

XENON NETWORK SERVICES LIMITED

Report and Financial Statements

30 September 2001



**Deloitte & Touche
201 Deansgate
Manchester
M60 2AT**

REPORT AND FINANCIAL STATEMENTS 2001

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Auditors' report	4
Profit and loss account	5
Reconciliation of movements in shareholders' funds	6
Balance sheet	7
Notes to the accounts	8
Additional information	14
Detailed profit and loss account	14

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B Tkachuk*
F Noon (resigned 31 December 2000)
M Ray*
D Southern
E Weremiuk
G Wragg

* B Tkachuk and M Ray are non-executive directors.

SECRETARY

D Southern

REGISTERED OFFICE

Anchorage Court
Caspian Road
Atlantic Office Park
Altrincham
Cheshire
WA14 5HH

BANKERS

National Westminster plc
Knightsbridge Corporate Business Centre
180 Brompton Road
Knightsbridge
London
SW3 1HL

SOLICITORS

Slater Heelis Collier Littler
Lloyds Bank Buildings
16 School Road
Sale
Cheshire
M33 7XP

AUDITORS

Deloitte & Touche
Chartered Accountants
201 Deansgate
Manchester
M60 2AT

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 15 months ended 30 September 2001.

ACTIVITIES

The principal activity of the company is the supply, maintenance and servicing of computer equipment.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors consider the performance in the period ended 30 September 2001 to be satisfactory. Future prospects are considered reasonable.

DIVIDENDS AND TRANSFERS FROM RESERVES

The directors do not propose to pay a dividend for the period (2000 - £ Nil). The profit for the period of £142,327 (2000 - loss of £15,826) has been transferred to reserves.

FIXED ASSETS

The movements in fixed assets throughout the period are shown in note 8 to the accounts.

DIRECTORS

The directors of the company who served throughout the period are shown on page 1.

None of the directors had any interest in the share capital of the company. B Tkachuk and M Ray's interests in the shares of the ultimate parent company, Learning Technology plc, are disclosed in the accounts of that company. The other directors interest in the share capital of that company are as follows:

	2001	2000
F Noon (resigned 31 December 2000)	-	200,000 options
D Southern	100,000 options	100,000 options
E Weremiuk	100,000 options	100,000 options
G Wragg	100,000 options	100,000 options

Mr F Noon resigned on 31 December 2000 and all share options held by him were cancelled on that date.

AUDITORS

Deloitte & Touche served as auditors during the period. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Secretary

30th December 2001

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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



INVESTOR IN PEOPLE

Tel: National 0161 832 3555
International + 44 161 832 3555
Fax (Gp. 3): 0161 829 3800
DX 14324 - Manchester 1 Exchange
www.deloitte.co.uk

**Deloitte
& Touche**

AUDITORS' REPORT TO THE MEMBERS OF XENON NETWORK SERVICES LIMITED

We have audited the financial statements of Xenon Network Services Limited for the 15 months ended 30 September 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

19 December 2001

4

XENON NETWORK SERVICES LIMITED

	Note	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
TURNOVER	2	8,335,606	6,271,171
Cost of sales		<u>(5,277,906)</u>	<u>(3,631,016)</u>
GROSS PROFIT		3,057,700	2,640,155
Administrative expenses		<u>(2,844,875)</u>	<u>(2,635,283)</u>
OPERATING PROFIT	5	212,825	4,872
Interest receivable and similar income	3	16,104	6,489
Interest payable and similar charges	4	<u>(2,751)</u>	<u>(18,892)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		226,178	(7,531)
Taxation	7	<u>(83,851)</u>	<u>(8,295)</u>
RETAINED PROFIT/(LOSS) FOR THE PERIOD	15	<u>142,327</u>	<u>(15,826)</u>

The results above relate to continuing activities.

There are no recognised gains and losses other than the result for the current period and prior year.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
Profit/(Loss) for the financial period	142,327	(15,826)
Net increase/(decrease) in shareholders' funds	142,327	(15,826)
Opening shareholders' funds	58,490	74,316
Closing shareholders' funds	<u>200,817</u>	<u>58,490</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
Reported profit/(loss) on ordinary activities before taxation	226,178	(7,531)
Difference between a historical cost depreciation charge and the actual depreciation charge of the period calculated on the revalued amount	781	-
Historical cost profit/(loss) on ordinary activities before taxation	<u>226,959</u>	<u>(7,531)</u>
Historical cost profit/(loss) for the period retained after taxation	<u>143,108</u>	<u>(15,826)</u>

XENON NETWORK SERVICES LIMITED

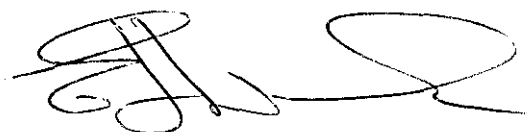
BALANCE SHEET 30 September 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Tangible assets	8	<u>129,459</u>	<u>218,421</u>
CURRENT ASSETS			
Stock	9	111,747	8,138
Debtors	10	1,306,849	1,195,699
Cash at bank		<u>607,781</u>	<u>221,992</u>
		<u>2,026,377</u>	<u>1,425,829</u>
CREDITORS: amounts falling due			
Within one year	11	<u>(1,955,019)</u>	<u>(1,585,760)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>71,358</u>	<u>(159,931)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		200,817	58,490
PROVISIONS FOR LIABILITIES AND CHARGES	12	<u>-</u>	<u>-</u>
		<u>200,817</u>	<u>58,490</u>
CAPITAL AND RESERVES			
Called up share capital	13	50,000	50,000
Share premium account	15	349,300	349,300
Revaluation reserve	15	7,635	8,416
Profit and loss account	15	<u>(206,118)</u>	<u>(349,226)</u>
EQUITY SHAREHOLDERS' FUNDS		<u>200,817</u>	<u>58,490</u>

These financial statements were approved by the Board of Directors on

3rd December 2001.

Signed on behalf of the Board of Directors



Director

NOTES TO THE ACCOUNTS
Period ended 30 September 2001

1. ACCOUNTING POLICIES

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

The following accounting policies, which have not changed in the period, have been applied:

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax.

Tangible Fixed Assets

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets, over their expected useful lives. It is calculated at the following rates:

Freehold Land & Buildings	-	2.85% p.a.
Computer equipment	-	33% p.a.
Fixtures and fittings	-	15% p.a.
Motor vehicles	-	25% p.a.

The transitional arrangements of Financial Reporting Standard 15 "Tangible Fixed Assets" are being adopted in respect of certain freehold land and buildings where the valuation has been frozen at modified historic cost.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Leases and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Hire purchase contracts are treated identically to finance leases.

Pension costs

Contributions to the company's defined contribution pension scheme and employee personal pension schemes are charged to the profit and loss account in the period in which they become payable.

Deferred income

Deferred income represents services invoiced in advance, generally for maintenance, which are apportioned over the period of the contracts.

NOTES TO THE ACCOUNTS
Period ended 30 September 2001

1. ACCOUNTING POLICIES (continued)

Basis of preparation

The directors have received confirmation from Learning Technology plc that continued financial support will be provided for at least 12 months from the date of approval of these financial statements. As a result the directors believe that the company can continue in operational existence and the accounts have therefore been prepared on the going concern basis.

2. TURNOVER

The turnover and profit before taxation is wholly attributable to one activity, the supply of computer equipment and services. The company's markets are located primarily in the United Kingdom.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
Bank interest	16,104	6,489

4. INTEREST PAYABLE AND SIMILAR CHARGES

	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
Inter company loan interest	2,534	16,129
On hire purchase contracts and finance leases terminating within five years	217	2,763
	<u>2,751</u>	<u>18,892</u>

5. OPERATING PROFIT

	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
Operating profit is stated after charging:		
Depreciation		
- owned fixed assets	135,798	115,449
- assets held under finance leases and hire purchase contracts	-	11,724
Operating lease rentals		
- plant and machinery	323,021	277,423
- land and buildings	153,960	126,700
Auditors' remuneration	10,800	10,300

NOTES TO THE ACCOUNTS
Period ended 30 September 2001

6. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
Staff costs (including directors) :		
Wages and salaries	2,063,419	1,764,775
Social security costs	228,640	194,084
Other pension costs	48,536	42,079
	<u>2,340,595</u>	<u>2,000,938</u>
	No.	No.
Average number of employees	<u>72</u>	<u>92</u>
	£	£
Directors emoluments	<u>341,213</u>	<u>263,013</u>
Emoluments of the highest paid director	<u>110,595</u>	<u>81,980</u>
Contributions to defined contribution pension scheme		
• total	<u>14,776</u>	<u>17,365</u>
• in respect of highest paid director	<u>3,900</u>	<u>7,000</u>
	No.	No.
Number of directors who are members of a money purchase scheme	<u>3</u>	<u>4</u>

7. TAXATION

	15 months ended 30 Sept 2001 £	12 months ended 30 June 2000 £
United Kingdom Corporation Tax at 30% (2000 – 20%) based on the profit/(loss) for the period	86,237	8,295
Adjustments in respect of prior years	<u>(2,386)</u>	<u>-</u>
	<u>83,851</u>	<u>8,295</u>

The tax charge for the period has been increased by £7,000 (2000 : £5,000) in respect of timing differences for which no deferred tax has been provided, and by £11,000 (2000 : £6,000) in respect of items not allowable for corporation tax.

NOTES TO THE ACCOUNTS
Period ended 30 September 2001

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Motor vehicles £	Fixtures, Fittings And computer equipment £	Total £
Cost or valuation				
At 1 July 2000	35,000	71,207	753,088	859,295
Additions	-	-	57,586	57,586
Disposals	-	(21,530)	(53,542)	(75,072)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2001	35,000	49,677	757,132	841,809
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 July 2000	-	54,025	586,849	640,874
Charge for the period	3,250	11,512	121,036	135,798
Disposals	-	(17,960)	(46,362)	(64,322)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2001	3,250	47,577	661,523	712,350
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 30 September 2001	31,750	2,100	95,609	129,459
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2000	35,000	17,182	166,239	218,421
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of tangible fixed assets includes an amount of £ Nil (2000 £17,183) in respect of assets held under hire purchase contracts.

The freehold land and buildings were professionally revalued at open market value by Chesterton, independent property consultant surveyors and valuers, in August 1993. The directors are of the opinion that this value has not materially changed. The original cost of the property was £26,584. All other assets are stated at cost.

Following adoption of Financial Reporting Standard 15 "Tangible Fixed Assets, the value of freehold land and buildings has been frozen at modified historic cost and has not been updated since the last valuation in August 1993.

NOTES TO THE ACCOUNTS
Period ended 30 September 2001

9. STOCKS

	2001	2000
	£	£
Finished goods	<u>111,747</u>	<u>8,138</u>

10. DEBTORS

	2001	2000
	£	£
Trade debtors	905,100	754,924
Amounts owed by parent undertaking	237,150	238,515
Other debtors	13,044	49,817
Prepayments and accrued income	<u>151,555</u>	<u>152,443</u>
	<u>1,306,849</u>	<u>1,195,699</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001	2000
	£	£
Obligations under finance leases and hire purchase agreements	-	8,286
Trade creditors	430,204	455,290
Amounts owed to parent undertaking	48,337	159,164
Corporation tax payable	86,237	12,114
Other taxation and social security	203,767	183,377
Accruals	655,124	288,890
Deferred income	<u>531,350</u>	<u>478,639</u>
	<u>1,955,019</u>	<u>1,585,760</u>

NOTES TO THE ACCOUNTS
Period ended 30 September 2001

12. PROVISIONS FOR LIABILITIES AND CHARGES

There are no obligations under finance leases and hire purchase contracts (2000 : same).

The amount of deferred tax provided in the financial statements and the potential amount not provided are:

	Provided		Unprovided	
	2001	2000	2001	2000
	£	£	£	£
Capital allowances in excess of depreciation	-	-	(52,740)	(46,000)
Other short term timing differences	-	-	(11)	-
	<u>-</u>	<u>-</u>	<u>(52,751)</u>	<u>(46,000)</u>

13. CALLED UP SHARE CAPITAL

	2001	2000
	£	£
50,000 ordinary shares of £1 each authorised, allotted and fully paid	<u>50,000</u>	<u>50,000</u>

14. OPERATING LEASE COMMITMENTS

At 30 September 2001 the company was committed to making the following payments during the next year in respect of operating leases.

	2001		2000	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases which expire:				
Within one year	31,441	85,436	13,308	37,018
Between one and five years	-	77,345	36,500	245,116
After five years	69,100	-	69,248	-
	<u>100,541</u>	<u>162,781</u>	<u>119,056</u>	<u>282,134</u>

NOTES TO THE ACCOUNTS
Period ended 30 September 2001

15. RESERVES

	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
At 1 July 2000	349,300	8,416	(349,226)	8,490
Retained profit for the period	-	-	142,327	142,327
Transfer of amount equivalent to additional depreciation on revalued assets		(781)	781	-
At 30 September 2001	<u>349,300</u>	<u>7,635</u>	<u>(206,118)</u>	<u>150,817</u>

16. PENSION SCHEME

The company operates a defined contribution pension scheme and also contributes to employee personal pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable to the funds, and amounted to £48,536 for the period (2000 - £42,079).

17. CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking of a company registered in England which includes a cash flow statement in its accounts.

18. ULTIMATE PARENT COMPANY

At 30 September 2001 the company's ultimate parent company was Learning Technology plc, a company registered in England.

19. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption available in FRS8 "Related Party Transactions" in not disclosing transactions with group companies.