signed on its behalf.



Mr Anas Abdulmawla
Director



Mr Ayad Abdulmawla
Director

The notes on pages 14 to 28 form part of these financial statements.

GAIA TECHNOLOGIES PLC

COMPANY BALANCE SHEET As at 30 September 2003

		30 September 2003	30 September 2002
	Note		
FIXED ASSETS			
Intangible fixed assets	9	147,909	195,500
Tangible fixed assets	10	400,444	332,028
Investments	11	15,000	15,000
		<u>563,353</u>	<u>542,528</u>
CURRENT ASSETS			
Stocks	12	298,148	249,944
Debtors	13	720,235	855,794
Cash at bank and in hand		1,488	306,032
		<u>1,019,871</u>	<u>1,411,770</u>
CREDITORS: amounts falling due within one year	14	<u>(861,026)</u>	<u>(1,217,114)</u>
NET CURRENT ASSETS		<u>158,845</u>	<u>194,656</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>722,198</u>	<u>737,184</u>
CREDITORS: amounts falling due after more than one year	15	(204,527)	(305,871)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	16	(47,253)	(24,996)
NET ASSETS		<u><u>£ 470,418</u></u>	<u><u>£ 406,317</u></u>

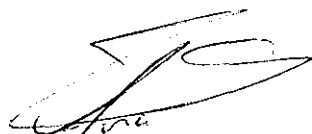
GAIA TECHNOLOGIES PLC

COMPANY BALANCE SHEET (continued) As at 30 September 2003

		30 September 2003	30 September 2002
CAPITAL AND RESERVES			
Called up share capital	17	373,518	370,701
Share premium account	18	1,250	1,250
Profit and loss account		95,650	34,366
SHAREHOLDERS' FUNDS	19	<u>£ 470,418</u>	<u>£ 406,317</u>

Shareholders' funds include non-equity interests.

The financial statements were approved by the board on 29 March 2004 and signed on its behalf.



Mr Anas Abdulmawla
Director



Mr Ayad Abdulmawla
Director

The notes on pages 14 to 28 form part of these financial statements.

GAIA TECHNOLOGIES PLC

CASH FLOW STATEMENT For the year ended 30 September 2003

		12 months 30 September 2003	As restated 14 months 30 September 2002
	Note		
Net cash flow from operating activities	20	147,937	292,862
Returns on investments and servicing of finance	21	(90,547)	(119,536)
Taxation		(10,071)	23,508
Capital expenditure and financial investment	21	(234,239)	(457,193)
Equity dividends paid		(76,924)	(48,211)
CASH OUTFLOW BEFORE FINANCING		(263,844)	(308,570)
Financing	21	(189,601)	643,673
(DECREASE)/INCREASE IN CASH IN THE YEAR		£ (453,445)	£ 335,103

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (NOTE 22) For the year ended 30 September 2003

	12 months 30 September 2003	As restated 14 months 30 September 2002
(Decrease)/Increase in cash in the year	(453,445)	335,102
Cash decrease from decrease in debt and lease financing	192,418	(558,722)
MOVEMENT IN NET DEBT IN THE YEAR	(261,027)	(223,620)
Net debt at 1 October 2002	(376,352)	(152,732)
NET DEBT AT 30 SEPTEMBER 2003	£ (637,379)	£ (376,352)

The notes on pages 14 to 28 form part of these financial statements.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

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

1.2 Basis of consolidation

The financial statements consolidate the accounts of Gaia Technologies Plc and all of its subsidiary undertakings ('subsidiaries'). Intra-group transactions are eliminated on consolidation and all figures relate to external transactions only.

1.3 Investments

Share in subsidiaries are valued at cost less provision for permanent impairment.

1.4 Turnover

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

1.5 Intangible fixed assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the profit and loss over its estimated economic life, this is currently estimated to be 5 years.

Goodwill arising on consolidation is written off to reserves on acquisition.

Web domain name is shown at cost, the directors consider that this is currently an appreciating asset and no depreciation is currently provided. This is a departure from recognised accounting standards in order to show a true and fair view, normally the asset would be amortised over its estimated economic life, if this was deemed to be 5 years, then the amortisation would have been £6,000.

1.6 Tangible fixed assets and depreciation

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

Plant & Machinery	-	6.6%	and 10% straight line
Motor Vehicles	-	25%	reducing balance
Fixtures & Fittings	-	15%	reducing balance
Office Equipment	-	15%	reducing balance
Wireless equipment	-	25%	straight line

Plant and machinery currently consists of cherry pickers, these have different expected useful lives and are depreciated accordingly on a straight line basis over 10 and 15 years.

1.7 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 September 2003

1.8 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 as incurred.

1.9 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

1.10 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.

1.11 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 result.

1.12 Research and development

Development costs are capitalised within intangible assets, they relate to wages costs incurred where they can be identified with a specific product or project anticipated to produce future benefits, and are amortised on the straight line basis over the anticipated life of the benefits arising from the completed product or project, currently estimated to be 3 years.

Deferred development costs are reviewed annually, and where future benefits are deemed to have ceased or to be in doubt, the balance of any related development is written off to the profit and loss account.

1.13 Pensions

The company has contributed to directors and staff individual personal pension plans, the contributions made for the period are charged to the profit and loss account.

2. TURNOVER

All turnover arose within the United Kingdom.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

3. OPERATING PROFIT

The Operating profit is stated after charging:

	12 months 30 September 2003	14 months 30 September 2002
Amortisation - intangible fixed assets	26,262	30,639
Depreciation of tangible fixed assets:		
- owned by the company	87,511	62,030
- held under finance leases	36,284	47,218
Auditors' remuneration	16,301	19,625
Operating lease rentals:		
- plant and machinery	25,115	4,336
- other operating leases	31,030	31,069
Amortisation of deferred research and development expenditure	61,758	62,966

Auditors fees for the Company were £19,040 (2002:£15,417)

4. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	12 months 30 September 2003	14 months 30 September 2002
Wages and salaries	540,146	509,687
Social security costs	48,950	43,300
Other pension costs	27,318	35,785
	£ 616,414	£ 588,772

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

	12 months 30 September 2003 No.	14 months 30 September 2002 No.
Technical	23	22
Retail	2	2
Administration	4	2
	29	26

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

5. DIRECTORS' REMUNERATION

	12 months 30 September 2003	14 months 30 September 2002
Emoluments	£ 150,344	£ 131,756
Company pension contributions to money purchase pension schemes	£ 9,400	£ 15,950

During the year retirement benefits were accruing to 4 directors (2002 - 4) in respect of money purchase pension schemes.

6. INTEREST PAYABLE

	12 months 30 September 2003	14 months 30 September 2002
On bank loans and overdrafts	36,813	25,502
On other loans	23,978	70,296
On finance leases and hire purchase contracts	10,691	11,267
	£ 71,482	£ 107,065

7. TAXATION

	12 months 30 September 2003	14 months 30 September 2002
Analysis of tax charge in year		
Current tax (see note below)		
UK corporation tax charge on profits of the year	25,245	9,834
Deferred tax		
Origination and reversal of timing differences	13,767	16,954
Decrease/(increase) in discount	8,490	(9,699)
Total deferred tax (see note 16)	22,257	7,255
Tax on profit on ordinary activities	£ 47,502	£ 17,089

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (19%). The differences are explained below:

	12 months 30 September 2003	14 months 30 September 2002
Profit on ordinary activities before tax	204,924	143,936
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2002 - 19%)	38,936	27,348
Effects of:		
Current tax on income for the period	(35,948)	(10,259)
Transfer to deferred taxation in respect of current period	22,257	(7,255)
Current tax charge for year (see note above)	£ 25,245	£ 9,834

Factors that may affect future tax charges

As the company grows it may suffer tax at the rate of 30%, not 19% the small company rate that it has previously been subject to.

8. DIVIDENDS

	12 months 30 September 2003	14 months 30 September 2002
On equity shares		
Total dividends paid	76,924	48,211
On non-equity shares		
Total dividends paid	19,901	13,360
	£ 96,825	£ 61,571

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

9. INTANGIBLE FIXED ASSETS

	Domain name	Development	Goodwill	Total
Group and company Cost				
At 1 October 2002	30,000	161,913	131,309	323,222
Additions	-	40,429	-	40,429
At 30 September 2003	30,000	202,342	131,309	363,651
Amortisation				
At 1 October 2002	-	97,083	30,639	127,722
Charge for the year	-	61,758	26,262	88,020
At 30 September 2003	-	158,841	56,901	215,742
Net book value				
At 30 September 2003	£ 30,000	£ 43,501	£ 74,408	£ 147,909
At 30 September 2002	£ 30,000	£ 64,830	£ 100,670	£ 195,500

The domain name "sapphire", the directors consider this to be an appreciating asset, and no depreciation is currently provided.

10. TANGIBLE FIXED ASSETS

	Plant and machinery	Motor vehicles	Office equipment and fittings	Wireless equipment	Total
Group Cost					
At 1 October 2002	54,265	76,845	195,581	201,645	528,336
Additions	-	-	70,330	123,863	194,193
Disposals	-	(4,555)	(1,109)	-	(5,664)
At 30 September 2003	54,265	72,290	264,802	325,508	716,865
Depreciation					
At 1 October 2002	4,543	37,569	68,161	84,985	195,258
Charge for the year	3,896	9,478	29,044	81,377	123,795
On disposals	-	(3,193)	(331)	-	(3,524)
At 30 September 2003	8,439	43,854	96,874	166,362	315,529
Net book value					
At 30 September 2003	£ 45,826	£ 28,436	£ 167,928	£ 159,146	£ 401,336
At 30 September 2002	£ 49,722	£ 39,276	£ 127,420	£ 116,660	£ 333,078

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2003	2002
Group		
Plant and machinery	45,826	49,722
Motor vehicles	27,301	36,402
Office equipment and fittings	11,254	13,240
Wireless equipment	28,076	49,378
	<u>£ 112,457</u>	<u>£ 148,742</u>

	Plant and machinery	Motor vehicles	Office equipment and fittings	Wireless equipment	Total
Company					
Cost					
At 1 October 2002	54,265	76,845	192,881	201,645	525,636
Additions	-	-	70,330	123,863	194,193
Disposals	-	(4,555)	(1,109)	-	(5,664)
At 30 September 2003	<u>54,265</u>	<u>72,290</u>	<u>262,102</u>	<u>325,508</u>	<u>714,165</u>
Depreciation					
At 1 October 2002	4,543	37,569	66,511	84,985	193,608
Charge for the year	3,896	9,478	28,886	81,377	123,637
On disposals	-	(3,193)	(331)	-	(3,524)
At 30 September 2003	<u>8,439</u>	<u>43,854</u>	<u>95,066</u>	<u>166,362</u>	<u>313,721</u>
Net book value					
At 30 September 2003	<u>£ 45,826</u>	<u>£ 28,436</u>	<u>£ 167,036</u>	<u>£ 159,146</u>	<u>£ 400,444</u>
At 30 September 2002	<u>£ 49,722</u>	<u>£ 39,276</u>	<u>£ 126,370</u>	<u>£ 116,660</u>	<u>£ 332,028</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2003	2002
Company		
Plant and machinery	45,826	49,722
Motor vehicles	27,301	36,402
Office equipment and fittings	11,254	13,240
Wireless equipment	28,076	49,378
	<u>£ 112,457</u>	<u>£ 148,742</u>

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

11. FIXED ASSET INVESTMENTS

Company	Share in group under- takings	Total
Cost or valuation		
At 1 October 2002 and 30 September 2003	£ 15,000	£ 15,000

12. STOCKS

	Group		Company	
	2003	2002	2003	2002
Finished goods and goods for resale	£ 298,148	£ 249,944	£ 298,148	£ 249,944

The difference between purchase price of stocks and their replacement cost is not material.

13. DEBTORS

	Group		Company	
	2003	2002	2003	2002
Due within one year				
Trade debtors	702,881	836,611	702,881	836,611
Amounts owed by group undertakings	-	-	15,610	15,610
Other debtors	1,752	5,312	1,226	3,573
Prepayments and accrued income	518	-	518	-
	£ 705,151	£ 841,923	£ 720,235	£ 855,794

Included within other debtors due within one year is a loan to Mr Ayad Abdulmawla, a director, amounting to £nil (2002 - £1,300). The maximum amount outstanding during the year was £1,300.

The company has trade indemnity cover of up to £1,000,000 to cover all debtors accounts.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

14. CREDITORS: Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
Bank loans and overdrafts	386,612	309,607	386,612	309,607
Net obligations under finance leases and hire purchase contracts	48,752	66,923	48,752	66,923
Trade creditors	271,473	348,146	270,886	346,732
Corporation tax	25,241	10,067	25,241	10,067
Social security and other taxes	37,919	115,784	37,919	115,784
Other creditors	92,766	368,001	91,616	368,001
	<u>£ 862,763</u>	<u>£ 1,218,528</u>	<u>£ 861,026</u>	<u>£ 1,217,114</u>

Bank loans and overdraft totaling £584,865 (2002 - £560,951) are secured by a fixed and floating charge over the company's assets, together with a fixed charge over book debts.

15. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
Bank loans	198,252	251,344	198,252	251,344
Net obligations under finance leases and hire purchase contracts	6,275	54,527	6,275	54,527
	<u>£ 204,527</u>	<u>£ 305,871</u>	<u>£ 204,527</u>	<u>£ 305,871</u>

Included within the above are amounts falling due as follows:

	Group		Company	
	2003	2002	2003	2002
Between one and two years				
Bank loans	198,252	251,344	198,252	251,344

Two of the loans are part of the small firms loan guarantee scheme for £84,304, the loans are repayable by monthly instalments of £4,783, interest is charged quarterly at 2.75% above the bank's base rate. The remaining loans for £350,653 are repayable by monthly instalments of £15,920 interest is charged monthly at 2.75% above the bank's base rate.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

Obligations under finance leases and hire purchase contracts, included above, are payable as follows:

	<u>Group</u>		<u>Company</u>	
	2003	2002	2003	2002
Between one and two years	£ 6,275	£ 54,527	£ 6,275	£ 54,527

16. DEFERRED TAXATION

	<u>Group and Company</u>	
	2003	2002
At 1 October 2002	24,996	24,996
Charge for the year	22,257	-
Other movement	-	-
At 30 September 2003	£ 47,253	£ 24,996

The provision for deferred taxation is made up as follows:

	2003	2002
Accelerated capital allowances	72,180	58,413
Undiscounted provision for deferred tax	72,180	58,413
Discount	(24,927)	(33,417)
Discounted provision for deferred tax	£ 47,253	£ 24,996

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

17. SHARE CAPITAL

	2003	2002
Authorised		
18,000,000 Ordinary shares of 5p each	900,000	900,000
200,000 Preference shares of £1 each	200,000	200,000
	<u>£ 1,100,000</u>	<u>£ 1,100,000</u>
Allotted, called up and fully paid		
4,525,000 Ordinary shares of 5p each	226,250	226,250
147,268 Preference shares of £1 each	147,268	144,451
	<u>£ 373,518</u>	<u>£ 370,701</u>

£2,817 additional redeemable preference shares were issued during the period.

The preference shares carry a right to a fixed dividend of 14% per annum, payable six monthly.

The preference shares shall rank on a return of capital on liquidation or otherwise in priority to ordinary shares, from the amount available for distributions among the members, the amount payable to the holders of preference shares will be the amounts paid up on such shares together with a sum equal to any arrears and accruals of the fixed dividend thereon to be calculated down to the date of the return of capital.

The holders of the preference shares shall not be entitled to vote upon any resolution, other than a resolution for winding up the company or reducing its share capital or a resolution varying or abrogating any of the special rights attached to such shares, unless at the date of the notice convening the meeting at which such resolution is to be proposed the dividend on the preference shares is six months in arrears. The preference shares are redeemable at par by the holders on the delivery of thirteen months notice in writing to the company. The company may redeem the shares at any time.

18. RESERVES

	Share premium account
Group	
At 1 October 2002	1,250
Profit retained for the year	-
	<u>£ 1,250</u>
At 30 September 2003	<u>£ 1,250</u>
Company	
At 1 October 2002	1,250
Profit retained for the year	-
	<u>£ 1,250</u>
At 30 September 2003	<u>£ 1,250</u>

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003	2002
Group		
Profit for the year	157,422	126,847
Dividends	(96,825)	(61,571)
	<u>60,597</u>	<u>65,276</u>
Net shares issued during the year	2,817	83,701
Share premium on shares issued (net of expenses)	-	1,250
	<u>63,414</u>	<u>150,227</u>
Opening shareholders' funds	377,100	226,873
Closing shareholders' funds	<u>£ 440,514</u>	<u>£ 377,100</u>
Analysis of shareholders' funds		
Non-equity interests	147,268	144,451
Equity interests	293,246	232,649
	<u>£ 440,514</u>	<u>£ 377,100</u>
	<u>2003</u>	<u>2002</u>
Company		
Profit for the year	158,109	127,923
Dividends	(96,825)	(61,571)
	<u>61,284</u>	<u>66,352</u>
Shares issued during the year	2,817	83,701
Share premium on shares issued (net of expenses)	-	1,250
	<u>64,101</u>	<u>151,303</u>
Opening shareholders' funds	406,317	255,014
Closing shareholders' funds	<u>£ 470,418</u>	<u>£ 406,317</u>
Analysis of shareholders' funds		
Non-equity interests	147,268	144,451
Equity interests	323,150	261,866
	<u>£ 470,418</u>	<u>£ 406,317</u>

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

20. NET CASH FLOW FROM OPERATING ACTIVITIES

			12 months 30 September 2003	14 months 30 September 2002
	Con- tinuing	Disc- ontinued	Total	
Operating profit	275,570	-	275,570	250,112
Amortisation of intangible fixed assets	88,020	-	88,020	93,605
Depreciation of tangible fixed assets	123,795	-	123,795	109,248
Loss on disposal of tangible fixed assets	1,756	-	1,756	30,577
Increase in stocks	(48,204)	-	(48,204)	(15,842)
Decrease in debtors	136,771	-	136,771	67,550
Decrease in creditors	(429,771)	-	(429,771)	(242,388)
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	£ 147,937			

NET CASH INFLOW FROM OPERATIONS

£ 147,937	£ 292,862
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21. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	12 months 30 September 2003	14 months 30 September 2002
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Non-equity dividends paid	(19,901)	(13,360)
Interest received	836	889
Interest paid	(60,791)	(95,798)
Hire purchase interest	(10,691)	(11,267)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	£ (90,547)	£ (119,536)

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

	12 months 30 September 2003	14 months 30 September 2002
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of intangible fixed assets	(40,429)	(220,870)
Purchase of tangible fixed assets	(194,193)	(236,823)
Sale of tangible fixed assets	383	500
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE	£ (234,239)	£ (457,193)
	12 months 30 September 2003	14 months 30 September 2002
FINANCING		
Issue of ordinary shares	-	2,500
Issue of non-equity shares	2,817	82,451
New secured loans	-	526,666
Repayment of loans	(125,995)	-
New finance lease	(66,423)	32,056
NET CASH (OUTFLOW)/INFLOW FROM FINANCING	£ (189,601)	£ 643,673

22. ANALYSIS OF CHANGES IN NET DEBT

	1 October 2002	Cash flow	Other non-cash changes	10 September 2003
Cash at bank and in hand:	306,050	(303,538)	-	2,512
Bank overdraft	-	(149,907)	-	(149,907)
	306,050	(453,445)	-	(147,395)
DEBT :				
Debts due within one year	(376,531)	192,418	(101,344)	(285,457)
Debts falling due after more than one year	(305,871)	-	101,344	(204,527)
NET DEBT	£ (376,352)	£ (261,027)	£ -	£ (637,379)

23. PENSION COMMITMENTS

During the year the company contributed to directors and staff personal pension schemes, £9,400 and £17,918. The current monthly contributions are £900 for directors and £1,485 for staff.

GAIA TECHNOLOGIES PLC

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 September 2003

24. OPERATING LEASE COMMITMENTS

At 30 September 2003 the group and company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		2003	Other 2002
	2003	2002		
Group and company				
Expiry date:				
Between 2 and 5 years	31,030	25,475	1,640	1,640

25. PRINCIPAL SUBSIDIARIES

Principal subsidiaries

Company name	Country	Percentage Shareholding	Description
Gaia Solutions Limited	England and Wales	100	Maintenance provider