

XENON NETWORK SERVICES LIMITED

Report and Financial Statements

30 September 2002



REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B Tkachuk*
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
Manchester

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2002.

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 year ended 30 September 2002 to be satisfactory. Future prospects are considered reasonable.

DIVIDENDS AND TRANSFERS FROM RESERVES

The directors do not propose to pay a dividend for the year (2001 - £Nil). The profit for the year of £184,726 (2001 £149,211) has been transferred to reserves.

FIXED ASSETS

The movements in fixed assets throughout the year are shown in note 9 to the accounts.

DIRECTORS

The directors of the company who served throughout the year 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:

	2002	2001
D Southern	Nil	100,000 options
E Weremiuk	Nil	100,000 options
G Wragg	Nil	100,000 options

During the year all share options were exercised.

AUDITORS

Deloitte & Touche served as auditors during the year. 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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF XENON
NETWORK SERVICES LIMITED**

We have audited the financial statements of Xenon Network Services Limited for the year ended 30 September 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the note of historical cost profits and losses, the balance sheet and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Liverpool

28 November 2002

XENON NETWORK SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 30 September 2002

			(Restated see note 2)
		Year ended 30 Sept 2002	15 months ended 30 Sept 2001
	Note	£	£
TURNOVER	3	8,399,006	8,335,606
Cost of sales		(5,659,885)	(5,277,906)
GROSS PROFIT		2,739,121	3,057,700
Administrative expenses		(2,493,651)	(2,844,875)
OPERATING PROFIT	6	245,470	212,825
Interest receivable and similar income	4	30,376	16,104
Interest payable and similar charges	5	(539)	(2,751)
PROFIT BEFORE TAXATION		275,307	226,178
Taxation	8	(90,581)	(76,967)
RETAINED PROFIT FOR THE PERIOD	16	184,726	149,211

The results above relate to continuing activities.

XENON NETWORK SERVICES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 30 September 2002

	Year ended 30 Sept 2002 £	(Restated see note 2) 15 months ended 30 Sept 2001 £
Profit for the financial period	184,726	149,211
Prior period adjustment (note 2)	52,751	-
	<hr/>	<hr/>
Total recognised gains and losses since last annual report	<u>237,477</u>	<u>149,211</u>

XENON NETWORK SERVICES LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 30 September 2002

	Year ended 30 Sept 2002 £	(Restated see note 2) 15 months ended 30 Sept 2001 £
Profit for the financial period	184,726	149,211
Net increase in shareholders' funds	184,726	149,211
Opening shareholders' funds	253,568	104,357
Closing shareholders' funds	438,294	253,568

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	Year ended 30 Sept 2002 £	15 months ended 30 Sept 2001 £
Reported profit on ordinary activities before taxation	275,307	226,178
Difference between a historical cost depreciation charge and the actual depreciation charge of the period calculated on the revalued amount	240	781
Historical cost profit on ordinary activities before taxation	275,547	226,959
Historical cost profit for the period retained after taxation	184,966	143,108

XENON NETWORK SERVICES LIMITED

BALANCE SHEET 30 September 2002

			(Restated see note 2)
	Note	2002 £	2001 £
FIXED ASSETS			
Tangible assets	9	230,567	129,459
CURRENT ASSETS			
Stock	10	6,288	111,747
Debtors	11	1,431,093	1,359,600
Cash at bank		974,324	607,781
		2,411,705	2,079,128
CREDITORS: amounts falling due Within one year	12	(2,203,978)	(1,955,019)
NET CURRENT ASSETS		207,727	124,109
TOTAL ASSETS LESS LIABILITIES		438,294	253,568
CAPITAL AND RESERVES			
Called up share capital	14	50,000	50,000
Share premium account	16	349,300	349,300
Revaluation reserve	16	7,395	7,635
Profit and loss account	16	31,599	(153,367)
EQUITY SHAREHOLDERS' FUNDS		438,294	253,568

These financial statements were approved by the Board of Directors on *28th November 2002*
Signed on behalf of the Board of Directors



Director

NOTES TO THE ACCOUNTS

Year ended 30 September 2002

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The following accounting policies have been applied:

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of freehold properties.

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Rental charges on operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

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
Year ended 30 September 2002

2. PRIOR PERIOD ADJUSTMENT

The adoption of FRS 19 'Deferred taxation' has necessitated changes in the method of accounting for deferred tax assets and liabilities. As a result of these changes in accounting policy, the comparatives have been restated as follows:

	Deferred tax assets £	Profit and loss account reserve £	Share- holders funds £
2001 as previously reported	-	(206,118)	200,817
Adoption of FRS 19 at 30 June 2000	45,866	45,866	45,866
During period ended 30 September 2001	6,885	6,885	6,885
Adoption of FRS 19 at 30 September 2001	52,751	52,751	52,751
2001 Restated	52,751	(153,367)	253,568

Has FRS 19 not been adopted, the tax charge for the year would have been £82,863 (2001 - £83,851) and retained profit for the year £192,444 (2001 - £142,327).

3. 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.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 Sept 2002 £	15 months ended 30 Sept 2001 £
Bank interest	30,376	16,104

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 Sept 2002 £	15 months ended 30 Sept 2001 £
Inter company loan interest	-	2,534
On hire purchase contracts and finance leases terminating within five years	-	217
Other interest	539	-
	539	2,751

XENON NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2002

6. OPERATING PROFIT

	Year ended 30 Sept 2002 £	15 months ended 30 Sept 2001 £
Operating profit is stated after charging:		
Depreciation		
- owned fixed assets	107,596	135,798
Operating lease rentals		
- plant and machinery	228,237	323,021
- land and buildings	103,771	153,960
Exceptional payment made to Learning Technology Employee Benefit Trust	151,500	-
Auditors' remuneration	11,000	10,800
	<u> </u>	<u> </u>

7. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	Year ended 30 Sept 2002 £	15 months ended 30 Sept 2001 £
Staff costs (including directors) :		
Wages and salaries	1,981,853	2,063,419
Social security costs	212,711	228,640
Other pension costs	36,586	48,536
	<u>2,231,150</u>	<u>2,340,595</u>
	No.	No.
Average number of employees	76	72
	£	£
Directors emoluments	<u>445,570</u>	<u>341,213</u>
Emoluments of the highest paid director	<u>177,283</u>	<u>110,595</u>
Contributions to defined contribution pension scheme		
Total	<u>9,210</u>	<u>14,776</u>
In respect of highest paid director	<u>3,240</u>	<u>3,900</u>
	No.	No.
Number of directors who are members of a money purchase scheme	<u>3</u>	<u>3</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2002

8. TAXATION

	Year ended 30 Sept 2002 £	(Restated see note 2) 15 months ended 30 Sept 2001 £
United Kingdom corporation tax at 30% (2001 – 30%) based on the profit for the period	(82,834)	(86,237)
Adjustment in respect of prior years	(29)	2,385
	<u>(82,863)</u>	<u>(83,852)</u>
Deferred tax		
Timing differences, origination and reversal	(7,718)	6,885
	<u>(90,581)</u>	<u>(76,967)</u>

Factors affecting tax charge for the current period

The tax assessed for the period is higher than the resulting from applying the standard rate of corporation tax in the UK 30% (2001 – 30%).

The differences are explained below:

	Year ended 30 Sept 2002 %	(Restated see note 2) 15 months ended 30 Sept 2001 %
Standard tax rate for period as a percentage of profits	30.00	30.00
Effects of:		
Expenses not deductible for tax purposes	2.89	4.65
Capital allowances in excess of depreciation	(2.80)	3.55
Movement in short term timing differences	0.00	(0.08)
Prior period adjustments	0.01	(1.05)
	<u>30.10</u>	<u>37.07</u>
Current tax rate for period as a percentage of profit		

Factors that may affect the future tax charge.

Deferred tax has not been provided on revaluation of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £nil.

NOTES TO THE ACCOUNTS
Year ended 30 September 2002

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Motor vehicles £	Fixtures, Fittings and computer equipment £	Total £
Cost or valuation				
At 1 October 2001	35,000	49,677	757,132	841,809
Additions		133,858	76,176	210,034
Disposals		(49,678)	(7,244)	(56,922)
At 30 September 2002	35,000	133,857	826,064	994,921
Accumulated depreciation				
At 1 October 2001	3,250	47,577	661,523	712,350
Charge for the period	996	20,110	86,490	107,596
Disposals	-	(49,678)	(5,914)	(55,592)
At 30 September 2002	4,246	18,009	742,099	764,354
Net book value				
At 30 September 2002	30,754	115,848	83,965	230,567
At 30 September 2001	31,750	2,100	95,609	129,459

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.

10. STOCKS

	2002 £	2001 £
Finished goods	6,288	111,747

11. DEBTORS

	2002 £	(Restated see note 2) 2001 £
Trade debtors	985,666	905,100
Amounts owed by parent undertaking	213,997	237,150
Other debtors	31,093	13,044
Deferred tax asset (note 13)	45,033	52,751
Prepayments and accrued income	155,304	151,555
	1,431,093	1,359,600

XENON NETWORK SERVICES LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 September 2002

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Trade creditors	435,841	430,204
Amounts owed to parent undertaking	2,876	48,337
Corporation tax payable	47,834	86,237
Other taxation and social security	274,086	203,767
Accruals	798,470	655,124
Deferred income	644,871	531,350
	<u>2,203,978</u>	<u>1,955,019</u>

13. DEFERRED TAX

	2002 £	15 months ended 30 Sept 2001 £
Movement on deferred taxation balance in the period		
Opening balance	(52,751)	(45,866)
Charge/(credit) to profit and loss account	7,718	(6,885)
Closing balance	<u>(45,033)</u>	<u>(52,751)</u>
Analysis of deferred tax balance		
	Year ended 30 Sept 2002 £	15 months ended 30 Sept 2001 £
Capital allowances in excess of depreciation	(45,033)	(52,740)
Short term timing differences	-	(11)
	<u>(45,033)</u>	<u>(52,751)</u>

14. CALLED UP SHARE CAPITAL

	2002 £	2001 £
50,000 ordinary shares of £1 each authorised, allotted and fully paid	<u>50,000</u>	<u>50,000</u>

NOTES TO THE ACCOUNTS
Year ended 30 September 2002

15. OPERATING LEASE COMMITMENTS

At 30 September 2002 the company was committed to making the following payments during the next year in respect of operating leases.

	2002		2001	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases which expire:				
Within one year	3,125	20,177	31,441	85,436
Between one and five years	3,000	35,676	-	77,345
After five years	66,152	-	69,100	-
	<u>72,277</u>	<u>55,853</u>	<u>100,541</u>	<u>162,781</u>

16. RESERVES

	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
At 1 October 2001 restated after prior period adjustment	349,300	7,635	(153,367)	203,568
Retained profit for the period	-	-	184,726	184,726
Transfer of amount equivalent to additional depreciation on revalued assets	-	(240)	240	-
At 30 September 2002	<u>349,300</u>	<u>7,395</u>	<u>31,599</u>	<u>388,294</u>

17. 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 £36,586 for the year (2001 - £48,536).

18. 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.

19. ULTIMATE PARENT COMPANY

At 30 September 2002 the company's ultimate parent company was Learning Technology plc, a company registered in England.

20. RELATED PARTY TRANSACTIONS

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