METROPOLITAN NEW MEDIA LIMITED

DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 JULY 2001

METRO NEW MEDIA
35 KINGSLAND ROAD
LONDON E2 8AA

REGISTERED OFFICE: 31 JEWRY STREET EC3N 2EY
REGISTERED IN ENGLAND AND WALES: 3095320

METROPOLITAN NEW MEDIA LIMITED

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METROPOLITAN NEW MEDIA LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2001

The Directors submit their annual report and the audited financial statements for the year ended 31 July 2001.

CONSTITUTION AND ACTIVITIES

Metropolitan New Media Limited (MNM) is a company limited by shares. The company has the trading name Metro New Media. It is a subsidiary of London Guildhall University (LGU).

The principal trading activity of MNM is the provision of training courses in Internet and multimedia skills. It also engages in other activities in the new media sector as identified below.

SHARE CAPITAL

There were no changes in the share capital during the year.

FINANCIAL OVERVIEW

MNM's loss on ordinary activities for 2000/2001 was £385,000, a worse position than 1999/200 (£185,000) but similar to 1998/1999 (£367,000). The first half of the financial year saw steady growth in turnover across the company, but this was followed by a sharp and unexpected decline in the latter half of the year in line with the severe slowdown in activity across the economy. Despite management intervention including redundancy of three staff, non-replacement of leaving staff and the sale of some assets the year-end outcome was very disappointing.

Following the end of the financial year, there has been a change in the Executive management of the company. Mr. Nick Crombie resigned as Chief Executive in November 2001 and an executive group of three existing Heads of Department has been formed to manage the business. Of this new group, Mr. Andy Brewerton has been appointed Acting Chief Executive. Trading conditions have remained difficult and the company is still trading at a loss but steps being taken by the new team to reduce overhead and stimulate new business are beginning to improve trading performance.

REVIEW OF DEVELOPMENTS

Premises

MNM has continued to occupy leased premises at 35 Kingsland Road, Shoreditch, London E2 8AA.

Equipment

MNM has invested in new equipment during the year, including the replacement of network equipment and purchase and upgrade of some studio hardware and software.

Personnel

At the start of the year MNM employed 21 full-time staff. This has changed to 20 full-time and two part-time by the end of the year. Six full-time staff have since left the company. Some staff from LGU carried out work for the company on an ad-hoc or temporary basis.

Training Department

Course income saw steady growth in the first six months, but then declined sharply in February with a final figure of £593,000 for the year, very close to last year (£587,000). The decline was due to a number of factors, but primarily due to economic conditions in the market and loss of business confidence in the IT sector. MNM has continued to attract high quality clients to its courses and the course portfolio has continued to expand, but despite the best efforts of the training team, the revenues from the depressed training market fell well short of forecasts (£850,000). This year has seen an increase in demand for the more lucrative customised courses, an encouraging trend which it is hoped will continue into the future.

Production Department

The production department was formed in January 2000 and has continued to provide high quality creative services through the year. In addition to the LGU website contract, the department continues to grow the size and scope of the commercial projects it is commissioned to develop, working for larger client companies. It provides a valuable in-house resource for MNM, designing and developing marketing materials for training, conferencing and other MNM services including showreels, presentations, the 3rd generation website, interactive CD-Roms, brochures and printed items, exhibition stands and signage.

Engineering Department

The main focus of the Engineering department has continued to be in supporting the in-house activities of the Training, Production and Conferencing departments. Revenues have also increased through commercial activities. The department delivers engineering support to four local companies on a contract basis, and others on an ad-hoc arrangement. There have also been a number of one-off assignments, including network consultancy for the Legacy consortium bid to purchase the Millennium Dome. Web hosting has also continued to attract new clients and to retain existing ones in an increasingly competitive marketplace.

Conferencing Department

The number of events and conferences hosted at MNM continued to grow, and a new full-time post was created to organise and co-ordinate activities in this area. The conferencing client base has been widened and a new database created to assist with marketing in this area. Since the end of the year the conferencing department has been suspended as part of revisions to the original business plan.

Electronic Market Squares Project

This year was the final delivery phase of the EMS project, which has been successfully completed by the project team. The project met its obligations to the European Regional Development Fund and the Single Regeneration Budget, the two bodies that supported the project. The project was originally funded until March 2001 but this was extended by some additional SRB funds until July 2001. At the end of July the project was wound up and the team disbanded.

Marketing

MNM has continued to invest significant sums in marketing activities. These include promotional campaigns in high profile industry publications, advertising at selected London Underground stations, exhibiting at a number of trade shows and through targeted mailshots. The campaigns are constantly monitored for effectiveness and value for money. By promoting the company in a consistent way across the various mediums a brand presence has been achieved which continues to bring quality enquiries, despite the fall off in sales of late. The marketing spend was reigned in significantly once the severity of the decline in sales revenue became apparent.

Other Activities

MNM has continued to grant licences for the short-term letting of space to small companies, mostly in the creative/new media sector.

FUTURE DEVELOPMENTS

Poor market conditions still prevail and training revenues remain flat. In the light of this the cost base has been reduced significantly with spending tightly controlled. MNM is seeking to sub-let more space to other companies and is well placed to maximise on an upturn in the training market particularly once economic conditions improve. MNM is targetting a return in 2002/2003 to activity levels that occurred in the 2000/2001 financial year.

FIXED ASSETS

Details of movements in fixed assets are given in note 6 to the financial statements. Since the year end, the directors have had a professional valuation carried out on the property which shows that its current value is substantially in excess of its carrying value in the attached financial statements.

DIVIDEND

No dividend is recommended.

DIRECTORS

The names of persons who at any time during the year were Directors of the company are shown below. In the case of those who became or ceased to be Directors during the year, and for the period to the date of the Directors' Report, the appropriate dates are shown.

Name	Date of Appointment	Date of Resignation
Mr. S. I. Aziz		
Mr. J. C. Carrington		
Mr. N. J. Crombie		22/11/01
Mr. J. M. Goodswen		
Prof. D. R. Hopkin		31/8/01
Mr. N. Maude		
Mr. P. A. Revell-Smith		
Mr. M. Weaver	9/5/01	

Mr. N. Maude held 1 share throughout the year on behalf of London Guildhall University. With this exception, none of the directors had any interest during the period in shares of MNML.

The Chair of the Board throughout the year was Mr. J. C. Carrington.

The Chief Executive throughout the year was Mr. N. J. Crombie.

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors are responsible for preparing the Annual Report. As described below, this includes responsibility for preparing the financial statements, in accordance with the applicable United Kingdom accounting standards. 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 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;

-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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The maintenance and integrity of the Metropolitan New Media website is the responsibility of the directors.

APPOINTMENT OF AUDITORS

The Directors recommend that PricewaterhouseCoopers be reappointed as auditors, and a suitable resolution will be proposed at the next AGM.

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

J. Grinstead

Company Secretary

31 Jewry Street

London EC3N 2EY

METROPOLITAN NEW MEDIA LIMITED

Auditors' report to the Members of Metropolitan New Media Limited

We have audited the financial statements on pages 8 to 14, which have been prepared under the historical cost convention, and the accounting policies set out on page 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 6, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with 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 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 at 31 July 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

No 1 London Bridge

London SE1 9QL

8 March 2002

METROPOLITAN NEW MEDIA LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 JULY 2001

Continuing operations	Note	**2001** £000	**2000** £000
Turnover		**837**	**790**
Cost of sales		(693)	(418)
Gross Profit		**144**	**372**
Administrative expenses		(819)	(876)
Other operating income	2	271	319
Operating loss	3	**(404)**	**(185)**
Profit on sale of fixed assets	5	19	0
Loss for the financial year		**(385)**	**(185)**

Note of Historical Cost loss for the year ended 31 July 2001

Reported loss for the year		(385)	(185)
Difference between historical cost depreciation charge and the actual charge calculated on valuation of property	7	0	0
Historical cost loss		**(385)**	**(185)**

There were no recognised gains or losses in the period other than the loss shown above. There were no movements in shareholders' funds other than the loss for the period.

METROPOLITAN NEW MEDIA LIMITED

BALANCE SHEET AS AT 31 JULY 2001	Note	**2001** £000	**2001** £000	**2000** £000	**2000** £000
FIXED ASSETS					
Tangible Assets					
Leasehold Buildings	7		1,116		1,140
Equipment and furniture	6		69		175
			1,185		1,315
CURRENT ASSETS					
Trade debtors		108		189	
Prepayments and accrued income		21		62	
Cash at bank and in hand		60		96	
			189		347
CREDITORS: Amounts falling due within one year					
Trade Creditors		(72)		(64)	
Accruals and deferred income		(36)		(186)	
Amount owed to parent company		(384)		(58)	
Other creditors	8	(48)		(32)	
			(540)		(340)
NET CURRENT ASSETS / (LIABILITIES)			(351)		7
TOTAL ASSETS LESS CURRENT LIABILITIES			834		1,322
DEFERRED CAPITAL GRANTS	9		(34)		(137)
TOTAL NET ASSETS			800		1,185
CAPITAL AND RESERVES					
Called up share capital	10		3,485		3,485
Profit & Loss Account	11		(2,685)		(2,300)
TOTAL EQUITY SHAREHOLDERS' FUNDS	12		800		1,185

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

J. C. Carrington
Director

Date 5/3/02

METROPOLITAN NEW MEDIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements have been prepared on a historical costs basis as modified by the revaluation of certain assets, and in compliance with applicable Accounting Standards. The financial statements have been prepared on the going concern basis (see note 18).

(b) Turnover & Cost of Sales

Turnover comprises of fees receivable for courses run during the year together with income from production, internet and other technical services and from conferences and hire of facilities.

Cost of sales represents the direct costs of providing the services identified within turnover, including staff, equipment, software, consumables, bought-in services, and food and drink for clients.

(c) Grant Income

Grants which are applied to acquire tangible fixed assets are credited to the Profit and Loss account over the estimated useful lives of the related assets. Grants which will be credited to the Profit and Loss account in subsequent periods are disclosed in the balance sheet as Deferred Capital Grants.
Revenue grants are released to the Profit and Loss account in the year to which they relate.

(d) Tangible Fixed Assets

The company's policy is to capitalise tangible fixed assets exceeding £6,000 in value.

Capitalised items are included at cost less accumulated depreciation, the company having decided, as permitted under FRS15, not to adopt a policy of revaluation. Software costs have not been capitalised except where purchased as part of the Information Technology (I.T.) equipment specification.

Depreciation is provided to write off the cost in equal annual instalments over the estimated useful lives of the assets as follows:

Multimedia and IT equipment	Over 3 years
Security equipment	Over 5 years
Furniture	Over 5 years
Buildings	Over the lease period

(e) Leased Assets

Assets held under leasing arrangements that transfer substantially all the risks and rewards of ownership to the company are capitalised and are depreciated over the shorter of the lease term or the estimated useful economic life. The annual payment relating to the leased premises is disclosed in note 7.

The leased premises as disclosed in note 6 are included in the balance sheet at the same valuation as in the 1998/99 accounts, the company having decided, as permitted under FRS15, not to adopt a policy of revaluation. The annual rental of the premises is charged to the profit and loss account as incurred.

(f) Maintenance

In accordance with FRS12, no provision has been made for future building maintenance expenditure.

(g) Cashflow and Related Party Transactions

The Company has taken advantage of the exemption granted by FRS1 not to publish a cashflow statement. The Company, as a wholly owned subsidiary of London Guildhall University, has taken advantage of the exemption granted by FRS8 from disclosure of transactions with other group members who qualify as related parties.

METROPOLITAN NEW MEDIA LIMITED

2. OTHER OPERATING INCOME

	2001	2000
	£000	£000
Grant income - revenue	139	0
Grant income - capital	96	275
Rents and licences	16	11
Other income	20	33
	271	319

3. OPERATING LOSS FOR THE PERIOD

	2001	2000
	£000	£000
Operating loss for the period is stated after charging /(crediting):		
Auditors' remuneration	4	4
Fees payable to auditor for non-audit services	3	3
Depreciation of tangible assets (owned)	108	106
Depreciation of tangible assets (leased)	24	23
Rent of buildings	(16)	(6)

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001	2000
	£000	£000
(a) Directors' Emoluments	55	4

The Chief Executive became a director on 27 June 2000. Two other directors received emoluments during 2000/2001 in their capacity as employees of London Guildhall University but no part of the cost to the University was charged to the company.

	2001	2000
	£000	£000
Highest paid director	55	4

(b) Employee Costs (including directors' emoluments)	2001	2000
	£000	£000
Wages and salaries	576	494
Social security costs	56	47
Other pensions costs (see below)	1	4
	633	545

Costs shown exclude agency and self-employed staff.

Employee salaries are paid in the first instance by London Guildhall University which provides payroll services for the company and these costs are subsequently recharged to the company. During the year some employees worked for the company under employment contracts with London Guildhall University while the remaining employees had employment contracts directly with the company.

Other pensions costs relate to one employee who received a pension under an occupational pension scheme. In respect of that employee, payment was made to the London Pension Fund Authority through the London Guildhall University payroll service and these costs were subsequently recharged to the company.

All other employees, whether under a London Guildhall University employment contract or a company contract, have been offered a stakeholder pension as required under government legislation. The company does not contribute to stakeholder pensions. Take up of such pensions is not mandatory.

4. (c) **Average Number of Persons Employed**

	2001 No.	2000 No.
Academic staff	2	2
Administrative, professional and technical staff	20	17
	22	19

5. PROFIT ON THE SALE OF FIXED ASSETS

	2001 £000	2000 £000
Profit on the sale of tangible fixed assets		
Equipment disposal	19	0

6. TANGIBLE FIXED ASSETS

	Leasehold Buildings £000	Equipment and Furniture £000	Total £000
Cost / Valuation			
At 1 August 2000	1,175	680	1,855
Additions	0	9	9
Disposals	0	(44)	(44)
At 31 July 2001	1,175	645	1,820
Depreciation			
At 1 August 2000	35	505	540
Charge for the year	24	108	132
Disposals	0	(37)	(37)
At 31 July 2001	59	576	635
Net Book Value			
At 1 August 2000	**1,140**	**175**	**1,315**
At 31 July 2001	**1,116**	**69**	**1,185**

7. LEASEHOLD BUILDINGS

The company occupies premises which are held on a 60 year lease. The lease premium, which was paid in instalments during 1997/98 and 1998/99, was £2,085,000. The company also pays an annual rental of £10,000 for the first 20 years and a service charge.

On the basis of advice from a professional valuer, the value of the lease was assessed at £1,175,000 in preparing the 1997/98 accounts. The difference between the lease premium and assessed value was charged to the profit and loss account in 1997/98 and 1998/99, the relevant amount for 1998/99 being £271,000. The leasehold interest was professionally revalued in November 2001 at original cost.

8. OTHER CREDITORS

	2001	2000
	£000	£000
VAT Liability	47	28
Other creditors	1	4
	48	32

9. CAPITAL GRANTS

	2001	2000
	£000	£000
Deferred capital grant at beginning of period	137	234
Grant receivable for period	0	178
Grant on disposals	(7)	0
Grant released to Profit & Loss account	(96)	(275)
Deferred capital grant at end of period	34	137
of which:		
To be released within 1 year	34	96
To be released after more than 1 year	0	41

10. SHARE CAPITAL

	2001	2000
	£	£
Authorised: 4,000,000 ordinary shares of £1	4,000,000	4,000,000
Allotted, called up and fully paid: 3,485,010 ordinary shares of £1	3,485,010	3,485,010

Two ordinary shares of £1 each were issued at par for cash upon incorporation.

11. PROFIT & LOSS ACCOUNT

	2001	2000
	£000	£000
Deficit at beginning of period	(2,300)	(2,115)
Deficit for period	(385)	(185)
Deficit at end of period	(2,685)	(2,300)

12. MOVEMENT IN SHAREHOLDERS' FUNDS

	2001	2000
	£000	£000
As at 1 August	1,185	1,370
Loss for year	(385)	(185)
As at 31 July	800	1,185

13. FINANCIAL COMMITMENTS

	2001	2000
	£000	£000
(a) Annual commitments under non-cancellable leases		
Lease expiring after 5 years	10	10

The above commitments relate to the agreement with Hackney Community College (see note 7).

14. TAXATION

There is no tax charge for the year ended 31 July 2001 (2000 nil) due to accumulated losses.

15. RELATED PARTY TRANSACTIONS

There are no related party transactions with Directors or Officers.

16. CONTINGENT LIABILITY

16.a

The company has been accounting for input VAT as fully recoverable. However, advice has recently been received which raises the possibility that a small proportion of input VAT recoverable may have to be treated as irrecoverable. The amount potentially repayable is estimated as unlikely to exceed £50,000.

16.b

The contractual conditions applying to the European Regional Development Fund (ERDF) revenue grant enable the Secretary of State for Trade and Industry to withhold payment or to require part or all of the grant to be repaid in the event of unsatisfactory progress towards completing projects for which grants were awarded or towards associated performance targets. Since the company's formation, a total of £632,000 has been received up to 31 July 2001 (£564,000 to 31 July 2000). The risk of having to repay any material sum is considered to be very small.

17. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking of Metropolitan New Media Limited is London Guildhall University. The only group of which Metropolitan New Media Limited is a member is the London Guildhall University group. Copies of the consolidated financial statements of London Guildhall University are available from 31 Jewry Street, London EC3N 2EY.

18. GOING CONCERN

The stability of the company's financial position is almost entirely dependent on the support of its parent undertaking London Guildhall University. The company has received letters of support from its parent which confirm the latter's commitment to continue to provide financial support to the company where necessary to enable it to meet its financial commitments.

While the company has a net worth of £800,000, it does not have cash resources sufficient to repay the short term debt due to London Guildhall University. The letters of support only oblige the company to repay this debt when cash resources permit.

In addition, the company has an undrawn overdraft facility with its bankers of £100,000.

In view of this position, the company's directors have prepared the accounts on the going concern basis.