

LEARNING TECHNOLOGY PLC

FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 SEPTEMBER 2001



Company No: 3337575

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Directors and Advisers

The Board of Directors	Sir Alan Sugar DSc	Chairman
	Bordan Tkachuk	Chief Executive
	Razmik Babaian MSc	Operations Director
	Michael Ray BSC ACA	Finance Director
	Jeoff Samson F.Inst.P, C.Phys*	Non-Executive Director
		* Chairman of the Remuneration and Audit Committee

Non-Executive Director

Jeoff Samson

Mr. Samson, age 73, has many years of experience working with Plessey Company plc, Standard Telephones and Cables plc (where he was Main Board Director) and General Electric Company plc (where he was Managing Director Hotpoint from 1983 to 1989), a member of GEC Management Board (1984 to 1989) and Managing Director GEC Consumer Products Group (1985 to 1989).

Mr. Samson was Group Managing Director of Yale and Valor plc between 1989 and 1991 and is a Non-Executive Director of a number of companies including Amstrad plc.

Company Secretary	Michael Ray BSC ACA
Registered Office	Viglen House, Alperton Lane, Alperton, Middlesex, HA0 1DX
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Facsimile	020 8758 7080
Website	www.learningtechnology.co.uk
Stockbrokers	Beeson Gregory, The Registry Royal, Mint Court, London EC3N 4LB
Auditors	Deloitte & Touche, Chartered Accountants, Hill House, 1 Little New Street, London EC4A 3TR
Bankers	Lloyds TSB Bank Plc, St. George's House, 6-8 Eastcheap, London EC3M 1LL
Registrars	Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL
Solicitors	Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS
Registered Number:	3337575



Chairman's Statement

Results

Sales for the fifteen months to 30 September 2001 were £105.2m (2000: £87.0m) resulting in an operating profit of £2.4m (2000: £3.0m) and a profit before tax of £2.6m (2000: £3.7m). Adjusted earnings per share for the period were 2.60p (2000: 3.03p). All comparatives are for the twelve months to 30 June 2000.

As stated in our interim report the Board of Directors has decided that due to the large number of small shareholders the company will in future only pay one dividend per year. The Board of Directors has recommended the paying of a final dividend of 1.35p per ordinary share to be paid on 7 March 2002 to shareholders on the register on 8 February 2002. This total dividend is unchanged from last year, excluding the special element of 2.25p relating to the exceptional tax credit received in the year ended 30 June 2000.

Operating Review

Viglen (www.viglen.co.uk)

Education

Education sales in the fifteen months to September 2001 were £61.6m, which represents 59% of the group's total sales. Although this period includes two summers, which makes comparisons difficult, we are still seeing very strong growth from our schools division.

In January 2001, Viglen unveiled ClassLink™ 2000, which was designed by Viglen with a view to integrate with Microsoft Windows 2000, ClassLink™ 2000 builds on Viglen's own award-winning ClassLink™ software suite and represents the next generation of school management products.

ClassLink™ 2000 represents a true departure from the current generation of ICT (Information and Communications Technology) management solutions for schools. Built on Microsoft Windows 2000 technology rather than a Microsoft Windows NT based system, the ClassLink™ 2000 administrator interface simplifies everyday tasks. Not only does this mean lower ownership costs, but it makes this new technology accessible for schools to reap the benefits of manageability, productivity, scalability and ease of use.

In March 2001 we announced the winning of a large NGfL (National Grid for Learning) contract with Dumfries and Galloway Regional Council, which further confirms Viglen's strategic direction in addressing the education market with product and service-led offerings. This was Viglen's first NGfL Managed Service win with an LEA (Local Education Authority). Dumfries and Galloway selected Viglen as Managed Services provider for its 114 primary schools over the next three years, in a contract worth over £1.9m. As part of the full solution provided including PCs, servers, networks, software, training and support, Viglen also provided ClassLink control software. The benefits of this contract will be reflected in the next three years' financial statements.

Enterprise

Sales in the corporate and public sector divisions ('Enterprise') continue to become more focused on turn-key solutions for infrastructure which has a positive effect as products developed for sale in this area can be migrated to other parts of our business. Viglen continues to focus on delivering state of the art solutions and has a solution for every type of network environment, with a wide range of service and support contracts, providing the flexibility to meet the demands of tomorrow's network environments. We are able to deliver a complete range of solutions from entry level to enterprise class servers to the corporate market. This was enhanced further by the development and introduction of our new Storage Area Network (SAN) Solution, again demonstrating our determination always to be at the leading edge of technology. Available for the first time, this product challenges the idea of the expensive 'SAN in a box' solution and provides a means for customers

to build entry level SANs at extremely competitive prices. Furthermore, as the need for storage grows, more modules can be seamlessly added without interrupting the SAN.

Viglen's entry into the SAN Solution arena marks a further step for Viglen, demonstrating its commitment to providing large scale infrastructure solutions. Viglen's new enterprise products comprise a range of modular, end-to-end fibre channel modules for building highly scaleable SANs. The range contains everything needed to build enterprise class storage solutions that connect seamlessly to Viglen's extensive range of servers. The emphasis is on centralised management of the storage network, be it back up, data migration, RAID configuration or hardware monitoring, the whole process can be controlled and configured from one location, anywhere on the LAN (Local Area Network). G-CAT 2 (Government Catalogue) the new procurement process, for the public sector bodies who do not wish to tender, went live on 1 October 2001. This should give Viglen more opportunities as we are one of only six approved suppliers. The main selling time for the Public Sector is March and we will not know what impact G-CAT 2 has until then.

Software Licencing

Viglen is committed to providing its customers with the total solution and established a team dedicated to software licensing. The team's remit encompasses all Microsoft volume licensing programs e.g. Campus and Select & Open Licence. This team currently manages Microsoft licensing in relation to the Higher/Further Education, Schools and Enterprise Sectors. In addition, they are able to supply advice and pricing relating to other software vendors' licensing programs (e.g. Novell and Computer Associates). Viglen is the Intel UK Country Leader and a Microsoft OEM, Ed-LAR, MERC Partner and Certified Solutions Provider. With these strategic alliances we are best placed to advise on the future IT strategies of the industry leaders.

Xenon

(www.xenon-uk.co.uk)

Xenon, our wholly owned installation and network subsidiary, continues to grow due to the increased number of schools installations. In addition Xenon is continuing to win more support contracts within higher education where it is one of only two approved suppliers.

Associate Undertakings

Losses during the period were £558,000 (2000: £60,000) including £225,000 (2000: £25,000) amortisation of goodwill. These losses were from the group investments in intY and AtSchool.

intY (www.inty.net)

Our associate intY (in which we own 26%) which is a service provider that allows controlled access to the internet and world wide web, is on track for profitability in early 2002. It now has over 1000 sites and over 18,000 users. We have developed and launched a joint product specifically for the schools market, Classlink – intY.

AtSchool (www.atschool.co.uk)

Learning Technology plc owns 49% of AtSchool, an on-line key stage 1 and 2 content provider. AtSchool was acquired in October 2000. AtSchool currently provide subscription services to over 400 Schools. It is expected to make a marginal loss in the current year.

Chairman's Statement (continued)

Outlook

In October 2001 we announced a second contract worth over £16.0m as a National Grid for Learning (NGfL) Managed Service provider for primary schools in Northern Ireland; this is our largest contract. The Classroom 2000 Project Board selected Viglen as the sole supplier for LOT 1 of its Classroom 2000 Project for 574 small primary schools and 20 training and support centres. Under the three year contract we will be delivering over 5,200 workstations and 600 servers. The contract will provide 52,000 pupils with state-of-the-art computer equipment, Internet and Email access and fast access to learning materials. It will also include training, technical support and maintenance. As part of the full solution, Viglen will also provide ClassLink™ 2000, the very latest network administration and teaching software solution built on Microsoft Windows 2000 technology.

In November 2001 we announced two further contracts worth some £7.2m over 5 years. The overall contract marks an agreement with the Western Education Library Board for Viglen to provide both Microsoft operating software and curriculum software for all schools in Northern Ireland. This is the largest Microsoft School Agreement in Europe and will involve Viglen covering 1,230 schools (a minimum of 40,000 desktops) alongside the awarding of a £3.4m curriculum software contract which was designed to provide all primary schools in Northern Ireland with an all-in-one package of the very best and most popular curriculum titles.

In November 2001 we also announced that Viglen had been selected as 'preferred bidder' for the LOT2 contract for schools in Northern Ireland. The LOT2 contract is for a 3 year Managed Service solution covering nearly 10,000 PCs and 332 servers at 332 schools.

As I stated in the interim report, Learning Technology continues to focus on service and away from 'box shifting' low margin PC sales. With the £1.9m Dumfries and Galloway contract and the £16.0m Northern Ireland contract we have demonstrated our success in this strategy. We have continued to see our competitors fight it out for low margin within the retail sector and to some extent the public and corporate sectors. We will continue to look at our operations to ensure that we focus on providing our customers with a quality service.

The current year's results should reflect the benefits of the restructuring that took place during the period and the first part of the Northern Ireland contract. With the transition of our business into a provider of education solutions, which now accounts for nearly 60% of our business, I believe we will be able to leverage off the back of the contracts we have secured and gain further business in the growing Education market. We will constantly review our cost base to ensure we continue to improve productivity and efficiency.

Finally, on behalf of the Board of Directors, I would like to thank all the employees of the group for their hard work in the period.



Sir Alan Sugar
Chairman

4 December 2001

Directors' Report

The directors present their report and the audited financial statements for the period ended 30 September 2001.

Principal activities

The supply of IT solutions to the educational markets, the public sector and corporate markets. The solutions supplied incorporate the latest PC Technology, networking, software and services.

Results

The turnover for the period was £105.2m (2000:£87.0m). The profit for the period on ordinary activities before tax was £2.6m (2000:£3.7m). Full details are set out in the consolidated profit and loss account on page 15 of these financial statements.

Dividends

No interim dividend was paid during the period. The directors recommend the payment of a final dividend of 1.35p (2000:3.00p) per share. The final dividend last year included a special dividend of 2.25p per ordinary share from the exceptional tax credit received in the year, excluding this the final dividend would have been 0.75p per ordinary share. The total dividend for the period is 1.35p (2000:3.60p) per share.

Share capital

Details of issued share capital are given in note 21 to the financial statements.

Change of name

On 5 December 2000 Viglen Technology plc changed its name to Learning Technology plc.

Directors and directors' interests

The current membership of the Board is set out on page 1. Michael Beckett resigned as a director on 2 August 2001. Michael Ray and Bordan Tkachuk retire by rotation and offer themselves for re-election.

There are no service agreements, existing or proposed, between any of the executive directors and the company or any of its subsidiaries (excluding contracts expiring or determinable by the employing company within one year).

By reason of Sir Alan Sugar's indirect ownership of 13% of the ordinary shares of Tottenham Hotspur plc ("Tottenham"), 76% of the ordinary shares of Amstrop Limited, 29% of the ordinary shares of Amstrad plc and direct ownership of 100% of the ordinary shares of Amshold Limited, Sir Alan Sugar has an interest in the following contracts between Learning Technology plc and its subsidiaries and those companies:

1. The purchase from Tottenham of advertising services worth £31,725 plus VAT (2000: £26,000 plus VAT).
2. A contract for the provision by Amshold Limited of Sir Alan Sugar's services dated 8 September 1998 at a consideration of £100,000 (2000: £80,000) per annum. This amount has been included in directors' emoluments.
3. During the year Learning Technology provided £715 (2000: £19,456) worth of services to Amstrad plc, and £4,577 (2000: £2,995) worth of services to Tottenham.

Creditors include loan notes (see note 18) due to Amshold Limited of £84.7m (2000:£84.7m). These loan notes were issued as part of the Scheme of Arrangement when Learning Technology plc acquired the entire share capital of Amstrad plc and as part of the distribution under the Letters of Entitlement (see note 1).

Directors' Report (continued)

Apart from the above, no director has, or had, during the period or at the period end, any beneficial interest in any material contract with the company or its subsidiaries, which was or is significant in relation to the group's business.

Directors' interests in Learning Technology plc shares and share options are disclosed in the report to shareholders on directors' remuneration on pages 11 to 13.

Substantial Shareholdings

At 3 December 2001 the following interest in 3% or more of the issued share capital had been notified to the company:

	Number of ordinary shares	Percentage holding of issued share capital
Amshold Limited and Sir Alan Sugar	61,661,957	70.7
Shell Contributory Pension Fund	3,988,490	4.6

Resolutions to be proposed as Special Business at the Annual General Meeting

At the Annual General Meeting of Learning Technology plc, to be held on 5 March 2002 the following Special Business will be proposed:

- 1) An Ordinary Resolution to authorise the directors to allot shares up to an aggregate nominal amount of £4,150,000. This amount represents approximately one third of the company's issued ordinary shares. The granting of this authority will give the Board a desirable degree of flexibility in allotting securities, in that shareholders will not need to give their consent to each allotment. This authority will continue until the conclusion of the next Annual General Meeting.
- 2) A Special Resolution to give the directors authority until the next Annual General Meeting to allot shares for cash by way of a rights issue and, otherwise, up to an aggregate nominal value of £620,000 representing approximately 5% of the issued ordinary share capital.
- 3) Special Resolution to authorise the company to buy on the open market up to 8,727,213 ordinary shares of 14½p each (representing 10% of the issued ordinary share capital) and cancel them. The company was authorised at last year's Annual General Meeting to purchase up to 8,714,827 of its 14½p ordinary shares in the market. This authority has not been used and expires at the conclusion of the 5 March 2002 Annual General Meeting. This resolution renews and extends the authority to allow the company to purchase up to 8,727,213 ordinary shares (representing 10% of the issued ordinary share capital) for a further year. The directors, in reaching any decision to purchase ordinary shares, will take into account the company's cash resources, capital requirements and the effect of any purchase on earnings per share.

Payment policy

It is the company's normal practice to pay its suppliers within agreed terms provided that the suppliers meet their obligations. Trade creditors at the period end amounted to 54 days (2000:50 days) of average supplies for the period.

Research and development

The company carries out research and development as part of its day to day activities in relation to its products according to the market in which it operates.

Employee involvement

The company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the company. This is achieved through the notice boards and announcement of daily sales performance against targets.

The group runs a share option, a sharesave and a profit share scheme designed to enable the employees of the group to share in the growth and success of the group.

Employment of disabled persons

It is the policy of the company to give full and fair consideration to applications for employment from disabled persons, to continue wherever possible the employment of members of staff who may become disabled and to ensure that suitable training, career development and promotion is afforded to such persons.

Political and charitable donations

Charitable donations of £50,000 (2000:£64,935) were made during the period. No political donations were made during the period.

Auditors

Deloitte & Touche have indicated that they are willing to continue in office and a resolution proposing their reappointment as auditors will be put to the Annual General Meeting.

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


Michael Ray
Secretary

4 December 2001

Corporate Governance

The following narrative explains how the company has applied the principles set out in Section 1 of the Combined Code ("the Code") in accordance with the requirements of Rule 12.43A of the Listing Rules.

Directors

The company is controlled through the Board of Directors which comprises four executive directors and one independent non-executive director. The names of the five directors are set out on page 1. The Board is responsible for policy and strategy. A statement on directors' responsibilities in relation to the financial statements is given on page 10. The Board meets regularly throughout the year, normally monthly, to review progress and the group's financial performance and has a formal schedule of matters reserved to it for collective decisions. All directors are able to take independent professional advice in the furtherance of their duties if necessary.

The Board has established two Committees, the Audit Committee and the Remuneration Committee, which operate within defined terms of reference. Minutes of the Committee meetings are circulated to and reviewed by the Board of Directors.

The Board believes it is a small Board per the Code and therefore does not need to establish a Nomination Committee. Appointment of executive and non-executive directors is undertaken by the Board as a whole.

There is a clear division of responsibilities at the head of the company. The Chairman, Sir Alan Sugar, has primary responsibilities for the working of the Board. He ensures that all directors are able to play their full part in its activities. The Chief Executive, Bordan Tkachuk, has primary executive responsibility for the running of the group's business on a day-to-day basis, implementing the policies and strategies adopted by the Board, in liaison with the Chairman and executive directors.

All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

Directors' remuneration

A statement of the group's remuneration policy and details of the remuneration of each director are on pages 11 to 13.

Relations with shareholders

The company encourages two way communication with both its institutional and private investors and responds quickly to all queries received verbally or in writing. All shareholders receive at least twenty working days notice of the Annual General Meeting at which shareholders are able to ask questions.

Accountability and audit

The Board believes that its Annual Report and Accounts represent a balanced and understandable assessment of the company's position and prospects whilst also complying with the legal and regulatory requirements for financial reporting relevant to the company.

Internal control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Code introduced a requirement that the Board review the effectiveness of the Group's systems of internal controls. This extends the previous requirement in respect of reporting on internal financial controls to cover all controls including financial, operational, compliance and risk management.

The Group has in place a formal process for identifying, evaluating and managing the significant business risks faced by the Group. This process is regularly reviewed by the Board and accords with the internal control guide for directors and the Combined Code.

The key procedures that have been established and are designed to provide effective control include: -

- Control environment – the existence of a clear organisational structure and well defined lines of responsibility and delegation of appropriate levels of authority.
- Risk management – business plans and treasury operations are reviewed by the Board. Detailed appraisals and the evaluation of financial implications are undertaken prior to the commencement of major capital expenditure and projects.
- Financial reporting – a comprehensive system of budgets and forecasting with monthly monitoring and reporting of actual results against targets.
- Control procedures and monitoring systems – documentation of authorisation levels and procedures and other systems of internal financial control are regularly reviewed by the Audit Committee.

The group has a process of review and certification of each operating division. The business risks most important to the division are identified, the financial implications and the effectiveness of the control process in place to mitigate against these risks are assessed. This process together with direct involvement with the key procedures noted above, enables the directors to confirm that they have reviewed the effectiveness of the system of internal controls of the group.

The Audit Committee operates under written terms of reference and is comprised of the non-executive director. The Chief Executive and the Finance Director are not members but are invited to attend the meetings and the Committee also meets with the external auditors without management present. Its duties include the review of the group's interim and annual financial statements prior to their recommendation to the Board for approval. The Audit Committee meets at least twice per year.

Internal audit

The Board has considered the need to introduce a group internal audit function but has decided that the current control mechanisms are appropriate for the group. The Board continues to review this decision.

Going concern

After making appropriate enquiries, the directors have formed a judgement that, at the time of approving the financial statements, there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Corporate Governance (continued)

Compliance statement

The company has complied with the Code provisions set out in Section 1 of the Combined Code throughout the accounting period except in the following respects:

Code Provision A3.1

Non-executive directors did not comprise of least one third of the Board.

Code Provision D3.1

During the period the Audit Committee was comprised of less than the three non-executive directors required by the Code.

The Board intends to review the need for a second non-executive director during the current year.

Directors' Responsibilities for the Financial Statements

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 group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for the group's system of internal financial control, for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report to shareholders on directors' remuneration

Remuneration Committee

The Remuneration Committee consists of Mr. Samson the non-executive director. The Committee has access to professional advice from inside and outside the company.

Remuneration policy on executive directors' remuneration

In framing their policy the Committee has given full consideration to Schedule A of the Combined Code annexed to the Listing Rules of the London Stock Exchange.

Executive remuneration packages are designed to attract, motivate and retain directors of the high calibre required to ensure that the group is managed successfully to the benefit of shareholders. The company does not provide directors and staff with a pension scheme other than at its subsidiary, Xenon Network Services Limited, and levels of remuneration are set to reflect this policy. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package is undertaken by the Committee. The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association. No director plays a part in any decision about his own remuneration.

There are four main elements of the remuneration package for executive directors and senior management:

- basic annual salary;
- annual bonus payments;
- share option incentives; and
- benefits in kind.

Executive directors are entitled to accept appointments outside the company providing the Chairman's permission is sought.

Basic salary

An executive director's salary is determined by the Remuneration Committee usually at the beginning of each financial year or when an individual changes position or responsibility. In deciding appropriate levels the Committee takes into account external market salary levels and an individual's performance. Executive directors' contracts of service which include details of remuneration will be available for inspection at the Annual General Meeting.

Annual bonus payment

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. From 1 July 1998 the executive directors have participated in a management bonus scheme under which bonuses will be based on personal performance and the financial performance of the business. The measure of financial performance for the period ended 30 September 2001 was profit before tax. Each executive director has specific performance related targets which determine the level of bonus, if any, payable.

Share option incentives

Under the company's scheme share options may be exercised on the company's achievement of earnings per share performance targets as agreed by the Committee. Options with a value up to four times an individual's salary may be granted under the company's basic share option scheme. In addition a further four times an individual's salary can be granted under the "super" share option scheme.

Report to shareholders on directors' remuneration (continued)

Profit share and SAYE schemes

Executive directors participate in Inland Revenue approved savings related share option and profit share schemes on the same basis as other eligible staff.

Benefits in kind

Executive directors are eligible to receive a fully expensed company car or a cash alternative, health insurance benefits, life assurance cover and permanent health insurance.

Directors' contracts

All executive directors, other than Sir Alan Sugar, have one year "rolling" contracts with the company. The company has a contract with Amshold Limited for Sir Alan Sugar's services from 8 September 1998, terminable on 12 months' notice. Sir Alan Sugar has direct ownership of 100% of the ordinary shares of Amshold Limited. The company is obliged to give 12 months' notice on termination of a director's 12 months' contract or offer compensation in lieu of notice.

Non-executive directors

The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association. Non-executive directors cannot participate in the company's share option schemes. Geoff Samson has a one year fixed term contract terminating in March 2002.

Individuals' remuneration for the fifteen months ended 30 September 2001

The emoluments of the individual directors were:

	Salaries/Fees £000	Bonus payments £000	Benefits in kind £000	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
Chairman:					
Sir Alan Sugar	125	–	–	125	80
Executive Directors:					
Bordan Tkachuk	233	55	18	306	241
Razmik Babaian	143	30	4	177	139
Michael Ray	129	30	11	170	131
Non-Executive Directors:					
Michael Beckett	22	–	–	22	20
Geoff Samson	25	–	–	25	20
	<u>677</u>	<u>115</u>	<u>33</u>	<u>825</u>	<u>631</u>

The bonus payments include the value of shares received under the profit share scheme.

Directors' interests in Learning Technology plc shares

The directors as at 30 September 2001 had the following interests in Learning Technology plc shares.

	Number of shares beneficially held at 30 September 2001	Number of shares beneficially held at 30 June 2000
Sir Alan Sugar	61,661,957	61,661,957
Razmik Babaian	352,727	351,608
Michael Ray	45,275	44,174
Jeoff Samson	4,900	4,900
Bordan Tkachuk	362,566	360,696

No changes in these interests have occurred up to 3 December 2001. Sir Alan Sugar's interest is largely held by Amshold Limited, a company which is wholly owned by Sir Alan Sugar.

Directors' interests in Learning Technology plc share options

Full details of the options held by the executive directors who served during the period and any movements over the period are as follows:

	1 July 1999	Options lapsed during period	Options exercised during period	30 September 2000	Exercise Price	Exercise period From To	
R. Babaian	250,000	–	(250,000)	–	£0.61	8 Aug 2000	8 Aug 2007
	19,306	(19,306)	–	–	£0.505	1 Nov 2000	1 May 2001
	400,000	–	–	400,000	£0.175	25 Sep 2001	25 Sep 2008
M.E. Ray	250,000	–	(250,000)	–	£0.61	8 Aug 2000	8 Aug 2007
	19,306	(19,306)	–	–	£0.505	1 Nov 2000	1 May 2001
	399,996	–	–	399,996	£0.175	25 Sep 2001	25 Sep 2008
B. Tkachuk	500,000	–	(500,000)	–	£0.61	8 Aug 2000	8 Aug 2007
	19,306	(19,306)	–	–	£0.505	1 Nov 2000	1 May 2001
	750,000	–	–	750,000	£0.175	25 Sep 2001	25 Sep 2008

Messers Babaian, Ray & Tkachuk exercised options on 4 October 2000 and immediately sold them at a price of 106 pence per share, the gain before taxation on these disposals were £112,500, £112,500 and £225,000 respectively.

The Chairman and the non-executive director do not participate in the share option scheme.

The mid-market price of the shares at 30 September 2001 was 57.0p. The highest mid-market price during the year was 111.5p and the lowest was 37.0p.

Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LEARNING TECHNOLOGY plc

We have audited the financial statements of Learning Technology plc for the 15 months ended 30 September 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

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 United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or Listing Rules regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above period as described in the contents section 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 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 circumstances of the company and the group, 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 and group affairs as at 30 September 2001 and of the profit for the group for the 15 months then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

Hill House

1 Little New Street

London EC4A 3TR

4 December 2001

Learning Technology plc
Consolidated Profit and Loss Account
for the period ended 30 September 2001

	Note	£000	Period ended 30 September 2001 £000	£000	Year ended 30 June 2000 £000
Turnover	2		105,189		86,993
Operating costs	3		(102,764)		(83,995)
Operating profit before exceptional items		2,630		2,498	
Exceptional items	4	(205)		500	
Operating profit			2,425		2,998
Share of losses in associated undertakings	13		(558)		(60)
Profit on ordinary activities before interest			1,867		2,938
Net interest	7		728		742
Profit on ordinary activities before taxation	8		2,595		3,680
Tax on profit before exceptional items		(562)		(1,086)	
Exceptional tax credit		—		5,539	
Tax on profit on ordinary activities	9		(562)		4,453
Profit on ordinary activities after taxation			2,033		8,133
Dividends	10		(1,211)		(3,086)
Retained profit for the financial period			822		5,047
Dividends per ordinary share (pence)	10		1.35		3.60
Earnings per ordinary share (pence)	11		2.34		9.49
Adjusted earnings per ordinary share (pence)	11		2.60		3.03
Diluted earnings per ordinary share (pence)	11		2.28		9.10

All activities relate to continuing operations.

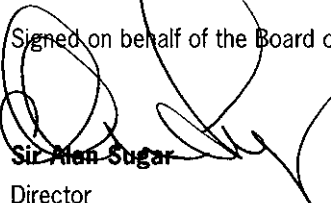
There were no recognised gains or losses other than the profit for the period.

Consolidated Balance Sheet at 30 September 2001

	Note	At 30 September 2001		At 30 June 2000	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	12		3,962		3,530
Investments	13		<u>1,131</u>		<u>1,440</u>
			5,093		4,970
Current assets					
Stocks	14	4,322		7,280	
Debtors	15	18,705		14,836	
Investments	16	111,183		113,823	
Cash at bank and in hand	17	<u>13,302</u>		<u>10,733</u>	
		147,512		146,672	
Creditors: amounts falling due within one year	18	<u>(128,071)</u>		<u>(129,424)</u>	
Net current assets			<u>19,441</u>		<u>17,248</u>
Total assets less current liabilities			24,534		22,218
Provisions for liabilities and charges	19		<u>(6,127)</u>		<u>(5,523)</u>
			<u>18,407</u>		<u>16,695</u>
Capital and reserves					
Called up share capital	21		12,460		12,245
Share premium account	22		7,128		6,368
Profit and loss account	23		<u>(1,181)</u>		<u>(1,918)</u>
Equity shareholders' funds			<u>18,407</u>		<u>16,695</u>

The financial statements were approved by the Board of Directors on 4 December 2001.

Signed on behalf of the Board of Directors.


Sir Alan Sugar
Director


Michael Ray
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

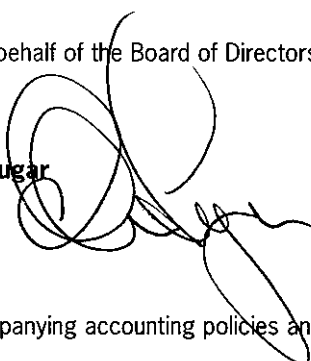
Company Balance Sheet at 30 September 2001

	Note	At 30 September 2001		At 30 June 2000	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	12		1,643		1,669
Investments	13		20,780		20,546
			<u>22,423</u>		<u>22,215</u>
Current assets					
Debtors	15	12,595		13,569	
Investments	16	103,051		105,676	
Cash at bank and in hand		<u>12</u>		<u>6</u>	
		115,658		119,251	
Creditors: amounts falling due within one year	18	<u>(108,884)</u>		<u>(112,895)</u>	
Net current assets			<u>6,774</u>		<u>6,356</u>
Total assets less current liabilities			<u>29,197</u>		<u>28,571</u>
Capital and reserves					
Called up share capital	21		12,460		12,245
Share premium	22		7,128		6,368
Profit and loss account	23		<u>9,609</u>		<u>9,958</u>
Equity shareholders' funds			<u>29,197</u>		<u>28,571</u>

The financial statements were approved by the Board of Directors on 4 December 2001.

Signed on behalf of the Board of Directors.

Sir Alan Sugar
Director



Michael Ray
Director



The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the period ended 30 September 2001

	Note	Period ended 30 September 2001		Year ended 30 June 2000	
		£000	£000	£000	£000
Net cash inflow/(outflow) from operating activities	26		5,211		(204)
Returns on investments and servicing of finance					
Interest received		8,319		7,189	
Interest paid		<u>(7,591)</u>		<u>(6,447)</u>	
			728		742
Taxation					
Taxation received/(paid)			174		(1,076)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,667)		(1,056)	
Sale of tangible fixed assets		<u>87</u>		<u>45</u>	
			(1,580)		(1,011)
Acquisitions and disposals					
Investment in associate company	13		(249)		(1,500)
Equity dividends paid			<u>(2,605)</u>		<u>(1,156)</u>
Cash inflow/(outflow) before management of liquid resources and financing			1,679		(4,205)
Management of liquid resources					
Deposits released to repay loan notes			2,640		8,778
Financing					
Repayment of loan notes		(2,640)		(8,778)	
Issue of shares		<u>890</u>		<u>85</u>	
			(1,750)		(8,693)
Increase/(Decrease) in cash in the period	28 & 29		<u>2,569</u>		<u>(4,120)</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

Principal Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

a) Accounting convention

The financial statements are prepared under the historical cost convention.

b) Turnover

Turnover comprises the invoiced value of goods sold and services supplied by the group, excluding value added tax and trade discounts.

c) Consolidation

The group financial statements consolidate those of the company and all subsidiaries. On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition and amortised over its estimated useful life. Prior to the implementation of FRS 10 (in the year ended 30 June 1999), purchased goodwill was written off directly to reserves and has not been reinstated.

d) Depreciation

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Freehold property	– 2% on cost
Leasehold improvements	– over life of lease
Fixtures, fittings and equipment	– 10% - 20% on cost
Motor vehicles	– 25% on cost

Equipment held at third parties as part of a managed service are depreciated over the life of the contract.

e) Investments

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the group's share of the pre-tax results and attributable taxation of the associated undertakings based on audited financial statements for the financial year. In the consolidated balance sheet, the investment in associated undertakings is shown at the group's share of the net assets of the associated undertakings. Goodwill arising on the acquisition of an associate is capitalised as part of the carrying amount in the consolidated balance sheet and amortised over its estimated useful life.

f) Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stocks.

g) Research and development

Expenditure on research and development is charged against profits in the year in which it is incurred.

h) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

i) Deferred taxation

Deferred tax is provided for under the liability method using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability or asset.

j) Warranty

Warranty revenues are released to profit in the year of sale. Provision is made in the same period for the expected future cost of providing the warranty.

k) Contributions to pension funds

The company operates a defined contribution pension scheme in respect of certain employees and pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

l) Leased assets

All current leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Notes to the Financial Statements

for the period ended 30 September 2001

1 LETTERS OF ENTITLEMENT

As part of the Scheme of Arrangement under which Learning Technology plc acquired the entire share capital of Amstrad plc, Amstrad shareholders received a letter of entitlement to Litigation Notes to be issued as and when the net proceeds of the litigation (see below) have been established. A trust deed was entered into by the company, Amstrad and Sir Alan Sugar, Jeoff Samson and Mr. P.L.O. Leaver QC as trustees to constitute these Letters of Entitlement. The trust deed provides that the conduct of the litigation is controlled by the independent trustees. As part of the Scheme of Arrangement £2.3 million was paid into the litigation fund by Amstrad plc to conduct the litigation. Neither the trustees nor Amstrad will have any further call on Learning Technology or any of its subsidiaries for further funding in relation to the litigation, but the trustees will have the power to raise further funds if required to carry on the litigation. Litigation with Seagate Technology Inc has now been settled resulting in the distribution of £52.4m of Litigation Notes in November 1997. Litigation with Western Digital Corporation continues with Amstrad Computers Limited filing an appeal after losing the initial case.

2 TURNOVER AND SEGMENTAL REPORTING

Turnover, net assets and profit on ordinary activities before taxation are attributable to the manufacturing and marketing of computers, peripherals and software. The group operates in one class of business activity. Turnover and operations arise predominantly in the UK.

3 OPERATING COSTS

	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
Other operating income	543	950
Changes in work in progress and finished goods	(25)	775
Raw material and consumables	(78,553)	(65,612)
Other external charges	(9,043)	(7,510)
Staff costs	(13,865)	(10,985)
Depreciation	(1,180)	(1,072)
Profit on sale of fixed assets	32	12
Other operating charges	(673)	(553)
	<u>(102,764)</u>	<u>(83,995)</u>

4 EXCEPTIONAL ITEMS

The exceptional item of £205,000 relates to restructuring costs resulting from the closure of the cash sales operation. Exceptional items of £500,000 in the year to 30 June 2000 relate to the proceeds received from the sale of trademarks.

5 DIRECTORS' EMOLUMENTS

Full details of the directors' emoluments and interests are included in the report to Shareholders on Directors' Remuneration on pages 11 to 13.

6 STAFF COSTS

Staff costs during the year were as follows:

	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
Wages and salaries including directors' emoluments	12,508	9,885
Social security costs	1,308	1,058
Pension costs	49	42
	<u>13,865</u>	<u>10,985</u>
	No.	No.
	<u>423</u>	<u>458</u>

These costs were in respect of the average number of employees during the period

7 NET INTEREST

	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
Interest receivable	733	749
Interest payable	(5)	(7)
Interest receivable on investments backing loan notes (see note 16)	7,586	6,440
Interest payable on loan notes and related finance charges (see note 16)	(7,586)	(6,440)
	<u>728</u>	<u>742</u>

8 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is after charging:

	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
Depreciation of fixed assets	1,180	1,072
Amortisation of goodwill	225	25
Auditors' remuneration:		
– Audit services – company	8	8
– other	54	54
– Non audit services	67	142
Hire of plant and machinery	323	277
Hire of other assets	174	150

Expenditure on research and development is included in operating costs but is not separately identifiable.

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
UK corporation tax @ 30% (2000:30%)	1,033	1,086
Prior year adjustments	(471)	(5,539)
	<u>562</u>	<u>(4,453)</u>

The exceptional tax credit in the year ended 30 June 2000 of £5.6m principally relates to the release of provisions relating to Amstrad Computers Limited.

10 DIVIDENDS

The directors propose a final dividend of 1.35p (2000:3.00p) per ordinary share, which together with an interim dividend of 0.0p (2000:0.6p) per ordinary share paid makes a total distribution of 1.35p (2000:3.60p) per ordinary share in respect of the period ended 30 September 2001.

11 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit for the period of £2,033,000 by 86,740,180 ordinary shares, the average number in issue during the period. The diluted earnings per share takes into account the potential dilutive effect of options granted but not exercised at the year end and is based on 89,065,965 ordinary shares. The adjusted earnings per share was calculated by adding back the £225,000 amortisation of goodwill to the profit for the period in the current period and by deducting the tax credit of £5,539,000 in the prior year.

Notes to the Financial Statements

for the period ended 30 September 2001 (continued)

11 EARNINGS PER SHARE (continued)

	Period ended 30 September 2001	Year ended 30 June 2000
Earnings per share (pence)	2.34	9.49
Adjustment for tax credit	—	(6.46)
Adjustment for amortisation of goodwill	0.26	—
Adjusted earnings per share (pence)	<u>2.60</u>	<u>3.03</u>

12 TANGIBLE FIXED ASSETS

GROUP	Freehold property £000	Leasehold improvements £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 July 2000	1,906	753	6,006	857	9,522
Additions	—	51	1,409	207	1,667
Disposals	—	(34)	(370)	(275)	(679)
At 30 September 2001	<u>1,906</u>	<u>770</u>	<u>7,045</u>	<u>789</u>	<u>10,510</u>
Depreciation					
At 1 July 2000	210	704	4,654	424	5,992
Charged in the period	29	47	858	246	1,180
Disposals	—	(34)	(362)	(228)	(624)
At 30 September 2001	<u>239</u>	<u>717</u>	<u>5,150</u>	<u>442</u>	<u>6,548</u>
Net book amount					
at 30 September 2001	<u>1,667</u>	<u>53</u>	<u>1,895</u>	<u>347</u>	<u>3,962</u>
Net book amount					
at 30 June 2000	<u>1,696</u>	<u>49</u>	<u>1,352</u>	<u>433</u>	<u>3,530</u>

Fixtures and fittings and equipment include equipment held at third parties as part of a managed service at a cost of £725,000 and depreciation of £nil. Additions in the period were £725,000 and no depreciation was charged on the assets during the period. No revenue for managed services was receivable during the period.

COMPANY

	Freehold property £000
Cost	
At 1 July 2000	1,879
Additions	—
At 30 September 2001	<u>1,879</u>
Depreciation	
At 1 July 2000	210
Charged in the period	26
At 30 September 2001	<u>236</u>
Net book amount	
at 30 September 2001	<u>1,643</u>
Net book amount	
at 30 June 2000	<u>1,669</u>

13 FIXED ASSET INVESTMENTS

	Goodwill	Share of Net Assets	Total
Group	£000	£000	£000
At 1 July 2000	1,284	156	1,440
Additions in period	143	106	249
Written off in period	(225)	–	(225)
Share of losses	–	(333)	(333)
At 30 September 2001	<u>1,202</u>	<u>(71)</u>	<u>1,131</u>

The Group's associated undertakings at 30 September 2001 were a 26% shareholding in Intelligent Network Technology Limited (intY) and a 49% shareholding in Pedegog Limited (trading as AtSchool), both companies are incorporated in Great Britain. Pedegog Limited was acquired on 4 October 2000 for a cost of £234,000. The goodwill in Intelligent Network Technology Limited is being amortised over 20 years, the goodwill in Pedegog Limited has been fully written off in the current period.

Company	£000
Investment in subsidiary and associate companies	
At 1 July 2000	20,546
Investment in period	<u>234</u>
At 30 September 2001	<u>20,780</u>

The company's principal subsidiary undertakings are Viglen Limited, Xenon Network Services Limited and VigEcom Limited which all operate in the United Kingdom, are wholly owned and are engaged in the group's principal activity. Amstrad Computers Limited is a wholly owned subsidiary which operates in the United Kingdom and which is engaged in investments and litigation.

14 STOCKS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Raw materials, consumables and bought in products	2,867	5,800	–	–
Work in progress and finished goods	<u>1,455</u>	<u>1,480</u>	<u>–</u>	<u>–</u>
	<u>4,322</u>	<u>7,280</u>	<u>–</u>	<u>–</u>

15 DEBTORS

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Trade debtors	18,167	13,252	–	–
Other debtors	16	66	3	12
Prepayments and accrued income	522	463	–	–
Corporation tax recoverable	–	1,055	–	–
Amounts owed by group undertakings	<u>–</u>	<u>–</u>	<u>12,592</u>	<u>13,557</u>
	<u>18,705</u>	<u>14,836</u>	<u>12,595</u>	<u>13,569</u>

Notes to the Financial Statements

for the period ended 30 September 2001 (continued)

16 INVESTMENTS

The investments are all cash deposits on fixed (six month) terms at Lloyds TSB Bank plc that secure the loan notes issued. The deposits and loan notes are as follows:

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Cash deposits at Lloyds Bank Plc	111,183	113,823	103,051	105,676
Loan Notes secured by deposits:				
Floating Rate Loan Notes 2009	81,544	83,725	81,544	83,725
Floating Rate Loan Notes 2010	21,507	21,951	21,507	21,951
Viglen Vendor Loan Notes	8,132	8,147	–	–
	111,183	113,823	103,051	105,676

17 CASH AT BANK AND IN HAND

Cash of £13.3m includes £2.6m (see notes 1 and 27) held in a trust. An equal and opposite balance of £2.6 m is included in provisions. The net assets of the trust in the group balance sheet are £nil. Group cash excluding this balance was £10.7m.

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2001 £000	Group 2000 £000	Company 2001 £000	Company 2000 £000
Loan Notes (see note 16)	111,183	113,823	103,051	105,676
Payments received on account	160	165	–	–
Trade creditors	9,262	9,010	–	–
Other creditors	531	488	–	–
Corporation tax	632	891	127	420
Other taxes and social security costs	1,953	1,178	409	–
Dividends	1,178	2,572	1,178	2,572
Accruals and deferred income	3,172	1,297	395	503
Amounts owed to group undertakings	–	–	3,724	3,724
	128,071	129,424	108,884	112,895

19 PROVISIONS FOR LIABILITIES AND CHARGES

Provisions, in respect of the expected future costs of providing warranty support, closure cost of Amstrad Computers Limited and litigation costs for the group are as follows:

	Warranty £000	Restructuring £000	Other £000	Total £000
At 1 July 2000	2,440	540	2,543	5,523
Utilised during the period	(1,905)	(15)	(81)	(2,001)
Provided during the period	2,480	–	125	2,605
At 30 September 2001	3,015	525	2,587	6,127

The majority of the current warranty provision will be utilised within two years. The restructuring provision and the other provision both relate to Amstrad Computers Limited, and will not be utilised until existing litigation is resolved.

20 DEFERRED TAXATION

There were no provided or unprovided deferred tax liabilities as at 30 September 2001 (2000:£nil) in either the company or the group.

At 30 September 2001 the Group has a deferred tax asset of £390,000 were it to adopt FRS19 treatment early. Next year's financial statements will reflect FRS19 treatment and comparatives will be restated to reflect a tax credit of £390,000 on this deferred tax asset.

21 SHARE CAPITAL

	Number	£000
Authorised:		
Ordinary shares of 14 ² / ₇ p each		
At 30 September 2001 and 30 June 2000	<u>123,200,000</u>	<u>17,600</u>
Allotted issued and fully paid		
Ordinary shares of 14 ² / ₇ p each		
At 1 July 2000	85,714,128	12,245
Issue of shares	<u>1,503,009</u>	<u>215</u>
At 30 September 2001	<u>87,217,137</u>	<u>12,460</u>

During the year 80,879 shares were issued under the employee profit share scheme at 91.0 pence per share, 1,145,000 shares were issued under the executive share option scheme at 61.0 pence per share, and 65,000 at 17.5 pence per share and 212,130 shares were issued under the SAYE scheme at 50.5 pence per share.

22 SHARE PREMIUM ACCOUNT

	£000
At 1 July 2000	6,368
Arising on issue of shares	<u>760</u>
At 30 September 2001	<u>7,128</u>

23 PROFIT AND LOSS ACCOUNT

	Group £000	Company £000
At 1 July 2000	(1,918)	9,958
Retained profit/(loss) for period	822	(349)
On issue of Shares under share save scheme	<u>(85)</u>	<u>-</u>
At 30 September 2001	<u>(1,181)</u>	<u>9,609</u>

Goodwill written off in respect of current subsidiaries amounts to £54.4m.

24 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's profit after taxation for the financial period amounted to £0.9m (2000:£8.6m).

Notes to the Financial Statements

for the period ended 30 September 2001 (continued)

25 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £000	2000 £000
Shareholders' funds at 1 July 2000	16,695	11,563
Shares issued in period	890	85
Profit for the financial period	2,033	8,133
Dividends	(1,211)	(3,086)
Shareholders' funds at 30 September 2001	<u>18,407</u>	<u>16,695</u>

26 RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
Operating profit	2,425	2,998
Depreciation	1,180	1,072
Profit on sale of fixed assets	(32)	(12)
Decrease/(Increase) in stocks	2,958	(3,105)
(Increase)/Decrease in debtors	(4,924)	2,124
Increase/(Decrease) in creditors	2,895	(2,300)
Increase/(Decrease) in provisions	604	(620)
Net cash inflow/(outflow) from litigation proceedings (see note 27)	105	(361)
Net cash inflow/(outflow) from continuing operating activities	<u>5,211</u>	<u>(204)</u>

27 CASH FLOW EFFECT OF LITIGATION PROCEEDINGS

	£000
Increase in creditors	44
Tax received	61
Net cash inflow from litigation proceedings	<u>105</u>
Litigation cash at 1 July 2000	<u>2,492</u>
Litigation cash at 30 September 2001 (see note 17)	<u>2,597</u>

28 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Period ended 30 September 2001 £000	Year ended 30 June 2000 £000
At 1 July 2000	10,733	14,853
Change in net funds resulting from cash flows	2,569	(4,120)
At 30 September 2001	<u>13,302</u>	<u>10,733</u>

29 ANALYSIS OF CHANGES IN NET FUNDS

	30 September 2001 £000	30 June 2000 £000	Change in period £000
Cash in bank and in hand	13,302	10,733	2,569
Current asset investment	109,941	113,830	(3,889)
Loan notes	(109,941)	(113,830)	3,889
	<u>13,302</u>	<u>10,733</u>	<u>2,569</u>

30 CONTINGENT LIABILITIES

Learning Technology plc has given guarantees to banks in respect of liabilities of subsidiary companies to the value of £0.3 million (2000:£0.4m). In addition Learning Technology plc has given Intelligent Network Technology Limited, an associate company, a bank overdraft guarantee of £1.0m.

The group is subject to various litigation, the financial implications of which are uncertain. On the basis of the information available the Board of Directors is satisfied that the eventual outcome of this litigation will not have any material adverse effect on the group.

31 LEASING COMMITMENTS

At 30 September 2001 the group had annual operating lease commitments which expire:

	2001		2000	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
In one year or less	31	85	13	37
Between one and five years	465	77	345	245
Over five years	69	—	69	—
	<u>565</u>	<u>162</u>	<u>427</u>	<u>282</u>

32 CAPITAL COMMITMENTS

	2001 £000	2000 £000
Contracted for but not provided in the financial statements	<u>—</u>	<u>269</u>

33 FINANCIAL INSTRUMENTS

The group's financial instruments, other than derivatives, comprise cash and liquid resources, as well as items such as trade debtors and trade creditors that arise directly from the group's operations.

The group also enters into derivative transactions (forward foreign currency contracts). The purpose of such transactions is to manage the currency risks arising from the group's operations. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged throughout the period.

(a) Interest rate risk

The group finances its operations through retained profits. Cash is placed on deposit for up to three months at fixed rates of interest.

(b) Liquidity risk

The group's policy throughout the period ended 30 September 2001 has been to ensure that it has adequate liquidity by the use of the group's cash resources and if necessary its overdraft facilities.

Notes to the Financial Statements

for the period ended 30 September 2001 (continued)

(c) Foreign currency risk

Substantially all of the group's purchases are in US dollars. It is the group's policy to manage this exposure by either purchasing the currency forward or to hold cash in deposits in US dollars.

The currency exposure of the group's cash deposits not held in sterling were as follows:

	30 September 2001 £000	30 June 2000 £000
US Dollars	659	4,003
Deutschmark	45	85
Pesetas	-	95
Euros	42	-
	<u>746</u>	<u>4,183</u>

All cash deposits have a maturity of one month or less and were at fixed rates of interest.

As at 30 September 2001 there were US\$6.0m on forward contracts in place, and the group had trade creditors of US\$5.1m.

The group's other foreign currency denominated assets and liabilities are not significant and there is no material difference between the book values and fair values of the group's financial assets and liabilities.

34 SHARE OPTION SCHEMES

- (a) There are share option schemes for the directors and senior employees. The options outstanding under the schemes at 30 September 2001 were as follows:

Date of Grant	Exercise price per share	Normal date of exercise	No. of ordinary shares
8 August 1997	61.0p	2000-2007	290,000
25 September 1998	17.5p	2001-2008	2,779,996
11 February 1999	27.5p	2002-2009	60,000
23 March 2000	152.5p	2003-2010	215,000
1 November 2000	91.0p	2003-2010	627,500

- (b) The group runs an approved Save As You Earn scheme. The number of options outstanding under the scheme at 30 September 2001 were as follows:

Date of Grant	Exercise price per share	Normal date of exercise	No. of ordinary shares
26 September 1997	50.5p	2001-2003	58,066

Details of directors' share options are disclosed in the annual report of the Remuneration Committee on page 13.

35 ULTIMATE PARENT COMPANY AND RELATED PARTY TRANSACTIONS

As at 30 September 2001 the parent company was Amshold Limited, a company registered in Jersey. The ultimate parent company was Amshold Group Limited, a company incorporated in Great Britain. Copies of the accounts for both of these companies can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff CF14 3HZ.

The company has taken advantage of the exception conferred by FRS8, 'Related Party Transactions' not to disclose transactions with companies 90% or more of whose voting rights are controlled by the group. Details of the transactions with other related parties are included in the Directors' Report on page 5.

Financial Summary

	15 months ended 30 September 2001 £000	Year Ended 30 June 2000 £000	Year Ended 30 June 1999 £000	11 months ended 30 June 1998 £000
Turnover	105,189	86,993	90,112	87,200
Operating costs before Exceptional items	(102,559)	(84,495)	(86,999)	(84,605)
Operating profit before Exceptional items	2,630	2,498	3,113	2,595
Exceptional items	(205)	500	(346)	—
Operating Profit	2,425	2,998	2,767	2,595
Share of losses on Associates	(558)	(60)	—	—
Net Interest	728	742	1,486	1,395
Profit Before Tax	2,595	3,680	4,253	3,990
Taxation on Profit	(562)	(1,086)	(1,647)	(1,252)
Exceptional Tax Credit	—	5,539	—	—
	(562)	4,453	(1,647)	(1,252)
Profit After Tax	2,033	8,133	2,606	2,738
Dividends	(1,211)	(3,086)	(17,019)	(1,098)
Retained profit/(loss)	822	5,047	(14,413)	1,640
Earnings per Share (pence)	2.34	9.49	2.22	2.24
Adjusted Earnings per share (pence)	2.60	3.03	2.22	2.24
Dividends per Share (pence)	1.35	3.60	19.8928	1.2857
Capital Employed				
Tangible Assets	3,962	3,530	3,579	6,289
Investments	1,131	1,440	—	—
	5,093	4,970	3,579	6,289
Net Current Assets	19,441	17,248	14,127	23,871
Provisions and Charges	(6,127)	(5,523)	(6,143)	(9,964)
Net Assets	18,407	16,695	11,563	20,196
Financed By				
Share Capital	12,460	12,245	12,225	12,205
Reserves and Share Premium	5,947	4,450	(662)	7,991
	18,407	16,695	11,563	20,196

In May 1998 the ordinary shares were consolidated on a 7 for 10 basis, the dividend per share has been restated to reflect this consolidation.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 6th ANNUAL GENERAL MEETING of Learning Technology plc will be held at Viglen House, Alperton Lane, Alperton, Middlesex HA0 1DX on Tuesday 5th March 2002 at 10.30 a.m. for the following purposes:

1. To receive and adopt the financial statements of the Company for the period ended 30 September 2001 and the reports of the directors and auditors thereon.
2. To declare a final dividend of 1.35p per ordinary share.
3. To re-appoint Deloitte & Touche as auditors of the Company and authorise the directors to fix their remuneration.
4. To re-elect Michael Ray, who retires by rotation, as a director (see note 4).
5. To re-elect Bordan Tkachuk, who retires by rotation, as a director (see note 5).
6. To consider, and if thought fit, pass the following resolution:

THAT the directors be and are hereby authorised:

- (a) subject to the approval of the Board of the Inland Revenue to establish the Learning Technology plc Share Incentive Plan and associated trust (the "Plan"), a copy of the draft trust deed and rules of which is produced to the Meeting and a summary of the principle terms of which is contained on pages 33 to 34.
 - (b) to do all such acts and things as may be necessary or expedient to give effect to the Plan, including making such amendments to the Plan in such manner as they may consider necessary or appropriate, or as may be necessary to ensure that the Plan is or remains approved by the Board of the Inland Revenue pursuant to Schedule 8 to the Finance Act 2000, or to take account of any relevant statutory or regulatory requirements, provided that no such amendment shall be made if, in the opinion of the directors it would conflict in any material respect with the aforementioned summary of the Plan; and
 - (c) to establish similar plans based on the Plan as amended to take into account local tax, securities and exchange control laws for the benefit of employees outside the United Kingdom.
7. To consider and, if thought fit, pass the following resolutions:

(A) As an ordinary resolution:

That the directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 80) up to an aggregate nominal amount of £4,150,000 provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

(B) As a special resolution:

That subject to the passing of resolution 7(A) contained in the Notice of Annual General Meeting of the Company which this resolution is a part, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities, within the meaning of Section 94 of the Act, for cash, pursuant to the authority given to the directors by the

said resolution 7(A) as if the provisions of Section 89(1) of the Act did not apply to the allotment, provided that this authority shall be limited to:

- (a) the allotment of equity securities in connection with an offer by way of rights in favour of the holders of ordinary shares in the Company where the equity securities respectively attributable to the interests of the holders of ordinary shares in the Company are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws or requirements of any recognised regulatory body or any stock exchange or otherwise in any overseas territory or any other matter whatever; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities to any person or persons up to an aggregate nominal value of £620,000 and provided that the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

(C) As a special resolution:

That the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of ordinary shares of 14½p each in the capital of the Company ("ordinary shares") provided that:

- (a) the maximum number of ordinary shares hereby authorised to be purchased is 8,727,213 (representing 10 per cent of the issued share capital of the Company);
- (b) the minimum price which may be paid for each ordinary share is 14½p (nominal value);
- (c) the maximum price which may be paid for each ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of The London Stock Exchange for the five business days immediately preceding the day on which the ordinary shares are purchased;
- (d) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company or 31 December 2003 whichever is earlier, unless such authority is renewed prior to such time; and
- (e) the Company may make a contract to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority, which will or may be executed wholly or partly after the expiry of such authority, and may purchase its ordinary shares in pursuance of any such contract.

8. To transact any other ordinary business of the Company.

4 December 2001

By Order of the Board

Michael Ray
Secretary

Registered Office:
Viglen House
Alperton Lane
Alperton
Middlesex HA0 1DX

Notice of Meeting (continued)

Notes:

1. Any member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company. A form of proxy is enclosed for your use. To be valid, the enclosed form of proxy must be lodged with Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6ZL no later than 10.30a.m. on 3 March 2002. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting if he/she so chooses.
2. Sir Alan Sugar, Bordan Tkachuk, Razmik Babaian and Michael Ray have service contracts with the Company. These contracts, together with copies of the letters of appointment of the non-executive directors, are available for inspection at the registered office of the Company during office hours, and will be available for inspection at the meeting at least 15 minutes prior to and during the meeting.
3. To have the right to attend and vote at the meeting (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of ordinary shares by not later than 6.00 p.m. on 1 March 2002. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. Michael Ray, aged 38, a chartered accountant, was appointed a director of Learning Technology plc in 1997. He joined Amstrad plc in 1988 performing various financial roles working both in the UK and overseas before becoming the finance director of Viglen Limited in 1995.
5. Bordan Tkachuk, aged 47, was appointed a director of Learning Technology plc in 1997. He joined Amstrad Australia at the time of its formation in 1988 and became its Managing Director in 1991. In 1994 he moved to the UK and became the Managing Director of Amstrad Consumer Electronics Limited, before joining Viglen Limited as its Managing Director in 1996. His experience encompasses the management, sales, marketing and technical areas of companies in the computer industry.
6. All directors are subject to election by the shareholders at the first opportunity after their appointment.

Summary of the Main Features of the Share Incentive Plan (the “Plan”)

The Company intends to establish the Plan, which will comply with the provisions of the Finance Act 2000, as an Inland Revenue approved plan. The following is a summary of the principle features of the Plan, which will operate in conjunction with a UK resident trust. Benefits under the Plan are not pensionable.

The Plan will be established in order to allow the Company the flexibility to implement some or all of the possible elements, as set out below (Free, Partnership and Matching Shares), on each occasion that the Plan is operated. This will enable the Company to operate the Plan in the way considered most appropriate, bearing in mind the Company's other employee share schemes. However, there is no obligation to operate any or all of the three elements or to include provision for performance criteria or forfeiture.

Eligibility: All UK resident employees of participating companies, who have such a qualifying period (if any) of continuous service (not exceeding 18 months) as the directors may determine, will be eligible to participate. In addition, the directors may include other employees for participation in the Plan.

Free Shares: The Plan may provide for an appropriation of free shares to employees with a market value of up to £3,000 each year, which must generally be offered on similar terms (but which may be varied by reference to remuneration, length of service or hours worked).

Free shares must normally be held in the trust for between 3 and 5 years, and directors may decide that participants that leave employment within 3 years of the appropriation being made will forfeit their shares, unless they leave as a result of injury, disability, redundancy, retirement or death, or because their employing company or business is transferred out of the group. Employees receive tax advantages if the shares are retained in the Plan for at least 5 years.

The appropriation of free shares may be dependent on performance measures which are set from time to time, under one of two permitted methods under the legislation. Targets must be fair and objective, based on business or other objective criteria, and must be broadly comparable between different business units (where group wide targets are not set).

Partnership Shares: Employees may be invited to purchase shares (“Partnership Shares”) from pre-taxed salary up to £1,500 in each year, subject to contributions not exceeding the lower of ten per cent. of salary and £125 per month. Contributions may either be used immediately to buy shares on behalf of employees or, alternatively, the Plan may be operated so that contributions are accumulated for a period of up to one year before being used to purchase shares. If this second method is used, employees will be entitled to purchase shares by reference to the lower of the market value of the shares at the beginning of this period or on the date of purchase, following the end of the period. There is no obligation for interest to be paid on accumulated contributions during this period.

Employees may stop deductions at any stage and may restart deductions if they wish during the accumulation period, although restarting contributions during this period may be limited by the Company.

Partnership Shares may be withdrawn from the Plan by the participant at any time, although there are tax advantages if the shares are retained in the trust for at least five years.

Summary of the Main Features of the Share Incentive Plan (the "Plan") (continued)

Matching Shares: The Plan may provide that where employees purchase Partnership Shares they may be awarded additional free shares by the Company on a basis of a maximum of two Matching Shares for each Partnership Share purchased. Matching Shares must be offered to each employee purchasing Partnership Shares on the same basis. Matching Shares must generally be held in the trust for between three and five years and may be subject to the same rules of forfeiture as Free Shares. There are tax advantages if the shares are retained in the trust for at least five years.

Dividends: The Plan may provide for dividends declared on plan shares to be reinvested, either voluntarily or mandatorily, in further plan shares, up to £1,500 per year. There are tax advantages if the shares are retained in the Plan for at least three years.

Scheme Limits: The number of shares which may be issued under the Plan on any day, when added to the total number of shares which have been issued or placed under option to subscribe for shares in the previous ten years under the Plan and any other employee share scheme adopted by the Company, shall not exceed ten per cent of the ordinary share capital of the Company in issue immediately proceeding that day.

For the purposes of this limit, options and other rights to subscribe for shares which lapse or have been released without being exercised will not be counted.

Amendments to the Plan: The directors will have the authority to amend the Plan, provided that no amendment to the advantage of participants may be made to the provisions relating to eligibility, plan limits, maximum entitlements, the basis of determining entitlements to shares and for adjusting a participant's rights in respect of a capitalisation issue, rights issue, sub-division or consolidation of shares or reduction or other variation of capital of the Company without prior shareholder approval, save for minor amendments to the benefit of the administration of the Plan or to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company or any member of the group. Where an amendment is made to a key feature of the Plan at any time when it remains approved by the Inland Revenue the changes will not take effect until approved by the Inland Revenue, if the Plan is to maintain its approved status.

The directors may establish similar plans based on the Plan in order to include employees outside the UK, but as amended to take into account local tax, exchange control or securities laws.