

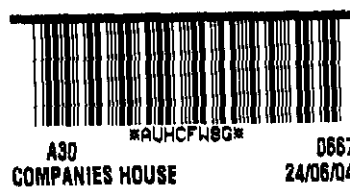
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**Mindscape (UK) Limited
(formerly The Learning Company (UK) Limited)**

Directors' Report and Financial Statements

Year Ended 31 December 2002

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 directors present their report and audited financial statements for the year ended 31 December 2002.

Principal activities

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

Business review and future developments

2002	2001
£	£

The results are as follows:

Profit/(loss) for the financial year	<u>1,142,207</u>	<u>(327,454)</u>
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The directors are satisfied with the results for the year and are reviewing the available courses of action to increase sales and margins.

Proposed dividend

The directors do 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 directors and officers 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

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 United Kingdom and comply with the Companies Acts, 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

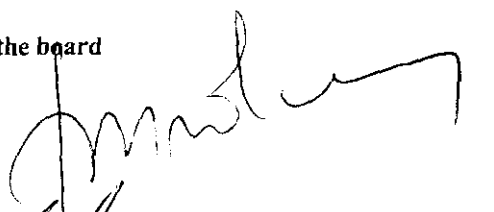

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements (see notes 1 and 20).

Auditors

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

By order of the board



for H# SECRETARIES LTD
(Secretary)

29 March 2004

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

**Independent auditors' report to the shareholders of Mindscape (UK) Limited
(formerly The Learning Company (UK) Limited)**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

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.

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 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 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 - continued

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies act 1985.

PricewaterhouseCoopers

**PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin**

5 April 2004

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:

Leasehold property	life of lease
Motor vehicles	5 years
Office equipment	2 - 3 years
Computer equipment	3 years
Transport 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 2002

	Notes	2002 £	2001 £
Turnover	2	3,555,207	5,754,496
Cost of sales		<u>(1,569,258)</u>	<u>(3,129,733)</u>
Gross profit		1,985,949	2,624,763
Administrative expenses		<u>(1,907,977)</u>	<u>(4,288,261)</u>
Operating profit/(loss)		77,972	(1,663,498)
Exceptional gain	4	865,564	1,312,708
Other interest receivable and similar income		103,853	37,934
Interest payable and similar charges	7	<u>(5,798)</u>	<u>(14,598)</u>
Profit/(loss) on ordinary activities before taxation	3	1,041,591	(327,454)
Taxation	8	<u>100,616</u>	<u>-</u>
Profit/(loss) on ordinary activities after taxation for the financial period		1,142,207	(327,454)
Accumulated deficit brought forward		<u>(13,750,380)</u>	<u>(13,422,926)</u>
Accumulated deficit carried forward		<u>(12,608,173)</u>	<u>(13,750,380)</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 profit above and therefore no separate statement of total recognised gains and losses has been presented.

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

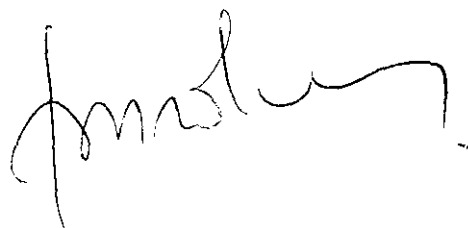
By order of the board



BALANCE SHEET
31 December 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible assets	9	11,416	14,314
Investments	10	-	-
Intangible assets - goodwill	11	-	-
Current assets			
Debtors	12	1,109,602	2,662,567
Cash at bank and in hand		<u>734,621</u>	<u>537,022</u>
		1,844,223	3,199,589
Creditors (amounts falling due within one year)	13	<u>(4,077,576)</u>	<u>(16,954,283)</u>
Net current (liabilities)		<u>(2,233,353)</u>	<u>(13,754,694)</u>
Total assets less current liabilities		<u>(2,221,937)</u>	<u>(13,740,380)</u>
Capital and reserves			
Called up share capital	14	10,386,236	10,000
Profit and loss account		<u>(12,608,173)</u>	<u>(13,750,380)</u>
Equity shareholders' funds	16	<u>(2,221,937)</u>	<u>(13,740,380)</u>

By order of the board



NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparing the financial statements

The directors have prepared financial projections for the period to 31 December 2004 and based on which they are satisfied that the company will become solvent in the foreseeable future. Based on the forecasts and on the subordination of The Learning Company (Ireland) Limited intercompany liabilities (see note 20) the directors are satisfied that it remains appropriate to prepare 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.

3 Profit/(loss) on ordinary activities before tax

Profit/(loss) on ordinary activities before tax is stated after charging:

	2002 £	2001 £
Goodwill written off	-	-
Auditors' remuneration:		
- Audit	-	-
Depreciation and other amounts written off tangible fixed assets	5,936	100,617
Hire of other assets - operating leases:		
- Land and buildings	209,080	233,199
- Other	29,208	59,439
Foreign exchange loss	34,050	19,353
Release of overprovision from prior years for bad debts, credit notes and other accruals	727,000	-

4 Exceptional gain

	2002 £	2001 £
Intercompany creditor no longer payable	-	1,312,708
Foreign exchange gain on conversion of Hotecno balance from US\$ to euro	883,776	-
Restructuring costs	(18,212)	-
	865,564	1,312,708

5 Remuneration of directors

Directors' emoluments:

	2002 £	2001 £
Aggregate emoluments	-	-
Pensions	-	-
Compensation for loss of office	-	-
	-	-

NOTES TO THE FINANCIAL STATEMENTS - continued

6 Staff numbers and costs

2002 Number	2001 Number
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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	32
Finance and administration	4	4
	<u>24</u>	<u>36</u>

2002 £	2001 £
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The aggregate payroll costs of these persons were as follows:

Wages and salaries	584,421	994,781
Social security costs	68,452	129,874
Other pension costs	56,660	68,447
	<u>709,533</u>	<u>1,193,102</u>

7 Interest payable and similar charges

2002 £	2001 £
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Interest payable	-	-
Bank charges	(5,798)	(14,598)
	<u>(5,798)</u>	<u>(14,598)</u>

8 Taxation

2002 £	2001 £
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(a) Analysis of charge for the year

Current tax

UK corporation tax on profits of the period	-	-
Overprovision in respect of previous periods	100,616	-
Total current tax (note 8(b))	<u>100,616</u>	<u>-</u>

Deferred tax

Current year origination and reversal of timing differences	-	-
Adjustment in respect of previous periods	-	-
	<u>100,616</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

8 Taxation - continued

(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:

	2002 £	2001 £
Profit/(loss) on ordinary activities before tax	1,041,591	(327,454)
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	312,477	(98,236)
Effects of:		
Expenses not deductible for tax purposes	17,522	-
Cumulative tax losses and accelerated capital allowances	(329,999)	98,236
Overprovision in respect of prior periods	100,616	-
Current tax charge for the year (note 8(a))	<u>100,616</u>	<u>-</u>

Deferred tax

A potential deferred tax asset of £2,687,000 (2001: £3,017,000) relating primarily to cumulative tax losses and timing differences on fixed assets and general provisions has not been recognised.

9 Tangible fixed assets

	Office equipment £	Computer equipment £	Total £
Cost			
At 31 December 2001	720,258	893,688	1,613,946
Additions	<u>572</u>	<u>2,466</u>	<u>3,038</u>
At 31 December 2002	<u>720,830</u>	<u>896,154</u>	<u>1,616,984</u>
Depreciation and diminution in value			
At 31 December 2001	709,973	889,659	1,599,632
Charge for period	<u>1,647</u>	<u>4,289</u>	<u>5,936</u>
At 31 December 2001	<u>711,620</u>	<u>893,948</u>	<u>1,605,568</u>
Net book value			
At 31 December 2002	<u>9,210</u>	<u>2,206</u>	<u>11,416</u>
At 31 December 2001	<u>10,285</u>	<u>4,029</u>	<u>14,314</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

10 Investments	2002 £	2001 £
Investment in Softkey Holdings GmbH shares	-	1,186,411
Provision for diminution in carrying amount	-	(1,186,411)
Entire share capital of Mindscape International Limited	-	-
	<u>-</u>	<u>-</u>

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 5,500,00 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.

11 Intangible assets	Total £
Goodwill arising on acquisition of Mindscape International Limited:	
Cost	
At 31 December 2001	3,102,554
At 31 December 2002	-
Accumulated amortisation	
At 31 December 2001	3,102,554
Amortised during period	-
At 31 December 2002	3,102,554
Net book value	
At 31 December 2001	-
At 31 December 2002	-

12 Debtors	2002 £	2001 £
Amounts falling due within one year		
Trade debtors	1,033,751	1,766,566
Amounts owed by parent and fellow subsidiary undertakings	1,147	114,185
Prepayments and accrued income	74,704	75,481
Corporation tax	-	706,335
	<u>1,109,602</u>	<u>2,662,567</u>

NOTES TO THE FINANCIAL STATEMENTS - continued

13 Creditors	2002 £	2001 £
Amounts falling due within one year:		
Trade creditors	65,134	92,499
Amounts owed to parent and fellow subsidiary undertakings	785,244	1,869,037
Amounts owed to related party - Hotecno Holding S.A.	-	11,260,012
Loan from Broderband Software Limited	2,284,590	2,284,590
Other creditors including taxation and social security:		
- Other taxes	74,563	-
- PAYE and social security	11,303	-
Accruals and deferred income	856,742	1,448,148
	<u>4,077,576</u>	<u>16,954,283</u>

14 Called up share capital	2002 £	2001 £
Authorised:		
Ordinary shares of £1 each	<u>11,000,000</u>	<u>10,000</u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	<u>10,386,236</u>	<u>10,000</u>

15 Commitments	Land and buildings		Others	
	2002 £	2001 £	2002 £	2001 £
The company has commitments under non-cancellable operating leases as follows:				
Expiring within:				
1 year	120,450	-	15,800	19,563
2 - 5 years	-	-	-	3,221
Over 5 years	-	1,405,250	-	-
	<u>120,450</u>	<u>1,405,250</u>	<u>15,800</u>	<u>22,784</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.

NOTES TO THE FINANCIAL STATEMENTS - continued

16 Reconciliation of movements in shareholders' funds/(deficits)	2002 £	2001 £
Opening shareholders' funds/(deficits)	(13,740,380)	(13,412,926)
Shares issued during the year	10,376,236	-
Profit/(loss) for the financial period	1,142,207	(327,454)
Closing shareholders' funds/(deficits)	<u>2,221,937</u>	<u>(13,740,380)</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.

18 Parent company

The company is a wholly owned subsidiary of Brainscape S.A., a company incorporated in Luxembourg, 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). Brainscape S.A., principal place of business is 41 Avenue de la Gare L-1611, Luxembourg 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".

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 2002, this subsidiary reported profits after tax of £143,000 (2001: £100,000) and had net assets of £2,304,000 (2001: £2,161,000) at that date.

20 Repayment of intercompany debt

During the year the company increased its authorised share capital to 11,000,000 and subsequently issued 10,376,236 ordinary shares of £1 each to Brainscape S.A., the proceeds of which were used to repay amounts owed to Hotecno Holding S.A., a related company.

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.

21 Approval of the financial statements

The directors approved the financial statements on March 29th, 2004

