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Esmertec AG, Dübendorf
Report of the Statutory Auditors
to the General Meeting
of Shareholders
Financial Statements 2003

101254/15



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Report of the Statutory Auditors to the General Meeting of Shareholders of

Esmertec AG, Dübendorf

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Esmertec AG for the period from April 1, 2003 to December 31, 2003.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposal to set off accumulated losses against share premium comply with Swiss law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Fides Peat

Markus Forrer
Auditor in Charge

Urs Matter

Lucerne, June 9, 2004

Enclosure:

- Financial statements (balance sheet, income statement and notes)
- Proposal to set off accumulated losses against share premium

Balance Sheet as of	December 31, 2003	March 31, 2003
	CHF	CHF
ASSETS		
Current assets		
Cash and cash equivalents	16,019,817	2,931,618
Trade accounts receivable	15,335,513	3,855,409
Other receivables due from		
- third parties	2,543,105	1,621,957
- shareholders	0	173,752
Inventories	455,748	3,961,920
Accrued income and prepaid expenses	458,613	154,112
Total current assets	34,812,796	12,698,768
Non-current assets		
Financial assets		
- Investment	167,210	167,210
- Value adjustment on investment	-167,209	-167,209
- Loan to subsidiary	3,436,646	4,178,012
- Value adjustment on loan to subsidiary	-2,958,000	-3,370,000
- Security deposits	376,841	25,284
Furniture and equipment	705,815	626,494
Intangible assets	4,907,636	4,967,114
Total non-current assets	6,468,939	6,426,905
Total assets	41,281,735	19,125,673

Balance Sheet as of	December 31, 2003	March 31, 2003
	CHF	CHF
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Trade accounts payable	533,165	487,496
Other current liabilities	3,840,933	6,053,470
Deferred revenue	1,376,117	176,201
Accrued expenses	2,896,452	2,807,309
<i>Total current liabilities</i>	<u>8,646,667</u>	<u>9,524,476</u>
Long-term debt due to		
- third parties	244,752	2,023,541
- shareholders	0	4,405,474
Deferred revenue	200,650	921,496
Provisions	50,000	50,000
<i>Total non-current liabilities</i>	<u>495,402</u>	<u>7,400,511</u>
Total liabilities	<u>9,142,069</u>	<u>16,924,987</u>
Shareholders' equity		
Share capital	937,398	500,090
Legal reserves (share premium)	468,699	250,045
Other reserves (share premium)	59,651,682	23,562,755
Accumulated losses		
- Accumulated losses brought forward	-22,112,204	-14,620,050
- Net loss for the period	-6,805,909	-7,492,154
Total shareholders' equity	<u>32,139,666</u>	<u>2,200,686</u>
Total liabilities and shareholders' equity	<u><u>41,281,735</u></u>	<u><u>19,125,673</u></u>

Income Statement	01.04.2003 - 31.12.2003 (9 months)	01.04.2002 - 31.03.2003 (12 months)
	CHF	CHF
Revenues from licenses	14,259,519	4,742,666
Revenues from services and support	5,469,158	1,867,802
Other revenues	0	6,823
External development costs capitalized	482,000	0
Own development costs capitalized	259,018	0
Total operating income	20,469,695	6,617,291
Cost of commissions and licenses	-6,272,277	-903,230
Personnel expenses	-11,775,721	-9,328,450
Depreciation and amortization	-1,014,821	-275,466
Decrease (increase) of value adjustment on loan to subsidiary	412,000	-370,000
Other operating expenses	-4,974,632	-2,405,264
Operating loss	-3,155,756	-6,665,119
Financial income	1,064,333	327,795
Financial expenses	-4,567,805	-1,155,139
Gains on disposal of non-current assets	268	186
Non-operating income	0	200
Non-operating expenses	-8,675	-77
Loss before taxes	-6,667,635	-7,492,154
Taxes	-138,274	0
Net loss for the period	-6,805,909	-7,492,154

Notes to the Financial Statements as of	December 31, 2003	March 31, 2003
	CHF	CHF
1 Unrecognized lease obligations		
Company cars	82,323	17,077
2 Fire insurance value of furniture and equipment		
- Fire insurance value of fixed assets (Switzerland)	200,000	200,000
- Insurance value for material damage of machinery, plant and equipment (excluding computer equipment), at replacement cost (UK)	1,100,000	0
	1,300,000	200,000
3 Details of significant investments		
<i>Company, domicile purpose</i>	<i>percentage held %</i>	<i>share capital</i>
Esmertec Inc., San Jose, CA, USA	100	US\$ 100,000
Esmertec Inc., San Jose, was founded to provide US customers with embedded expertise, services and advanced Java technology (sales and support organization).		
4 Pension fund liabilities		
Amounts due to pension funds	31,229	118,210

Notes to the Financial Statements as of	December 31, 2003	March 31, 2003
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5 Unissued authorized and conditional share capital		
- Unissued authorized share capital	13,132	0
- Unissued conditional share capital	267,926	95,230
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Total unissued authorized and conditional share capital	281,058	95,230
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6 Increase of share capital

At the meeting of July 4, 2003 the shareholders approved an increase of the conditional share capital by CHF 45,341.80.

At the general meeting of September 16, 2003, the shareholders decided to increase the share capital through the issue of 2,563,911 shares with a nominal value of CHF 0.10 each by CHF 22,508,080.20.

At the same meeting the shareholders approved an authorized share capital of up to CHF 140,070.60 and an increase of the conditional share capital by a maximum of CHF 146,313.90.

With an authenticated certificate dated October 29, 2003 the Board of Directors decided to increase the share capital out of the authorized share capital by issuing 1,269,388 shares with a nominal value of CHF 0.10 each at a total emission price of CHF 11,143,718.

The same authenticated certificate confirms that a total of 189,600 shares with a nominal value of CHF 0.10 each had been exercised out of the conditional share capital up to October 7, 2003, resulting in a total emission price of CHF 18,960.

At the extraordinary shareholders' meeting of November 10, 2003, the shareholders decided to increase the share capital through the issue of 350,176 shares with a nominal value of CHF 0.10 each by CHF 3,074,131.

All additional-paid in capital was credited to the share premium account.

As of December 31, 2003, the Company's share capital consisted of 9,373,980 registered shares with a nominal value of CHF 0.10 each.

Notes to the Financial Statements as of December 31, 2003

7 Change of the business year end

With resolution of April 2, 2004 the Board of Directors decided to change the year end from March 31 to December 31. Accordingly, the income statement for the reporting period comprises 9 months, whereas the comparative figures comprise 12 months.

8 Subsequent events

Pursuant to the signing of a binding Memorandum of Understanding on December 23, 2003, Esmertec AG purchased on March 30, 2004 for USD 1.2 million 4,114 ordinary shares, representing 8% of the voting rights in eValley Inc., a Tokyo (Japan) based company. At the same date Esmertec AG obtained an option to purchase an additional 22,110 other ordinary shares of eValley Inc., representing 43% of the voting rights.

With authenticated certificate dated March 4, 2004 the Board of Directors decided to increase the share capital out of the authorized share capital by issuing 26,263 shares with a nominal value of CHF 0.10 each by CHF 230,560.

There are no further facts that would require disclosure in accordance with Art. 663b of the Swiss Code of Obligations.

Proposal to set off accumulated losses against share premium	December 31, 2003	March 31, 2003
	CHF	CHF
Accumulated losses brought forward	22,112,204	14,620,050
Net loss for the period	6,805,909	7,492,154
Accumulated losses	<u>28,918,113</u>	<u>22,112,204</u>

The Board of Directors proposes to the General Meeting
of Shareholders

- to set off against share premium the accumulated losses as of December 31, 2003 of	28,918,113	0
- To carry forward	0	22,112,204
	<u>28,918,113</u>	<u>22,112,204</u>