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EASY i LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2004

COMPANY NUMBER: 2583952



**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

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EASY i LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2004

Directors

L R Hurst
I McLeod
J Duez
T Hancock

Secretary and registered office

D Smyth
42 The Square
Kenilworth
Warwickshire
CV8 1EB

Company number

2583952

Auditors

Solomon Hare LLP
Oakfield House
Oakfield Grove
Clifton
Bristol
BS8 2BN

Bankers

HSBC Bank plc
90 Baker Street
London
W1U 6AX

Solicitors

Mayer, Brown, Rowe & Maw
11 Pilgrim Street
London
EC4V 6RW

EASY i LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2004

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 July 2004.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is the provision of specialist communication services.

The directors are satisfied with the performance of the business during the year and with the position of the company at the year end.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £133,761 (2003: £226,152) and is dealt with as shown on page 5. The directors do not recommend the payment of a dividend (2003: £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the share capital of the company are as stated below:

	Ordinary shares of 0.001p each	
	31 July 2004	1 August 2003
L R Hurst	-	-
I McLeod	-	-
J Duez	-	-
T Hancock	-	-

The directors have the following interests in the share capital of the parent company, Easy i Holdings Limited:

	Ordinary shares of 0.001p each	
	31 July 2004	1 August 2003
L R Hurst	14,044,865	14,044,865
I McLeod	4,715,693	4,715,693
J Duez	1,278,949	1,278,949
T Hancock	32,500	-

The directors are also directors of Easy i Holdings Limited.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a 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.

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

DIRECTORS' REPORT (Continued)

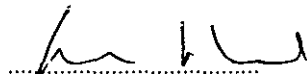
ECONOMIC AND MONETARY UNION

The company has taken action to address the current situation with regard to Economic and Monetary Union. Customers are billed in Euros where it has been agreed that this is the currency for the transaction. Should the UK adopt the Euro as its currency in the future, further action will be required and further cost is likely to be incurred, which it is not possible to quantify at this stage. The directors have assessed the areas which potentially impact on the business and developed a plan for dealing with them should the need arise.

AUDITORS

A resolution to re-appoint Solomon Hare LLP as the Company's Auditors will be put to the Annual General Meeting in accordance with Section 385 of the Companies Act 1985.

This report was approved by the Board and signed on its behalf by:



L R Hurst
Director

Date: 17/12/04

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EASY I LIMITED

We have audited the financial statements of Easy i Limited for the year ended 31 July 2004 set out on pages 5 to 16. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in our auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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 31 July 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Solomon Hare LLP
Chartered Accountants
Registered Auditors
Oakfield House
Oakfield Grove
Clifton
Bristol
BS8 2BN

Date: 17 December 2004

EASY i LIMITED

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2004

PROFIT AND LOSS ACCOUNT

	Note	Continuing operations	
		2004	2003
		£	£
Turnover	2	2,119,539	1,623,201
Cost of sales		(1,010,760)	(691,276)
Gross profit		1,108,779	931,925
Distribution costs		(493,464)	(402,345)
Administrative expenses		(442,190)	(282,082)
Administrative expenses - exceptional costs	3b	-	(26,439)
Operating profit	3a	173,125	221,059
Interest receivable and similar income		13,097	10,892
Interest payable and similar charges	4	(6,851)	(5,799)
Profit on ordinary activities before taxation		179,371	226,152
Tax on profit on ordinary activities	6	(45,610)	-
Retained profit for the year		133,761	226,152
Retained profit brought forward		261,236	35,084
Retained profit carried forward		394,997	261,236

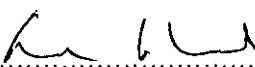
There are no recognised gains or losses other than the profit and loss for the above two financial years.

The notes on pages 7 to 16 form part of these financial statements.

EASY i LIMITED**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004****BALANCE SHEET AT 31 JULY 2004**

	Note	2004	2003
		£	£
Fixed assets			
Tangible assets	7	10,944	23,834
Intangible assets	8	152,414	-
		<u>163,358</u>	<u>23,834</u>
Current assets			
Work in progress		47,762	30,207
Debtors - due within one year	9	604,942	609,951
- due after one year	9	166,667	166,667
Cash at bank and in hand		196,444	226,269
		<u>1,015,815</u>	<u>1,033,094</u>
Creditors: amounts falling due within one year	10	<u>(655,290)</u>	<u>(704,711)</u>
Net current assets		<u>360,525</u>	<u>328,383</u>
Total assets less current liabilities		<u>523,883</u>	<u>352,217</u>
Creditors: amounts falling due after more than one year	11	(81,277)	(40,666)
Provisions for liabilities and charges	12	(22,509)	(25,215)
Net assets		<u>420,097</u>	<u>286,336</u>
Capital and reserves			
Called up share capital	14	103	103
Share premium	15	24,997	24,997
Profit and loss account		394,997	261,236
Equity shareholders' funds	16	<u>420,097</u>	<u>286,336</u>

The financial statements were approved by the Board and signed on its behalf by:


.....
L R Hurst
Director

Date: 17/12/04

The notes on pages 7 to 16 form part of these financial statements.

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

a Accounting convention

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

The company has taken advantage of the exemption in FRS1 from the requirement to produce a cash flow statement because it is a small company.

b Turnover

Turnover represents sales net of value added taxes. Revenue from product licences is recognised at the time of sale. Annual contract revenue is recognised evenly over the life of the contract.

Revenue from product sales is recognised on delivery of the equipment. Revenue from bespoke development and heavily customised products, where contracts extend over more than one accounting period, is recognised based on the stage of completion when the outcome of the contract can be foreseen with reasonable certainty and after allowing for costs to completion.

c Fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Computer equipment	-	50% reducing balance
Fixtures, fittings and equipment	-	33 1/3% reducing balance
Motor vehicles	-	33 1/3% reducing balance

d Leasing

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged against profit as incurred. Assets held under finance leases are capitalised and depreciated over their useful lives. The corresponding lease obligation is treated in the balance sheet as a liability. The interest element of rental obligations is charged to profit and loss account over the period of the lease at a constant proportion of the outstanding balance of capital repayments.

e Work in progress

Work in progress is valued at the lower of cost and net realisable value after making due allowances for irrecoverable amounts. Costs include all directly attributable expenditure.

Long term contract work in progress is stated at costs incurred, net of amounts transferred to cost of sales in respect of work recorded as turnover and after providing for foreseeable losses. Profit on long term contracts is taken as work is carried out, provided that the final outcome can be assessed with reasonable certainty. Full provision is made for all known or expected losses as soon as they are foreseen.

f Pensions

The pension costs charged in the financial statements represent the contribution payable by the company during the year to a defined contribution pension scheme for employees.

The regular cost of providing retirement pensions and related benefits is charged to the profit and loss account as and when incurred.

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2004

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

g Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

h Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The deferred taxation balance has not been discounted.

i Upgrade costs

Provision is made for upgrade costs to the extent that, in the opinion of the directors, there is reasonable probability that a liability will arise in the future.

j Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- The project is clearly defined and related expenditure is separately identifiable;
- The project is technically feasible and commercially viable;
- Current and future costs are expected to be exceeded by future sales; and
- Adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period commencing in the year the company starts to benefit from the expenditure, as follows:

Software development – Learning Management System – released in line with the sales generated by the asset.

k Deferred income

Deferred income represents sales invoices raised in respect of long term contracts and annual support contracts where the income received exceeds the stage of completion of that contract.

2 TURNOVER

An analysis of turnover is given below:

	2004	2003
	£	£
United Kingdom	637,923	577,624
Europe	597,755	273,657
Rest of world	883,861	771,920
	<u>2,119,539</u>	<u>1,623,201</u>

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004****NOTES TO THE FINANCIAL STATEMENTS (Continued)****3a OPERATING PROFIT**

	2004	2003
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	8,115	18,796
Loss on disposal of tangible fixed assets	-	3,065
Operating lease rentals		
Equipment hire	856	856
Land and buildings	16,850	16,850
Auditors' remuneration - audit	4,800	4,800
- non-audit	3,500	3,175
Net loss/(profit) on foreign currency translation	37,405	(1,517)

3b EXCEPTIONAL COSTS

	2004	2003
	£	£
Exceptional salary and bonus costs	-	26,439

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£	£
Bank interest	6,051	3,500
Interest on finance leases and hire purchase contracts	237	1,052
Other interest	563	1,247

5 EMPLOYEES AND DIRECTORS

	2004	2003
	£	£
Staff costs including executive directors during the year amounted to:		
Wages and salaries	394,955	368,524
Social security costs	51,476	58,581
Other pension costs	28,600	28,254

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 EMPLOYEES AND DIRECTORS (Continued)

Other pension costs represents amounts payable to personal pension schemes. At the year end pension contributions of £44,301 (2003: £29,784) were due to the schemes.

	2004	2003
	No	No
Average number of employees during the year (including directors)		
Office and management	9	9
	2004	2003
	£	£
Directors' aggregate emoluments in respect of qualifying services:		
Aggregate emoluments receivable	114,096	131,770
Pension contributions	10,500	10,875
	124,596	142,645

During the year, certain directors were remunerated by the parent company for services provided as directors of the group. The parent company levies a management charge to each group company for all central overheads incurred during the year in respect of the group. It is not possible to make an accurate apportionment of these charges in respect of directors' remuneration recharged. Further details of these management charges are disclosed in note 18.

	2004	2003
	No	No
Number of directors for whom contributions to personal pension schemes are made:	1	1

6 TAXATION

a) UK corporation tax on profits for the year

	2004	2003
	£	£
UK Corporation tax based on the results for the year at 25% (2003 - 0%)	45,610	-
	45,610	-

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 TAXATION (Continued)

b) Tax rate reconciliation	2004	2003
	%	%
Standard rate of corporation tax in UK	30	30
Effects of:		
Expenses not deductible	-	1
Capital allowances (in excess of)/less than depreciation	-	(2)
Losses carried forward/utilised	(6)	(28)
Marginal relief	(1)	-
Other short term timing differences	2	-
Group relief claimed	-	(1)
Current tax rate for year	25	-

c) Factors which may affect future tax charge

Tax losses carried forward for relief against future taxable profits are £nil (2003: £37,000). In 2003 losses of approximately £11,000 were surrendered to the company by its fellow subsidiary company, Easy i Media Limited, for £nil consideration.

7 FIXED ASSETS

TANGIBLE FIXED ASSETS	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost			
At 1 August 2003	93,310	16,635	109,945
Disposals	-	(16,635)	(16,635)
At 31 July 2004	93,310	-	93,310
Depreciation			
At 1 August 2003	75,021	11,090	86,111
Charge for the year	7,345	770	8,115
Disposals	-	(11,860)	(11,860)
At 31 July 2004	82,366	-	82,366
Net book values			
At 31 July 2004	10,944	-	10,944
At 31 July 2003	18,289	5,545	23,834

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 FIXED ASSETS (Continued)

Included above are assets held under finance leases or hire purchase contracts as follows:

Asset description	2004		2003	
	Net book value	Depreciation charge	Net book value	Depreciation charge
	£	£	£	£
Motor vehicles	-	-	5,545	2,773

8 INTANGIBLE FIXED ASSETS

	Software development costs	Total
	£	£
Cost and Net book value		
At 1 August 2003	-	-
Additions	152,414	152,414
At 31 July 2004	152,414	152,414

9 DEBTORS

	2004	2003
	£	£
Debtors due within one year:		
Trade debtors	463,813	523,883
Amounts due from group undertakings	67,611	27,260
Other debtors and prepayments	32,142	34,760
VAT Recoverable	41,376	24,048
	604,942	609,951
Debtors due after one year:		
Amounts due from group undertakings	166,667	166,667
	771,609	776,618

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
Bank loans (secured)	19,667	8,000
Trade creditors	85,294	53,501
Amounts owed to group undertakings	92,125	87,129
Corporation tax	45,610	-
Other taxes and social security	14,944	19,525
Other creditors and accruals	154,006	179,700
Net obligations under finance leases and hire purchase contracts	-	1,319
Deferred income	243,644	355,537
	<u>655,290</u>	<u>704,711</u>

11 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004	2003
	£	£
Bank loan (secured)	<u>81,277</u>	<u>40,666</u>
Bank loans		
Repayable within 1 year	19,667	8,000
Repayable within 1 – 2 years	19,667	8,000
Repayable within 2 – 5 years	59,000	24,000
Repayable after 5 years	2,610	8,666
	<u>100,944</u>	<u>48,666</u>

The bank loans are repayable in equal monthly instalments ending in 2009. Interest on the loans is charged at 2.5% over bank base rate and is secured by way of a fixed and floating charge over the company's assets.

12 PROVISIONS FOR LIABILITIES AND CHARGES

	2004	2003
	£	£
At 1 August	25,215	27,216
Decrease in provision	(2,706)	(2,001)
At 31 July	<u>22,509</u>	<u>25,215</u>

The above provision is in respect of contracted charges for upgrades which are expected to arise over the life of the contract.

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004****NOTES TO THE FINANCIAL STATEMENTS (Continued)****13 DEFERRED TAXATION**

The unprovided deferred tax assets at the end of the year are as follows:

	2004	2003
	£	£
Excess of taxation allowances over depreciation on fixed assets	430	953
Other timing differences	(12,300)	(7,945)
Losses carried forward	-	(11,188)
	<u>(11,870)</u>	<u>(18,180)</u>

The deferred tax asset will be recovered when sufficient taxable profits are generated.

14 SHARE CAPITAL

	2004	2003
	£	£
Authorised equity		
10,000,000,000 Ordinary shares of 0.001 pence each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid equity		
10,309,279 Ordinary shares of 0.001 pence each	<u>103</u>	<u>103</u>

15 SHARE PREMIUM

	2004	2003
	£	£
Share premium	<u>24,997</u>	<u>24,997</u>

16 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2004	2003
	£	£
Profit/(loss) for the year	133,761	226,152
Opening equity shareholders' funds	<u>286,336</u>	<u>60,184</u>
Equity shareholders' funds at 31 July	<u>420,097</u>	<u>286,336</u>

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 LEASE COMMITMENTS

At 31 July 2004 the company had annual commitments under non-cancellable operating leases as set out below.

	2004 Land and buildings £	2003 Land and buildings £
Operating leases which expire:		
Within 1 year	8,850	8,850
Within 2 to 5 years	8,000	8,000
	<u>16,850</u>	<u>16,850</u>

18 RELATED PARTY TRANSACTIONS

- a) During the year Mr J Duez received £nil (2003: £13,594) in respect of loan notes 2003 and associated interest relating to the acquisition of a 33 1/3% interest in Stimulus Multimedia Limited in 2000. During the year Mr Duez also received \$nil (2003: \$19,977) from Easy i Inc from its purchase of 33 1/3% of Stimulus. Easy i Inc is a related party by virtue of a common parent company, Easy i Holdings Limited.
- b) The company has an agreement with Easy i Inc, a fellow subsidiary of Easy i Holdings Limited, incorporated in the United States. The agreement grants rights to Easy i Inc to exploit product rights owned by the company, in return for royalties. The duration of the contract is five years from 21 April 1999, then continuing unless terminated on six months notice. The agreement also provides for sales and administrative support provided by Easy i Ltd to be charged to Easy i Inc. Sales support provided by Easy i Inc to Easy i Ltd is offset against this charge.
- c) During the year the company was entitled to receive royalties of £120,142 (2003: £90,559) and support charges of £98,038 (2003: £132,847) from Easy i Inc, with £12,475 (2003: £nil) charged by Easy i Inc for its sales support to Easy i Ltd. £62,883 (2003: £27,260) of these amounts are included within amounts due from group undertakings.
- d) During the year the company purchased products and received technical support from Easy i Media Limited, which is a related party by virtue of a common parent company, Easy i Holdings Limited. Purchases for the year were £995,168 (2003: £613,699) and support charges were £40,896 (2003: £20,448), of which £92,125 (2003: £62,310) is included within amounts due to group undertakings.
- e) During the year the company was charged £232,770 (2003: £157,891) by its parent company, Easy i Holdings Limited for the provision of management and financial services. As at the year end a trading balance of £4,727 (2003: £24,819 owed to Easy i Holdings Limited) was owed by Easy i Holdings Limited. In addition the company is owed £166,667 (2003: £166,667) by Easy i Holdings Limited in respect of funds provided in previous years. Interest of £10,000 (2003: £10,000) has been received in respect of this loan.
- f) During the year the company sold a car at market value to Mr L R Hurst, a director of the company, for £4,775. As at the year end £nil (2003: £nil) was owed in respect of this transaction.

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2004**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 ULTIMATE CONTROLLING PARTY

The parent company is Easy i Holdings Limited. Copies of the parent company's accounts may be obtained from Companies House.

The ultimate controlling party is Mr L R Hurst by virtue of his 64% interest in the parent company.

Mr L R Hurst, Mr I McLeod, Mr J Duez and Mr T Hancock are directors and shareholders of Easy i Holdings Limited.