

**PEDAGOG LIMITED**  
**REPORT AND ABBREVIATED ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

**KILSBY & WILLIAMS LLP**  
**CHARTERED ACCOUNTANTS**

**Company Registration Number: 3520250**



# **PEDAGOG LIMITED**

## **REPORT AND ABBREVIATED ACCOUNTS**

**For the year ended 31 December 2004**

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## INDEPENDENT AUDITORS' REPORT TO PEDAGOG LIMITED

### UNDER SECTION 247B TO THE COMPANIES ACT 1985

We have examined the abbreviated accounts set out on pages 3 to 7, together with the full statutory accounts of the company for the year ended 31 December 2004, prepared under Section 226 of the Companies Act 1985.

#### Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with Section 246 to the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with Sections 246(5) and (6) of the Act to the Registrar of Companies and whether the accounts to be delivered are properly prepared in accordance with those provisions and to report our opinion to you.

#### Basis of opinion

We have carried out the procedures we considered necessary to confirm, by reference to the accounts that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts have been properly prepared from those accounts. The scope of our work for the purpose of this report does not include examining or dealing with events after the date of our report on the full statutory accounts.

#### Opinion

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with Sections 246(5) and (6) of the Companies Act 1985 and the abbreviated accounts on pages 3 to 7 are properly prepared in accordance with that provision.

#### Other information

On 31 May 2005 we reported, as auditors of Pedagog Limited, to the members on the accounts prepared under S226 of the Companies Act 1985 for the year ended 31 December 2004 and our audit report was as follows:

"We have audited the accounts of Pedagog Limited for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheet and the related notes 1 to 13. These accounts have been prepared under 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company 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 accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the accounts 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 accounts, 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.

**INDEPENDENT AUDITORS' REPORT TO PEDAGOG LIMITED****UNDER SECTION 247B TO THE COMPANIES ACT 1985  
CONTINUED**

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

**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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts 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 accounts 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 accounts.

**Fundamental uncertainties****Going concern**

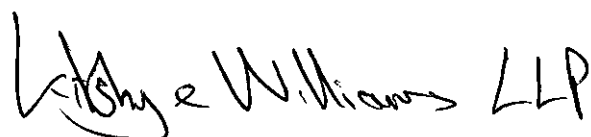
In forming our opinion, we have considered the adequacy of the disclosures made in note 2 of the accounts concerning the uncertainty as to future income streams of the business and the company's ability to raise additional finance if those income streams do not materialise. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

**Intangible fixed assets**

The accounts include £856,019 of development expenditure that has been capitalised in respect of projects that the directors believe will, when completed and launched, generate sufficient revenue flows to support this capitalisation treatment. At the date of signing there is sufficient uncertainty over revenue flows that we consider it should be brought to your attention but our opinion is not qualified in this respect.

**Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs 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."



**KILSBY & WILLIAMS LLP**  
Chartered Accountants  
and Registered Auditors

Date:

31st May 2005


**PEDAGOG LIMITED****BALANCE SHEET**

As at 31 December 2004

	Note	2004 £	2003 £
<b>FIXED ASSETS</b>			
Intangible assets	3	856,019	796,019
Tangible assets	3	47,887	57,135
		<u>903,906</u>	<u>853,154</u>
<b>CURRENT ASSETS</b>			
Debtors		2,184	26,518
Cash at bank and in hand		-	-
		<u>2,184</u>	<u>26,518</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	4	<u>(246,554)</u>	<u>(500,833)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(244,370)</u>	<u>(474,315)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>659,536</u>	<u>378,839</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	4	<u>(279,985)</u>	<u>(529,985)</u>
		<u>379,551</u>	<u>(151,146)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	5	689,182	686,024
Share premium account	6	501,528	99,690
Profit and loss account		<u>(811,159)</u>	<u>(936,860)</u>
<b>TOTAL SHAREHOLDERS' FUNDS/DEFICIT</b>		<u>379,551</u>	<u>(151,146)</u>

These abbreviated accounts are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

Signed on behalf of the  
Board of Directors



O Ta'eed  
Director

Approved by the Board: 24 May 2005

The notes on pages 4 to 7 form part of these accounts.

# PEDAGOG LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2004

### 1. ACCOUNTING POLICIES

#### **Basis of Accounting**

The accounts have been prepared under the historical cost convention.

#### **Turnover**

Turnover represents the net invoiced sales of goods and services, excluding VAT.

#### **Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off the cost of valuation of each asset over its estimated useful life:

Plant and machinery etc	15% - 25% on reducing balance
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#### **Deferred Taxation**

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in accounts. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

#### **Leased Assets and Hire Purchase Contracts**

Assets held under finance leases and hire purchase contracts are capitalised at the estimated fair value at date of inception of each lease or contract. The assets are depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding.

Rentals payable under operating leases are charged to the profit and loss account as incurred.

#### **Cash Flow Statement**

The company has taken advantage of the exemption from preparing a cash flow statement conferred by Financial Reporting Standard Number 1 on the grounds that it qualifies as a small company under the Companies Act 1985.

#### **Government grants**

Grants on capital expenditure are treated as a deferred credit and are released to the profit and loss account in equal instalments over the estimated useful life of the related assets. Grants of a revenue nature are credited against the expense in the period to which they relate.

#### **Research and development**

Development costs of specific projects undertaken by the company are capitalised at cost where the directors consider that the SSAP13 criteria has been met.

Development costs of a non-specific nature are written to the profit and loss account as and when incurred.

The majority of research and development costs relate to wages and salaries and directors' remuneration. The directors in determining the split of costs between projects have used their best estimate of the time spent by project.

Capitalised development costs are amortised over the period during which the company is expected to benefit. This period is the estimated economic life of each project.

# PEDAGOG LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2004

### 2. GOING CONCERN

The accounts have been prepared on a going concern basis.

The accounts to 31 December 2004 show a loss before exceptional items of £208,320 and net current liabilities of £244,370. The directors have therefore had to consider whether it is appropriate to prepare the accounts on a going concern basis.

The company has developed a number of products which the directors believe when finally completed and launched will generate profits and positive cash flow. The directors undertook a refinancing exercise during 2004 that has contributed to the company reporting net assets of £379,551 in the accounts to 31 December 2004.

The directors have prepared cash flows that indicate, provided they achieve their sales targets and ensure that the debt providers continue their financial support, they will be able to continue trading.

Note 7 to the accounts refers to a potential claim. The directors are confident that no claim will be made.

On this basis they have prepared the accounts on a going concern basis. They do not include any adjustment that would result if the sales forecasts are not met and the directors' plans not successful.

3.	FIXED ASSETS	Intangible £	Tangible £	Total £
	<b>Cost</b>			
	At 1 January 2004	1,182,154	134,169	1,316,323
	Additions	230,000	6,479	236,479
	Disposals	-	(5,526)	(5,526)
	At 31 December 2004	1,412,154	135,122	1,547,276
	<b>Depreciation</b>			
	At 1 January 2004	386,135	77,034	463,169
	Charge for the year	170,000	15,727	185,727
	Write off on disposal	-	(5,526)	(5,526)
	At 31 December 2004	556,135	87,235	643,370
	<b>Net book value</b>			
	At 31 December 2004	856,019	47,887	903,906
	At 31 December 2003	796,019	57,135	853,154

# **PEDAGOG LIMITED**

## **NOTES TO THE ABBREVIATED ACCOUNTS** **For the year ended 31 December 2004**

### **4. CREDITORS**

Included within creditors falling due within one year and after more than one year are secured liabilities amounting to £73,531 (2003 - £98,388).

<b>5. CALLED UP SHARE CAPITAL</b>		<b>2004</b>	<b>2003</b>
<b>Authorised Number</b>	<b>Class</b>	<b>£</b>	<b>£</b>
28,285,958	Deferred shares (nominal value £0.01)	282,860	-
12,369	Ordinary (nominal value £1)	12,369	211,000
1,738	"A" Ordinary (nominal value £1)	1,738	42,857
237	"B" Ordinary (nominal value £1)	237	42,857
-	"C" Ordinary (nominal value £0.01)	-	490
400,000	Cumulative redeemable "A" preference (nominal value £1)	400,000	400,000
		<u>697,204</u>	<u>697,204</u>

<b>Allotted, issued and fully paid</b>		<b>2004</b>	<b>2003</b>
<b>Number</b>	<b>Class</b>	<b>£</b>	<b>£</b>
28,285,958	Deferred shares (nominal value £0.01)	282,860	-
4,347	Ordinary (nominal value £1)	4,347	200,000
1,738	"A" Ordinary (nominal value £1)	1,738	42,857
237	"B" Ordinary (nominal value £1)	237	42,857
-	"C" Ordinary (nominal value £0.01)	-	310
400,000	Cumulative redeemable "A" preference (nominal value £1)	400,000	400,000
		<u>689,182</u>	<u>686,024</u>

<b>6. SHARE PREMIUM</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Cash share issue	<u>501,528</u>	<u>99,690</u>



## **PEDAGOG LIMITED**

### **NOTES TO THE ABBREVIATED ACCOUNTS**

**For the year ended 31 December 2004**

#### **7. CONTINGENT LIABILITY**

*In March 2005 the company received written notification that a potential licensee wished to withdraw and expected a return of the £100,000 funds already received. The directors have reviewed the situation and are of the opinion that no liability will crystallise.*

The company has received a government grant of £188,000. That money will become repayable if certain conditions are not met. The directors are of the opinion that no liability will crystallise.

#### **8. TRANSACTIONS WITH DIRECTORS**

During the year Dr O Ta'eed wrote off loans due to him by the company of £272,461.