

**Mindscape (UK) Limited**

**Directors' Report and Financial Statements**

**Year Ended 31 December 2003**

**Registered Number: 1638551**



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## DIRECTORS AND OTHER INFORMATION

### Board of Directors

Jean Pierre Nordman

### Solicitors

Marriott Harrison  
12 Great James Street  
London WC1N 3DR

Quastels  
74 Wimpole Street  
London W1S 9RR

Landwell  
1 Embankment Place  
London WC2N 6NN

### Secretary and Registered Office

MH Secretaries Limited  
12 Great James Street  
London WC1N 3DR

### Bankers

Barclays Bank Plc  
Slough  
PO Box 756  
Berkshire SL1 455

HSBC Bank Plc  
City of London Corporate Office  
PO Box 125 27-32  
Poultry  
London EC2P 2BX

### Auditors

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
George's Quay  
Dublin 2

Lloyds TSB  
2 Thomas Street  
Windsor  
Berkshire SL4 1PN

## DIRECTORS' REPORT

The director presents the report and audited financial statements for the year ended 31 December 2003.

### Principal activities

The principal activity of the company is that of sale and distribution of computer software.

### Business review and future developments

2003	2002
£	£

The results are as follows:

(Loss)/profit for the financial year	<u>(45,161)</u>	<u>1,142,207</u>
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The director is reviewing the available courses of action to improve sales and margins.

### Proposed dividend

The director does not recommend the payment of a dividend.

### Changes in fixed assets

The movements in fixed assets during the period are set out in note 9 to the financial statements.

### Directors

The directors who served during the period were as follows:

Jean Pierre Nordman.

### Interests of director and secretary in shares

Neither the director or the secretary have a beneficial interest in the share capital of the company.

The beneficial interests of the director and secretary and their spouses and minor children in the share capital of the holding company were as follows:

Jean Pierre Nordman            -            525 ordinary shares in Brainscape S.A.

### Directors' responsibilities for financial statements

UK Company law requires the directors to prepare financial statements for each financial period that 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 the 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 books of account which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in the United Kingdom and 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.

**DIRECTORS' REPORT - continued**


**Going concern**

After making appropriate enquiries, the director has a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, it is considered appropriate to continue to adopt the going concern basis in preparing the financial statements (see note 1).

**Auditors**

A resolution to re-appoint PricewaterhouseCoopers will be proposed at the forthcoming Annual General Meeting.

By order of the board

  
  
W H SECRETARIES LTD  
SECRETARY

13 December 2005

**PricewaterhouseCoopers**

P.O. Box 1283

George's Quay

Dublin 2

Telephone +353 (0) 1 678 9999

Facsimile +353 (0) 1 704 8600

Internet [www.pwc.com/ie](http://www.pwc.com/ie)**Independent auditors' report to the members of Mindscape (UK) Limited**

We have audited the financial statements on page 7 to 16 which comprise the profit and loss account, balance sheet and the related notes, which have been prepared under the historical cost convention and the accounting policies set out on page 7.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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. The other information comprises only the directors' report.

**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 add 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.

**Going concern**

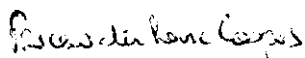
In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the directors' assessment of the future solvency of the company. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

**Independent auditors' report to the members of Mindscape (UK) Limited - continued**

**Qualified opinion arising from disagreement about accounting treatment**

Statement of Standard Accounting Practice No. 17 "Accounting for Post Balance Sheet Events" ("SSAP 17") requires that information which provides additional evidence relating to conditions existing at the balance sheet date be included in financial statements. Since the financial statements were prepared further information has come into the possession of the directors indicating that the bad debt provision has been overstated by approximately £150k. The directors have not amended the financial statements for this information. In our opinion, SSAP 17 requires this information to be reflected in the financial statements. Accordingly, in our opinion, trade accounts receivable are understated by £150k and operating expenses in the profit and loss account are overstated by £150k. If this information were reflected in the financial statements the amount shown in note 3 in respect of release of overprovision from prior years for bad debts, credit notes and other accruals of £390,534 (2002: £727,000) would be restated as £540,534 (2002: £727,000); the loss for the year of £45,161 would be restated as a profit for the year of £104,839; the debtors amount on the balance sheet of £799,949 would be stated at £949,949 and the net liabilities of £2,267,098 would be stated at £2,117,098.

Except for the matter referred to in the preceding paragraph, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
**Chartered Accountants and Registered Auditors**  
**Dublin**

**30 March 2006**

## ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

### Basis of preparation

The financial statements have been prepared in accordance with accounting standards generally accepted in the United Kingdom and English statute comprising the Companies Acts. Accounting standards generally accepted in the United Kingdom in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in England and Wales and was issued by the Accounting Standards Board.

The financial statements have been prepared in accordance with the historical cost convention and applicable Accounting Standards in the United Kingdom.

### Fixed assets and depreciation

Depreciation is provided by the company to write off the cost, less the estimated residual value, of the tangible assets by equal instalments over their estimated useful economic lives as follows:

Office equipment	2 - 3 years
Computer equipment	3 years

### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

### Operating leases

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

### Pension costs

Pension contributions have been paid into the employees voluntary individual pension schemes. The amount charged against profits represents the contributions payable in respect of the employees for the accounting period.

### Taxation

The charge for taxation is based on the result for the period and takes deferred tax into account.

Deferred tax is provided on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are temporary differences between profits as computed for tax purposes and profits as stated in the financial statements which arise because certain items of income and expenditure in the financial statements are dealt with in different years for tax purposes.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

### Turnover

Turnover represents the amounts (excluding value added tax and trade discounts) derived from the provision of goods and services to customers, net of returns, during the period.

### Goodwill

Goodwill arising on acquisition of trades is capitalised on the balance sheet and amortised over the estimated useful economic lives of the trades in equal instalments. Such amortisation periods do not exceed twenty years.

**PROFIT AND LOSS ACCOUNT**  
**Year Ended 31 December 2003**

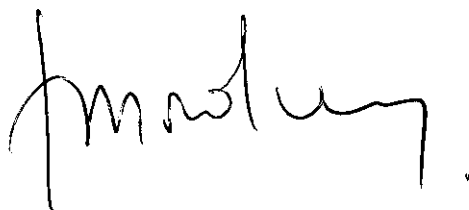
	Notes	2003 £	2002 £
Turnover	2	3,256,038	3,555,207
Cost of sales		<u>(1,553,500)</u>	<u>(1,569,258)</u>
<b>Gross profit</b>		1,702,538	1,985,949
Administrative expenses		<u>(1,421,931)</u>	<u>(1,907,977)</u>
<b>Operating profit</b>		280,607	77,972
Exceptional (loss)/gain	4	(185,013)	865,564
Other interest receivable and similar income		11,173	103,853
Interest payable and similar charges	7	<u>(151,928)</u>	<u>(5,798)</u>
<b>(Loss)/profit on ordinary activities before taxation</b>	3	(45,161)	1,041,591
Taxation charge	8	<u>-</u>	<u>100,616</u>
<b>(Loss)/profit on ordinary activities after taxation for the financial period</b>		(45,161)	1,142,207
Accumulated deficit brought forward		<u>(12,608,173)</u>	<u>(13,750,380)</u>
<b>Accumulated deficit carried forward</b>		<u>(12,653,334)</u>	<u>(12,608,173)</u>

The company's profits and losses were all derived from continuing activities.

The company has no recognised gains or losses other than those included in the loss above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss before taxation and the loss for the year stated above and their historical cost equivalents.

By order of the board

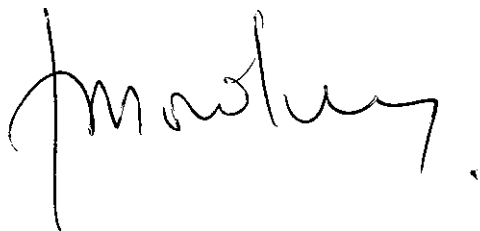


**BALANCE SHEET**  
**31 December 2003**

	Notes	2003 £	2002 £
<b>Fixed assets</b>			
Tangible assets	9	-	11,416
Investments	10	-	-
Intangible assets - goodwill	11	-	-
<b>Current assets</b>			
Debtors	12	799,949	1,109,602
Cash at bank and in hand		<u>546,213</u>	<u>734,621</u>
		1,346,162	1,844,223
<b>Creditors</b> (amounts falling due within one year)	13	<u>(3,613,260)</u>	<u>(4,077,576)</u>
<b>Net current liabilities</b>		<u>(2,267,098)</u>	<u>(2,233,353)</u>
<b>Total assets less current liabilities</b>		<u>(2,267,098)</u>	<u>(2,221,937)</u>
<b>Capital and reserves</b>			
Called up share capital	14	10,386,236	10,386,236
Profit and loss account		<u>(12,653,334)</u>	<u>(12,608,173)</u>
<b>Equity shareholders' deficit</b>	16	<u>(2,267,098)</u>	<u>(2,221,937)</u>

These financial statements were approved by the board of directors on \_\_\_\_\_ and were signed on its behalf by:

Jean Pierre Nordman  
Director



## NOTES TO THE FINANCIAL STATEMENTS

**1 Basis of preparing the financial statements**

During the year the company incurred a loss of £45K and at the balance sheet date its current liabilities exceeded its current assets by £2.3 million.

The net liabilities include £2.3 million payable to Broderbund Software Limited which the director is of the opinion will not become payable in the foreseeable future. The director believes that in the event of Broderbund Software Limited calling the existing payable it would be offset by a receivable in the same amount due by Broderbund Software Limited to Mindscape International Limited, a subsidiary of Mindscape UK Limited. Mindscape International Limited has been struck off and is in the process of being reinstated.

The director has considered the facts outlined above, reviewed the financial projections prepared up until December 2006 and considered the commitment from the parent company that the inter company liabilities will not be called upon in the event of this causing any solvency issues. On this basis the director believes it is appropriate to prepare the financial statements on a going concern basis.

**2 Turnover**

The analysis of turnover by geographic area has not been disclosed as in the opinion of the directors, disclosure of such information would be seriously prejudiced to the commercial interest of the company.

<b>3 (Loss)/profit on ordinary activities before taxation</b>	2003	2002
	£	£

(Loss)/profit on ordinary activities before tax is stated after charging:

Auditors' remuneration:

Audit	20,000	-
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The 2002 auditors' remuneration was borne by other group companies.

Depreciation and other amounts written off tangible fixed assets	11,416	5,936
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Hire of other assets - operating leases:

- Land and buildings	166,344	209,080
- Other	18,819	29,208

Foreign exchange loss	<u>45,066</u>	<u>34,050</u>
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Release of overprovision from prior years for bad debts, credit notes and other accruals	<u>390,534</u>	<u>727,000</u>
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<b>4 Exceptional (loss)/gain</b>	2003	2002
	£	£

Foreign exchange gain on conversion of Hotecno balance from US\$ to euro	-	883,776
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Restructuring costs	(185,013)	(18,212)
	<u>(185,013)</u>	<u>865,564</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

5 Remuneration of director	2003 £	2002 £
Directors' emoluments:		
Aggregate emoluments	-	-
Pensions	-	-
Compensation for loss of office	-	-
	<u>-</u>	<u>-</u>

6 Staff numbers and costs	2003 Number	2002 Number
The average number of persons employed by the company (including executive directors) during the period, analysed by category, was as follows:		
Sales and marketing, and operations	20	20
Finance and administration	3	4
	<u>23</u>	<u>24</u>
	2003 £	2002 £

The aggregate payroll costs of these persons were as follows:

Wages and salaries	421,792	584,421
Social security costs	47,146	68,452
Other pension costs	37,473	56,660
	<u>506,411</u>	<u>709,533</u>

7 Interest payable and similar charges	2003 £	2002 £
Interest payable	(143,000)	-
Bank charges	(8,928)	(5,798)
	<u>(151,928)</u>	<u>(5,798)</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

8 Taxation	2003 £	2002 £
<b>(a) Analysis of charge for the year</b>		
<b>Current tax</b>		
UK corporation tax on profits of the period	-	-
Overprovision in respect of previous periods	-	100,616
Total current tax (note 8(b))	-	100,616
<b>Deferred tax</b>		
Current year origination and reversal of timing differences	-	-
Adjustment in respect of previous periods	-	-
	-	100,616

**(b) Factors affecting tax charge for the year**

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2003 £	2002 £
(Loss)/profit on ordinary activities before tax	(45,161)	1,041,591
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(13,548)	312,477
<b>Effects of:</b>		
Expenses not deductible for tax purposes	62,079	17,522
Cumulative tax losses and accelerated capital allowances	(48,531)	(329,999)
Overprovision in respect of prior periods	-	100,616
<b>Current tax charge for the year (note 8(a))</b>	-	100,616

**Deferred tax**

A potential deferred tax asset of £3,390,000 (2002: £2,687,000) relating primarily to cumulative tax losses and timing differences on fixed assets and general provisions has not been recognised.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 9 Tangible fixed assets

	Office equipment £	Computer equipment £	Total £
<b>Cost</b>			
At 31 December 2002	720,830	896,154	1,616,984
Disposals	(720,830)	(896,154)	(1,616,984)
Additions	-	-	-
At 31 December 2003	-	-	-
<b>Depreciation and diminution in value</b>			
At 31 December 2002	711,620	893,948	1,605,568
Disposals	(720,830)	(896,154)	(1,616,984)
Charge for period	9,210	2,206	11,416
At 31 December 2003	-	-	-
<b>Net book value</b>			
At 31 December 2003	-	-	-
At 31 December 2002	9,210	2,206	11,416

## 10 Investments

	2003 £	2002 £
Investment in Softkey Holdings GmbH shares	-	-
Provision for diminution in carrying amount	-	-
Entire share capital of Mindscape International Limited	-	-
	-	-

In the opinion of the directors, the future cash flows arising from the investment in Softkey Holdings GmbH are expected to be negative for the foreseeable future. A diminution provision of £1,186,411 was provided in the books of Mindscape International Limited in the year ended 31 December 1998. This asset was part of the assets of Mindscape International Limited whose trade was acquired by The Learning Company (UK) Limited on 6 May 1999.

Mindscape International Limited is a company incorporated in the United Kingdom. The nominal value of the shares held in this company is £13,708,282 comprised of £8,208,282 ordinary shares of £1 each and 5,500,000 preferred ordinary shares of £1 each. The principal activities of this company were the development, distribution and sale of computer software in the UK and Europe. The trade of this company was acquired by The Learning Company (UK) Limited on 6 May 1999 for a cash consideration of £1,900,000.

## NOTES TO THE FINANCIAL STATEMENTS - continued

## 11 Intangible assets

Total  
£

Goodwill arising on acquisition of Mindscape International Limited:

**Cost**

At 31 December 2002

3,102,554

At 31 December 2003

3,102,554

**Accumulated amortisation**

At 31 December 2002

3,102,554

Amortised during period

-

At 31 December 2003

3,102,554

**Net book value**

At 31 December 2002

-

At 31 December 2003

-

## 12 Debtors

2003  
£2002  
£

Amounts falling due within one year

Trade debtors

717,740

1,033,751

Amounts owed by parent and fellow subsidiary undertakings

2,894

1,147

Prepayments and accrued income

79,315

74,704

799,949

1,109,602

## 13 Creditors

2003  
£2002  
£

Amounts falling due within one year:

Trade creditors

7,318

65,134

Amounts owed to parent and fellow subsidiary undertakings

453,488

785,244

Loan from Broderbund Software Limited

2,284,590

2,284,590

Interest payable on loan

143,000

-

Other creditors including taxation and social security:

- Other taxes

157,776

74,563

- PAYE and social security

9,052

11,303

Accruals and deferred income

558,036

856,742

3,613,260

4,077,576

## NOTES TO THE FINANCIAL STATEMENTS - continued

14 Called up share capital	2003 £	2002 £
<b>Authorised:</b>		
Ordinary shares of £1 each	<u>11,000,000</u>	<u>11,000,000</u>
<b>Allotted, called up and fully paid:</b>		
Ordinary shares of £1 each	<u>10,386,236</u>	<u>10,386,236</u>

15 Commitments	Land and buildings		Others	
	2003 £	2002 £	2003 £	2002 £
The company has commitments under non-cancellable operating leases as follows:				
Expiring within:				
1 year	78,000	120,450	9,472	15,800
2 - 5 years	-	-	29,057	-
Over 5 years	-	-	-	-
	<u>78,000</u>	<u>120,450</u>	<u>38,529</u>	<u>15,800</u>

Under the terms of the above lease for the premises, the company exercised the option to invoke a break-clause and it became effective on 24 September 2003.

16 Reconciliation of movements in shareholders' deficit	2003 £	2002 £
Opening shareholders' deficit	(2,221,937)	(13,740,380)
Shares issued during the year	-	10,376,236
(Loss)/profit for the financial period	<u>(45,161)</u>	<u>1,142,207</u>
Closing shareholders' deficit	<u>(2,267,098)</u>	<u>(2,221,937)</u>

## 17 Cash flow statement

No cashflow statement has been prepared as the directors have availed of the exemption available under Paragraph 5(a) of Financial Reporting Standard No. 1 (Revised 1996) for subsidiary companies where publicly available consolidated financial statements are prepared by the parent.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 18 Parent company

The company is a wholly owned subsidiary of Mindscape Limited, a company incorporated in France, and its financial statements are incorporated in the consolidated financial statements prepared by that company. This is the smallest and largest group that the company's financial statements are consolidated into. Mindscape SAS, principal place of business is 122 Avenue du General Leclerc, 92514 Boulogne-Billancourt, Cedex, Paris, France and a copy of its financial statements can be obtained from this address.

The financial statements do not disclose transactions with group entities in accordance with the exemption provisions of Financial Reporting Standards 8 "Related Party Disclosures".

The ultimate parent company is Brainscape S.A., a company incorporated in Luxembourg.

### 19 Consolidated accounts

The directors of the Learning Company (UK) Limited have decided not to prepare consolidated financial statements in respect of its wholly owned the subsidiary, Mindscape International Limited as in their opinion such an exercise would cost more than any benefits that would arise. In the year ended 31 December 2003, this subsidiary reported loss after tax of £2,436,000 (2002: profit £143,000) and had net liabilities of £132,000 (2002: net assets £2,304,000) at that date.

### 20 Repayment of intercompany debt

The Learning Company (Ireland) Limited has agreed not to demand repayment in the future of any intercompany debt, where to do so would make Mindscape (UK) Limited insolvent.

Mindscape SAS has agreed not to demand repayment in the future of any intercompany debt, where to do so, would make Mindscape (UK) Limited insolvent.

### 21 Approval of the financial statements

The director approved the financial statements on 13 December 2005.