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ETEACH UK LIMITED

Report and Financial Statements

Year Ended

31 July 2002



BDO Stoy Hayward
Chartered Accountant



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ETEACH UK LIMITED

Annual report and financial statements for the year ended 31 July 2002

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Directors

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Directors

J P Howells
G A Clarke
C Stevens

Secretary and registered office

S A M Leatham
The Coach House, Yateley Hall, Firgrove Road, Yateley, Hampshire, GU46 6HJ

Company number

3841479

Auditors

BDO Stoy Hayward, 8 Baker Street, London, W1U 3LL.

ETEACH UK LIMITED

Report of the directors for the year ended 31 July 2002

The directors present their report together with the audited financial statements for the year ended 31 July 2002.

Results

The profit and loss account is set out on page 5 and shows the result for the year.

Principal activity

The company's principal activity is the provision of recruitment services for the education sector, delivered via a community website for the stakeholders in education.

Directors

The directors of the company during the year, and their interests in the ordinary share capital of the company and options to purchase such shares, were as follows:

| | Ordinary shares of 0.1p each 31 July 2002 | Ordinary shares of 0.1p each 31 July 2001 | Options 31 July 2002 and 31 July 2001 |
|--------------------------------------|--|--|--|
| J P Howells | 1,117,060 | 697,060 | - |
| D W Phillips (resigned 24 June 2002) | - | 210,000 | - |
| D Phillips (resigned 24 June 2002) | - | 210,000 | - |
| G A Clarke | 230,590 | 230,590 | - |
| C Stevens | 92,350 | 92,350 | 20,000 |

J P Howells' shareholder interest includes 829,060 ordinary shares held in a trust for the benefit of J P Howells and his family.

Details of the directors' share options are shown in note 10. No options were exercised during the period.

Directors' responsibilities

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

ETEACH UK LIMITED

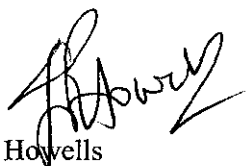
Report of the directors for the year ended 31 July 2002 (*Continued*)

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

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

On behalf of the Board



J P Howells
Director

Date: 25 June 2003

ETEACH UK LIMITED

Report of the independent auditors

To the shareholders of Eteach UK Limited

We have audited the financial statements of Eteach UK Limited for the year ended 31 July 2002, on pages 5 to 15, which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities and under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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

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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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.

ETEACH UK LIMITED

Report of the independent auditors (continued)

Opinion

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

BDO Stoy Hayward

BDO STOY HAYWARD
Chartered Accountants
and Registered Auditors
London

Date: *30 June 2003*

ETEACH UK LIMITED**Profit and loss account for the year ended 31 July 2002**

| | Note | 2002 £ | 2001 £ As restated |
|--|------|-------------|--------------------------|
| Turnover | 2 | 1,203,812 | 214,976 |
| Cost of sales | | - | - |
| Gross profit | | 1,203,812 | 214,976 |
| Administrative expenses | | (2,040,207) | (2,432,683) |
| Operating loss | 4 | (836,395) | (2,217,707) |
| Interest payable and similar charges | | (34,968) | (8,299) |
| Loss on ordinary activities before taxation | | (871,363) | (2,226,006) |
| Taxation on loss on ordinary activities | 5 | 454,000 | - |
| Loss on ordinary activities after taxation | 11 | (417,363) | (2,226,006) |

All amounts relate to continuing activities.

The notes on pages 8 to 15 form part of these financial statements.

ETEACH UK LIMITED**Statement of total recognised gains and losses for the year ended 31 July 2002**

| | 2002 £ | 2001 £ |
|---|-------------------------|-------------------------|
| Loss for the financial year | (417,363) | (2,226,006) |
| Prior year adjustment (see note 11) | (104,497) | - |
| | <hr/> | <hr/> |
| Total gains and losses recognised since the last financial statements | (521,860) | (2,226,006) |
| | <hr/> | <hr/> |

The notes on pages 8 to 15 form part of these financial statements.

ETEACH UK LIMITED

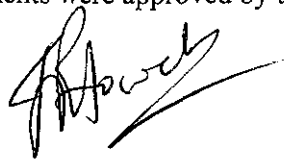
Balance sheet at 31 July 2002

| | Note | 2002 £ | 2001 £ As restated |
|--|------|------------------|--------------------------|
| Fixed assets | | | |
| Tangible assets | 6 | 303,102 | 236,426 |
| Current assets | | | |
| Debtors | 7 | 750,737 | 371,195 |
| Cash at bank and in hand | | 75 | 98 |
| | | <u>750,812</u> | <u>371,293</u> |
| Creditors: amounts falling due within one year | 8 | <u>1,645,586</u> | <u>780,428</u> |
| Net current liabilities | | <u>(894,774)</u> | <u>(409,135)</u> |
| Total assets less current liabilities | | <u>(591,672)</u> | <u>(172,709)</u> |
| Creditors: amounts falling due after more than one year | 9 | <u>3,200</u> | <u>4,800</u> |
| | | <u>(594,872)</u> | <u>(177,509)</u> |
| Capital and reserves | | | |
| Called up share capital | 10 | 1,440 | 1,440 |
| Share premium account | 11 | 2,496,560 | 2,496,560 |
| Profit and loss account | 11 | (3,092,872) | (2,675,509) |
| Shareholders' deficit - equity | | <u>(594,872)</u> | <u>(177,509)</u> |

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 the Financial Reporting Standard for Smaller Entities.

The financial statements were approved by the Board on 25 June 2003

J P Howells
Director



The notes on pages 8 to 15 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities and under the historical cost convention.

Change in accounting policies

The company has changed its accounting policy for income recognition to one which is considered to be more prudent. Under the previous accounting policy 50% of subscription income was recognised in the first month and the remainder spread equally over the following 11 months. The revised policy is set out below. The effect of this change in accounting policy is set out in note 11.

The company has also changed its accounting policy in respect of deferred tax following the introduction of Financial Reporting Standard for Small Entities (effective June 2002). Under the company's previous accounting policy, deferred tax was recognised to the extent that it was probable that a liability or asset would crystallise. The revised policy is set out below. The effect of the new policy is to increase net assets by £425,000.

Cash flow statement

The company has taken advantage of the exemption conferred by the Financial Reporting Standard for Smaller Entities not to prepare a cash flow statement.

Turnover and income recognition

Turnover represents sales to outside customers at invoiced amounts less value added tax.

Subscription income is recognised equally over 12 months.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets evenly over their expected useful lives. It is calculated at the following rates:

| | |
|--------------------------------|---------------|
| Leasehold improvements | 10% per annum |
| Computer equipment | 33% per annum |
| Office furniture and equipment | 25% per annum |

Web site development costs

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

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

In such circumstances the costs are carried forward and amortised over a period of between two to three years, commencing in the year the company starts to benefit from the expenditure.

ETEACH UK LIMITED

Notes forming part of the financial statements for the year ended 31 July 2002

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. The assets of the scheme are held separately from those of the company in an independently administered fund.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

| 3 Directors | 2002 £ | 2001 £ |
|---|-------------------|-------------------|
| Directors' emoluments (including pension contributions) | 201,435 | 121,643 |

There were two directors in the company's defined contribution pension scheme during the year (2001–2002).

ETEACH UK LIMITED

Notes forming part of the financial statements for the year ended 31 July 2002 (Continued)

| | | | |
|----------|---|-------------------|-------------------|
| 4 | Operating loss | 2002 | 2001 |
| | | £ | £ |
| | This has been arrived at after charging:- | | |
| | Depreciation | 177,027 | 151,538 |
| | Amortisation | - | 562,500 |
| | Hire of other assets - operating leases | 47,961 | 47,544 |
| | Hire of plant & machinery – operating leases | 26,783 | 25,995 |
| | Auditors' remuneration – audit services | 10,500 | 10,000 |
| | | <u> </u> | <u> </u> |
| 5 | Taxation on loss from ordinary activities | 2002 | 2001 |
| | | £ | £ |
| | <i>Current tax</i> | | |
| | UK corporation tax on losses of the year | - | - |
| | <i>Deferred tax</i> | | |
| | Tax losses carried forward to future periods (see note 7) | (454,000) | - |
| | | <u> </u> | <u> </u> |
| | Taxation on loss on ordinary activities | (454,000) | - |
| | | <u> </u> | <u> </u> |

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

| | | |
|--|-------------------|--------------------|
| | 2002 | 2001 |
| | £ | £ |
| | | As restated |
| Loss on ordinary activities before tax | (871,363) | (2,226,006) |
| | <u> </u> | <u> </u> |
| Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2001 – 30%) | (261,410) | (667,802) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 5,604 | 829 |
| Pension contributions not paid | 194 | 399 |
| (Capital allowances for year in excess of depreciation) / depreciation for year in excess of capital allowances | (21,561) | 138,327 |
| Current year losses carried forward | 277,173 | 528,247 |
| | <u> </u> | <u> </u> |
| Current tax charge for year | - | - |

ETEACH UK LIMITEDNotes forming part of the financial statements for the year ended 31 July 2002 (*Continued*)**6 Tangible assets**

| | Leasehold improvements £ | Computer equipment £ | Office furniture and equipment £ | Web site development costs £ | Total £ |
|-----------------------|--------------------------------|----------------------------|---|---------------------------------------|----------------|
| Cost | | | | | |
| At 1 August 2001 | 20,278 | 115,371 | 36,038 | 224,313 | 396,000 |
| Additions | - | 5,241 | 24,972 | 213,490 | 243,703 |
| | | | | | |
| At 31 July 2002 | 20,278 | 120,612 | 61,010 | 437,803 | 639,703 |
| Depreciation | | | | | |
| At 1 August 2001 | 1,922 | 38,781 | 8,782 | 110,089 | 159,574 |
| Provided for the year | 2,028 | 39,960 | 16,039 | 119,000 | 177,027 |
| | | | | | |
| At 31 July 2002 | 3,950 | 78,741 | 24,821 | 229,089 | 336,601 |
| Net book value | | | | | |
| At 31 July 2002 | 16,328 | 41,871 | 36,189 | 208,714 | 303,102 |
| | | | | | |
| At 31 July 2001 | 18,356 | 76,590 | 27,256 | 114,224 | 236,426 |

The net book value of tangible fixed assets includes an amount of £4,031 (2001: £6,134) in respect of assets held under finance leases. The related depreciation charge of these assets for the year was £2,103 (2001: £2,103).

7 Debtors

| | 2002 £ | 2001 £ |
|-------------------|----------------|----------------|
| Trade debtors | 210,992 | 92,082 |
| Other debtors | 21,249 | 199,927 |
| Prepayments | 64,496 | 79,186 |
| Deferred taxation | 454,000 | - |
| | | |
| | 750,737 | 371,195 |

All amounts shown under debtors fall due for payment within one year.

ETEACH UK LIMITED

Notes forming part of the financial statements for the year ended 31 July 2002 (*Continued*)

7 Debtors (*continued*)

| <i>Deferred taxation</i> | 2002 £ | 2001 £ |
|--|-----------|-----------|
| At 1 August 2001 | - | - |
| Credited to profit and loss account | 454,000 | - |
| | <hr/> | <hr/> |
| At 31 July 2002 | 454,000 | - |
| | <hr/> | <hr/> |
| <i>Deferred taxation</i> | | |
| Tax losses carried forward to future periods | 454,000 | - |
| | <hr/> | <hr/> |

A deferred tax asset has not recognised in the prior year because there was not sufficient evidence of recoverability of the tax losses at that stage.

8 Creditors: amounts falling due within one year

| | 2002 £ | 2001 £ As restated |
|----------------------------------|-----------|--------------------------|
| Bank overdraft (secured) | 659,079 | 353,851 |
| Trade creditors | 137,391 | 114,915 |
| Social security and other taxes | 93,029 | 35,093 |
| Obligations under finance leases | 1,600 | 1,600 |
| Other creditors and accruals | 273,490 | 45,075 |
| Deferred income | 480,997 | 229,894 |
| | <hr/> | <hr/> |
| | 1,645,586 | 780,428 |
| | <hr/> | <hr/> |

ETEACH UK LIMITED

Notes forming part of the financial statements for the year ended 31 July 2002 (*Continued*)

| 9 | Creditors: amounts falling due after more than one year | 2002 £ | 2001 £ |
|---|---|--------------------------------|--------------------------------|
| | Obligations under finance leases | 3,200 | 4,800 |
| | Obligations under finance leases are due as follows: | | |
| | | Finance leases 2002 £ | Finance leases 2001 £ |
| | In more than one year but not more than two years | 1,600 | 1,600 |
| | In more than two years but not more than five years | 1,600 | 3,200 |
| | | 3,200 | 4,800 |

| 10 | Share capital | Authorised | | Allotted, called up and fully paid | |
|----|--|------------|-----------|---------------------------------------|-----------|
| | | 2002 £ | 2001 £ | 2002 £ | 2001 £ |
| | 1,440,000 ordinary shares of 0.1p each | 1,440 | 1,440 | 1,440 | 1,440 |

Enterprise Management Incentive Scheme

In March 2001 the directors of the company put in place a share option scheme that suitably incentivised staff and directors. The scheme was approved by the Inland Revenue and the following share options in respect of the ordinary shares were granted and remain unexercised at the year end.

| Date of grant | Number of shares | Period of option | Price per share |
|---------------|---------------------|------------------|--------------------|
| 2001 | 20,000 | 2003 - 2011 | £1.70 |
| 2001 | 20,000 | 2004 - 2011 | £1.70 |

ETEACH UK LIMITED**Notes forming part of the financial statements for the year ended 31 July 2002 (Continued)****11 Reserves**

| | Share premium account £ | Profit and loss account £ |
|---------------------------------------|----------------------------------|------------------------------------|
| At 1 August 2001 as previously stated | 2,496,560 | (2,571,012) |
| Prior year adjustment | - | (104,497) |
| | <hr/> | <hr/> |
| At 1 August 2001 as restated | 2,496,560 | (2,675,509) |
| Loss for the year | - | (417,363) |
| | <hr/> | <hr/> |
| At 31 July 2002 | <u>2,496,560</u> | <u>(3,092,872)</u> |

The company has changed its accounting policy for revenue recognition to one which is considered more prudent. Subscription income is now recognised equally over 12 months. Under the previous accounting policy, 50% of subscription income was recognised in the first month, and the remainder spread evenly over the following 11 months. The effect of changing the policy has been to reduce prior year turnover and opening net assets by £104,497. Had the accounting policy not been changed, the turnover in the current year and the closing net assets would have increased by £131,075.

12 Reconciliation of movement in shareholders' deficit

| | 2002 £ | 2001 £ As restated |
|--|------------------|--------------------------|
| Loss for the year | (417,363) | (2,226,006) |
| Proceeds from share issue | - | 748,000 |
| | <hr/> | <hr/> |
| | (417,363) | (1,478,006) |
| | <hr/> | <hr/> |
| Opening shareholders' deficit as previously stated | (73,012) | 1,300,497 |
| Prior year adjustment (see note 11) | (104,497) | - |
| | <hr/> | <hr/> |
| Opening shareholders' deficit as restated | (177,509) | - |
| | <hr/> | <hr/> |
| Closing shareholders' deficit | <u>(594,872)</u> | <u>(177,509)</u> |

ETEACH UK LIMITED

Notes forming part of the financial statements for the year ended 31 July 2002 (Continued)

13 Commitments under operating leases

As at 31 July 2002, the company had annual commitments under non-cancellable operating leases as set out below:

| | 2002 | | 2001 | |
|--------------------------------|-----------------------|------------|-----------------------|------------|
| | Land & buildings £ | Other £ | Land & buildings £ | Other £ |
| Operating leases which expire: | | | | |
| In two to five years | 50,050 | 25,632 | 50,050 | 29,685 |

14 Financial commitments

As at 31 July 2002, the company had the following financial commitments:-

| | 2002 £ | 2001 £ |
|--------------------------------|-----------|-----------|
| Due within one year | 94,746 | 45,000 |
| Due between two and five years | - | 90,000 |
| | 94,746 | 135,000 |

15 Related party transactions

During the year, J P Howells, a director of the company, made a loan to the company of £150,000. This amount was outstanding at the year end and is included within other creditors. In addition, the balance on J P Howells' current account at the year end was £55,195 due to him from the company (2001: £16,668).

Included in other debtors at 31 July 2001 was an amount of £157,000 owed by C Stevens, a director of the company. The balance was repaid during the year. The maximum balance outstanding during the year was £157,000.

The company made an interest free loan in 2000 to Nicola Phillips, an employee and wife of D Phillips, an ex-director, for £30,000. The amount outstanding at 31 July 2002 was £Nil (2001: £15,903).

16 Controlling party

The directors consider that the company was controlled throughout the current and previous period by J P Howells, by virtue of his control over 78% (2001: 48%) of the ordinary shares of the company.