3770400

Imparta Limited

Report and Financial Statements

31 December 2004

ERNST & YOUNG

Imparta Limited

Registered No: 3370400

Directors
R J B Barkey
D Stephen
M W Abell
A K Stewart
P J Williamson
M G Hay
C D Melia

Secretary
G Calitz

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ERNST & YOUNG

Directors' report

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

Principal activities

The principal activity continued to be the development and delivery of capability building solutions that combine traditional workshops with sophisticated multimedia-based training and reinforcement to create measurable impact on our clients. The company has a particular focus on helping customers improve their sales and marketing effectiveness.

Results and dividends

The company achieved another year of sound growth, with 2004 revenues more than 34% higher than those in 2003 and closing cash balances in excess of £1 million.

Net profit for 2004 was £239,994 after tax and before notional finance charge. After notional finance charge, net profit was £22,868.

The company ended 2004 with a strong sales pipeline, on the basis of which we expect significant growth to continue into 2005. The company is planning to continue investing in additional sales and marketing resources to help drive this growth, so the directors do not recommend the payment of a dividend for 2004.

Financial review

The results as reported in 2003 had shown significant improvement over the previous year and we had stated that this trend was continuing into 2004. The results for 2004 demonstrated the continued impact of our decision to focus on Sales and Marketing effectiveness. In summary:

- Turnover increased by more than 34% from £2.4 million to £3.2 million;
- Invoices for 2004 were higher at £3.57m, because of work invoiced (at clients' request) and paid, but not yet completed. We entered 2005 with deferred income of £348k, which we would expect to realise as revenue over the course of 2005;
- Cash flow was positive for the year, increasing cash balances by £688,508;
- Operating profit grew by 10%, despite investment in growth throughout the year. (The profit after tax figure was higher in 2003 primarily because of an R&D Tax Credit of £60k);
- Following that investment in growth, we entered 2005 with a pipeline of relatively firm sales totalling approximately £4m;

The following table summarises the company's financial performance over the last 3 years:

	2002	*2003*	*2004*
	£	*£*	*£*
Turnover	1,403,018	2,395,279	3,228,356
Gross profit	1,255,275	2,007,927	2,484,401
(Loss)/profit on ordinary activities before tax	(1,023,702)	190,662	210,250
(Loss)/profit on ordinary activities after tax	(1,023,702)	287,873	239,994

Directors' report

Strategy and operations

Our positioning remains as a company that goes beyond training to deliver, and measure, real performance improvements in sales and marketing. We achieve this through a range of approaches, including:

- Online learning (often used as pre-work for workshops), including online simulations;
- A wide range of workshops (covering more than 20 varieties of sales activity, coaching, an increasing range of marketing and leadership topics, and custom programmes);
- Reinforcement tools, including "coach the coach" sessions, and online/PDA-based learning and application tools that are customised to the client's business;
- Measurement approaches that allow us to assess and report impact at a variety of levels;
- The i-Coach "Academy Management" system.

The Academy concept continues to play an important part in our growth, creating as it does multi-year revenues and the opportunity to have real impact on our clients' businesses. Our technology forms a strong foundation for this offering while providing added differentiation, and we have a global network of around 35 high quality faculty members to provide the human component.

Our strategy is to work closely with a relatively small number of leading organisations, and our major clients in 2004 included O2, Hewlett Packard, Abbey, General Electric, Lucent, Kantar, P&O, Hill & Knowlton and the Royal Mail. We are having significant impact with those clients. For example, one Sales Academy is in the early stages of identifying business impact and has so far identified over £14m in new sales attributable to the Academy.

The company opened an office in the United States in the last quarter of 2004, building on our existing client base and faculty network in that country. The company already has partnerships in China, Singapore and Denmark, and plans to expand its international network further in 2005.

Research and development

One of the key elements of competitive advantage that the company possesses is the technology that underpins the efficiency and effectiveness of our blended learning solutions. In order to maintain and increase this advantage, we are continuing to undertake research and development. Projects we have undertaken during 2004 include:

- Investment in the creation of new content in sales, marketing and leadership;
- Extension of the i-Coach platform to enhance its ability to measure and report impact at a number of levels;
- The extension of our suite of mobile e-Learning and coaching tools.
- The commencement of work on a new, rapid-development system for simulations, designed to reduce significantly the cost of custom simulation development;

The board is pleased with the company's performance in 2004 and looks forward to continued success in 2005 and beyond.

Directors' report

Directors and their interests

The directors during the year and their beneficial interests in the shares and share options of the company at the beginning and the end of the year were as follows:

	Share options on ordinary shares		*Ordinary shares of 2.5 p each*		*Ordinary 'A' shares of 2.5 p each*		*5% Convertible loan notes of £40 each*	
	2004	*2003*	*2004*	*2003*	*2004*	*2003*	*2004*	*2003*
R J B Barkey	–	–	104,850	104,850	–	–	–	–
D Stephen	–	–	–	–	–	–	–	–
M W Abell	10,971	8,318	–	–	–	–	–	–
A K Stewart	–	–	411	411	411	411	100	–
P J Williamson	2,723	2,723	1,154	1,154	2,741	2,741	535	–
M G Hay	1,362	1,362	–	–	1,371	1,371	–	–
C D Melia	4,500	4,500	–	–	–	–	–	–

No share options were exercised during the year.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

Small company exemptions

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

On behalf of the board

R J B Barkey

Director

01 JUN 2005

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ERNST & YOUNG

Independent auditors' report

to the members of Imparta Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 15. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, 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 members those matters we are required to state to them in an auditors' 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 and the company's members 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 United Kingdom law and 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.

ERNST & YOUNG

Independent auditors' report

to the members of Imparta Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP.

Ernst & Young LLP
Registered Auditor
London

6 June 2005.

Profit and loss account

for the year ended 31 December 2004

	Notes	2004 £	2003 £
Turnover	2	3,228,356	2,395,279
Cost of sales		(743,955)	(387,352)
Gross profit		2,484,401	2,007,927
Research and development costs		(443,641)	(422,278)
Selling and distribution expenses		(900,901)	(664,588)
Administrative expenses		(1,022,778)	(817,431)
Other operating income	3	89,573	94,630
Operating profit	4	206,654	198,260
Interest receivable and similar income		24,809	8,043
Interest payable and similar charges		(21,213)	(15,641)
Profit on ordinary activities before taxation		210,250	190,662
Taxation	5	29,744	97,211
Profit on ordinary activities for the year		239,994	287,873
Other appropriations: non-equity shares	6	(217,126)	(193,771)
Retained profit for the financial year		22,868	94,102

Statement of total recognised gains and losses

There are no recognised gains or losses for the year other than those shown in the profit and loss account.

Balance sheet

at 31 December 2004

	Notes	2004 £	2003 £
Fixed assets			
Intangible assets	7	76,339	24,896
Tangible assets	8	271,719	321,245
		348,058	346,141
Current assets			
Stocks	9	24,763	29,657
Debtors	10	741,157	337,880
Cash at bank and in hand		1,041,363	352,855
		1,807,283	720,392
Creditors: amounts falling due within one year	11	741,918	334,290
Net current assets		1,065,365	386,102
Total assets less current liabilities		1,413,423	732,243
Creditors: amounts falling due after more than one year			
Loans	12	441,186	–
		972,237	732,243
Capital and reserves			
Called up share capital	13	5,486	5,486
Share premium account	14	5,829,821	5,829,821
Other reserves	14	833,622	616,496
Profit and loss account	14	(5,696,692)	(5,719,560)
Shareholders' funds		972,237	732,243

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities.

RJB Barkey

R J ~~B~~ Barkey
Director

01 JUN 2005

Notes to the financial statements

at 31 December 2004

1. Accounting policies

Accounting convention

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

Intangible assets

Costs incurred in relation to the internationalisation of company software and training materials (including the cost of creation of foreign language versions) is treated as an intangible asset and amortised over an estimated useful economic life of 20 years.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates per annum calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Fixtures and fittings	-	10% straight line
Computer equipment	-	20% and 33% straight line
Office equipment	-	20% straight line
Production equipment	-	20% straight line

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Leasing commitments

Costs incurred in respect of operating leases are charged on a straight line basis over the term of the lease. Leasing arrangements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period.

Pension contributions

The company operates a Stakeholder pension scheme that is open to all employees. No additional contributions are made by the company towards this scheme.

There is a provision made in the financial statements in relation to pensions that are contractually provided for in employee service agreements. There is no pension scheme in place at present and no cash has been paid in relation to these pension entitlements but the cost of providing such pensions is accrued in the financial statements on a monthly basis. Where the pension relates to a director, the cost of this has been included as part of directors' emoluments in the notes to the financial statements.

Notes to the financial statements

at 31 December 2004

1. Accounting policies (continued)

Revenue recognition

The company generates the following types of revenue:

License fees

License fees are earned under software license agreements to end-users. Revenues from perpetual licenses to end-users are recognised upon shipment of the invoice if collection of the resulting receivable is probable, the fee is fixed and determinable, and there are no significant post-delivery obligations. If an acceptance period is required, revenues are recognised upon the earlier of customer acceptance or the expiration of the acceptance period. Revenues from licences for a defined or finite period are recognised evenly over this period.

Course fees

The company facilitates learning programmes. Revenue from such courses is generally recognised rateably as the courses take place.

Service fees

Services consist of support arrangements, consulting, tailoring and development services. Support agreements generally call for the company to provide technical support and provide certain rights to software updates to customers. Revenue on technical support and software update rights is recognised evenly over the term of the support agreement. The company provides consulting and tailoring services to its customers; revenue from such services is generally recognised as the services are performed.

Stocks

Stocks are stated at the lower of average cost and net realisable value.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. Turnover

Turnover represents amounts receivable for services net of VAT and trade discounts. 45% (2003 - 50%) of turnover is attributable to geographical markets outside the United Kingdom.

Notes to the financial statements

at 31 December 2004

3. Other operating income

	2004 £	2003 £
Rental income from subletting office premises	89,413	94,630
Profit on disposal of fixed assets	60	–
Other non-trade items	100	–
	89,573	94,630

4. Operating profit

This is stated after charging:

	2004 £	2003 £
Auditors' remuneration - audit services	13,500	11,000
- other services	6,750	4,100
Directors' emoluments	265,697	206,770
Amounts paid to third parties for the services of directors	98,300	82,000
Depreciation of tangible fixed assets - owned	54,541	75,766
- leased	18,393	18,393
Amortisation of intangible fixed assets	3,290	104
Operating lease rentals - land and buildings	146,012	146,012
- other	485	485

5. Taxation

(a) Analysis of credit in year:

	2004 £	2003 £
Current tax:		
UK corporation tax on profits of the period	(6,765)	–
Adjustment in respect of previous period	(98)	–
Research and development tax credit:		
Cash credit relating to prior years	–	60,000
Deferred tax:		
Tax losses carried forward	36,607	37,211
	29,744	97,211

The company has estimated losses of £3,855,771 (2003 - losses of £4,048,442) available for carrying forward against future trading profits. The directors have chosen to provide for a potential deferred tax asset due to the expectation of future tax profits.

Notes to the financial statements

at 31 December 2004

5. **Taxation** (continued)

(b) Factors affecting the tax credit for the year:

	2004	*2003*
	£	*£*
Net profit on ordinary activities before tax	210,250	190,662
Net profit on ordinary activities before tax multiplied by UK standard company rate of 19% (2003 - 19%)	39,947	36,226
Effects of:		
Expenses not deductible for tax purposes	3,933	1,005
Difference between capital allowances and depreciation/amortisation	(2,085)	1,459
Utilisation of tax losses	(36,607)	(37,211)
Other timing differences	1,577	(1,479)
Current tax charge for the year	6,765	–

6. *Other appropriations:* *non-equity shares*

The company has made a notional charge relating to the amortisation of the redemption premium and issue costs on the Series A-1 Shares. Under certain circumstances, and no earlier than 2 May 2006, the company may be required to redeem these shares for 1.85 times the aggregate subscription price. If these shares are converted rather than redeemed, then the notional finance cost would be reversed out of reserves.

7. Intangible assets

	Translation costs
	£
Cost:	
At 1 January 2004	25,000
Additions	54,733
At 31 December 2004	79,733
Amortisation:	
At 1 January 2004	104
Provided during the year	3,290
At 31 December 2004	3,394
Net book value:	
At 31 December 2004	76,339
At 31 December 2003	24,896

Notes to the financial statements

at 31 December 2004

8. Tangible fixed assets

	Fixtures and fittings £	Office equipment £	Production equipment £	Computer equipment £	Total £
Cost:					
At 1 January 2004	487,801	29,389	14,524	220,763	752,477
Additions	–	1,330	–	22,078	23,408
Disposals	–	–	–	(4,565)	(4,565)
At 31 December 2004	487,801	30,719	14,524	238,276	771,320
Depreciation:					
At 1 January 2004	205,160	17,316	12,811	195,945	431,232
Provided during the year	49,098	3,516	1,123	19,197	72,934
Disposals	–	–	–	(4,565)	(4,565)
At 31 December 2004	254,258	20,832	13,934	210,577	499,601
Net book value:					
At 31 December 2004	233,543	9,887	590	27,699	271,719
At 31 December 2003	282,641	12,073	1,713	24,818	321,245

Included in fixtures and fittings are assets held under finance leases with a net book value of £111,331 at the year end (2003 - £129,722).

9. Stocks

	2004 £	2003 £
Course materials	24,763	29,657

10. Debtors

	2004 £	2003 £
Trade debtors	553,321	184,518
Other debtors	48,262	42,891
Prepayments and accrued income	65,756	73,260
Deferred tax	73,818	37,211
	741,157	337,880

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Notes to the financial statements

at 31 December 2004

11. Creditors: amounts falling due within one year

	2004	*2003*
	£	*£*
Trade creditors	151,106	108,639
Other tax and social security cost	98,612	43,731
Other creditors	57,460	54,676
Deferred income	347,959	17,002
Corporation tax	6,863	–
Accruals	79,918	110,242
	741,918	334,290

12. Loans

	2004	*2003*
	£	*£*
Not wholly repayable within five years:		
5% convertible loan notes, wholly repayable from 30 April 2010 (see below)	441,186	–
Less: included in creditors: amounts falling due within one year	–	–
	411,186	–

	2004	*2003*
	£	*£*
Amounts repayable:		
In more than five years	441,186	–
	411,186	–

The company issued 11,029.65 5% convertible unsecured loan notes of £40 each ('loan notes') on 30 April 2004, raising a total of £441,186. The purpose of the issue was to raise additional funds for growth purposes. The loan notes are convertible on the later of 30 April 2010 and the fifth business day following the redemption by the company of all series A-1 shares and the payment of all outstanding dividends or interest payable to the holders of the series A-1 shares as detailed above and in note 6, subject to a final redemption date of 30 April 2020. The loan notes are convertible into ordinary shares at the rate of £0.025 nominal for every £40 nominal of loan notes converted.

Notes to the financial statements

at 31 December 2004

13. Share capital

Authorised

	2004 £	2003 £
Ordinary shares of 2.5 pence each	5,125	5,125
Ordinary 'A' shares of 2.5 pence each	1,125	1,125
Ordinary 'B' shares of 2.5 pence each	625	625
Series 'A-1' convertible preference shares of 2.5 pence each	525	525
	7,400	7,400

Allotted, called up and fully paid

	2004 No	2003 No	2004 £	2003 £
Ordinary shares of 2.5 pence each	155,345	155,345	3,884	3,884
Ordinary 'A' shares of 2.5 pence each	45,000	45,000	1,125	1,125
Series 'A-1' convertible preference shares of 2.5 pence each	19,077	19,077	477	477
	219,422	219,422	5,486	5,486

Redemption of series A-1 shares

The redemption date for the series A-1 convertible preference shares is 2 May 2006.

The shareholders may, on giving the company not less than 6 months written notice prior to the redemption date require the company to redeem the series A-1 convertible preference shares held by them provided that no listing has become effective nor any sale completed nor any sale offer being declared unconditional.

The company may, if no redemption notice has been served and only with the written consent of the holders of the series A-1 convertible preference shares, subject to statutes, at any time after the redemption date, on giving the shareholders then outstanding not less than 28 days notice, redeem all the series A-1 convertible preference shares. The redemption notice means not less than six months written notice prior to the redemption date.

The redemption price will be equal to 1.85 times the aggregate subscription price together with a sum equal to all arrears of dividends due on these shares.

Warrants

The company currently has a total of 12,518 warrants in existence, made up as follows.

- Revenue warrants – Up to 5,729 revenue warrants had been earned by GE Capital Equity Holdings, Inc at the balance sheet date, 786 of which were earned during 2004 (which includes 170 relating to prior years). These warrants have not yet been issued and have a strike price of £66.67 and a cashless exercise option on exit.
- Other warrants - 6,789 warrants relate to shares issued in 2001. These warrants entitle the holders to convert their warrants into shares on a one-for-one basis at any time up until July 2006 at a price of £91.84.

Notes to the financial statements

at 31 December 2004

13. Share capital (continued)

During the year, the company changed from an Approved Share Option scheme to an Enterprise Managed Incentive (EMI) scheme. This change resulted in all but 300 and 110 options with exercise prices of £78.00 and £66.67 respectively being cancelled and new options of £0.025, £12.80 and 30.00 each being issued to qualifying staff.

Option exercise price	*Expiry date*	*1 January 2004* £	*Granted during the year* £	*Cancelled and lapsed during the year* £	*31 December 2004* £
£30.00	28 July 2014	–	1,725	–	1,725
	23 June 2014	–	3,150	–	3,150
£12.80	28 July 2014	–	2,653	–	2,653
£0.025	28 July 2014	–	1,499	–	1,499
£78.00	22 December 2012	550	–	550	–
	19 September 2012	450	–	150	300
£66.67	26 November 2010	1,305	–	1,195	110
	21 May 2011	140	–	140	–
£0.025	14 December 2010	1,499	–	1,499	–
		3,944	9,027	3,534	9,437

14. Reconciliation of shareholders' funds and statement of movements on reserves

	Share capital £	*Share premium account* £	*Other reserves* £	*Profit and loss account* £	*Total* £
At 1 January 2003	5,486	5,829,821	422,725	(5,813,662)	444,370
Profit for the year	–	–	–	287,873	287,873
Transfer in respect of other appropriations	–	–	193,771	(193,771)	–
At 31 December 2003	5,486	5,829,821	616,496	(5,719,560)	732,243
Profit for the year	–	–	–	239,994	239,994
Transfers	–	–	217,126	(217,126)	–
At 31 December 2004	5,486	5,829,821	833,622	(5,696,692)	972,237

Notes to the financial statements

at 31 December 2004

15. Other financial commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases for land and building as follows:

	2004	*2003*
	£	£
Operating leases which expire:		
In over five years	146,012	146,012