

PEDAGOG LIMITED

**REPORT AND ABBREVIATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003**

**KILSBY & WILLIAMS LLP
CHARTERED ACCOUNTANTS**

Company Registration Number: 3520250



PEDAGOG LIMITED

REPORT AND ABBREVIATED ACCOUNTS

For the year ended 31 December 2003

CONTENTS

	Page
Report of the auditors	1 -2
Balance sheet	3
Notes to the abbreviated accounts	4 – 7

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 2003, 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 2003 and our audit report was as follows:

"We have audited the accounts of Pedagog Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. 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.

CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT TO PEDAGOG LIMITED

UNDER SECTION 247B TO THE COMPANIES ACT 1985 CONTINUED

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.

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

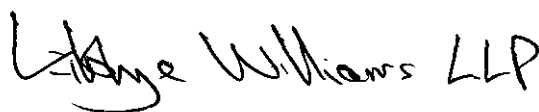
In forming our opinion, we have considered the adequacy of the disclosures made in note 2 of the accounts concerning the uncertainty as to future income streams of the business and the company's ability to raise additional finance if those income streams do not materialise. In view of the significance 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 £796,019 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.

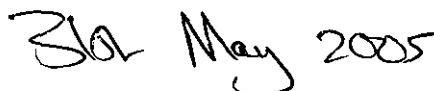
Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss 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:



CHARTERED ACCOUNTANTS

PEDAGOG LIMITED

BALANCE SHEET

As at 31 December 2003

	Note	2003 £	(See note 4) As restated 2002 £
FIXED ASSETS			
Intangible assets	3	796,019	568,513
Tangible assets	3	57,135	71,953
		<u>853,154</u>	<u>640,466</u>
CURRENT ASSETS			
Debtors		26,518	12,656
Cash at bank and in hand		-	101,392
		<u>26,518</u>	<u>114,048</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	5	<u>(500,833)</u>	<u>(258,619)</u>
NET CURRENT LIABILITIES		<u>(474,315)</u>	<u>(144,571)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>378,839</u>	<u>495,895</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	5	<u>(529,985)</u>	<u>(514,995)</u>
		<u>(151,146)</u>	<u>(19,100)</u>
CAPITAL AND RESERVES			
Called up share capital	6	686,024	686,024
Share premium account	7	99,690	99,690
Profit and loss account		<u>(936,860)</u>	<u>(804,814)</u>
TOTAL SHAREHOLDERS' DEFICIT		<u>(151,146)</u>	<u>(19,100)</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 2003

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
-------------------------	-------------------------------

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 2003

2. GOING CONCERN

The accounts have been prepared on a going concern basis.

The accounts to 31 December 2003 show a loss of £132,046 net current liabilities of £474,315 and net liabilities of £151,146. The accounts to 2004 report a loss before exceptional items of £208,320. 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.

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 £
	Cost			
	At 1 January 2003	883,439	130,217	1,013,656
	Additions	298,715	3,952	302,667
	At 31 December 2003	1,182,154	134,169	1,316,323
	Depreciation			
	At 1 January 2003	314,926	58,264	373,190
	Charge for the year	71,209	18,770	89,979
	At 31 December 2003	386,135	77,034	463,169
	Net book value			
	At 31 December 2003	796,019	57,135	853,154
	At 31 December 2002	568,513	71,953	640,461

PEDAGOG LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2003

4. PRIOR YEAR ADJUSTMENTS

The accounts for the year ended 31 December 2002 included a credit in the profit and loss account of £188,000 relating to a Regional Selective Assistance grant. The grant was for developing the company's projects. The project life has been determined to be over the three years to 31 December 2004 and consequently the grant should be released over that period.

The effect of the adjustment in the profit and loss account is to increase the losses for the year ended 31 December 2002 by £125,000.

5. CREDITORS

Included within creditors falling due within one year and after more than one year are secured liabilities amounting to £98,388 (2002 - £98,679).

6. CALLED UP SHARE CAPITAL		2003	2002
Authorised Number	Class	£	£
211,000	Ordinary (nominal value £1)	211,000	211,000
(31.12.01 – 200,000)			
42,857	"A" Ordinary (nominal value £1)	42,857	42,857
42,857	"B" Ordinary (nominal value £1)	42,857	42,857
48,963	"C" Ordinary (nominal value £0.01)	490	490
400,000	Cumulative redeemable "A" preference (nominal value £1)	400,000	400,000
		<u>697,204</u>	<u>697,204</u>
Allotted, issued and fully paid		2003	2002
Number	Class	£	£
200,000	Ordinary	200,000	200,000
42,857	"A" Ordinary (nominal value £1)	42,857	42,857
42,857	"B" Ordinary (nominal value £1)	42,857	42,857
30,958	"C" Ordinary (nominal value £0.01)	310	310
400,000	Cumulative redeemable "A" preference (nominal value £1)	400,000	400,000
		<u>686,024</u>	<u>686,024</u>

PEDAGOG LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS

For the year ended 31 December 2003

7. SHARE PREMIUM	2003	2002
	£	£
Cash share issue	<u>99,690</u>	<u>99,690</u>

8. CONTINGENT LIABILITY

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.

9. TRANSACTIONS WITH DIRECTORS

During the year the company made sales of £41,430 to Shawley Limited, a company in which Dr O Ta'eed is a director. Included within other creditors is £25,434 due to the company as at 31 December 2003.

Also, during the year the company made sales to The Knowledge Economy Foundation of £25,000. Dr O Ta'eed is also a director of this private company that is limited by guarantee. The company also received £3,250 in rent and management charges.

£2,426 was received from Technology Concepts Limited for rent received. Dr O Ta'eed is also a director of this company.

10. POST BALANCE SHEET EVENTS

Since the year end the company has entered into agreements with its financiers to write off part of the other loans, convert loans to shares, to freeze interest payments and to issue new shares. The effect of this, together with the issue of new share capital and profit for the year of £125,701, was to increase net assets by £530,697.