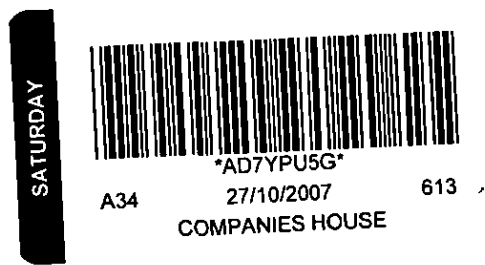


Birchfield Interactive Plc
Directors Report and Financial Statements
for the year ended 31 March 2007



Birchfield Interactive Plc

Directors Report and Financial Statements for the year ended 31 March 2007

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Birchfield Interactive Plc

Directors and advisers for the year ended 31 March 2007

Chairman

WS Harris

Executive directors

JM Case

RA Coles

Non executive directors

SR Jones

AB Morgan

Company Secretary

AB Morgan

Registered Office and Business Address

The Media Centre

Culverhouse Cross

Cardiff

CF5 6XJ

Auditors

PricewaterhouseCoopers LLP

One Kingsway

Cardiff

CF10 3PW

Solicitors

Eversheds LLP

1 Callaghan Square

Cardiff

CF10 5BT

Bankers

Bank of Scotland

One Kingsway

Cardiff

CF10 3YB

Birchfield Interactive Plc

Directors' report for the year ended 31 March 2007

The directors present their report and the audited financial statements of the company for the year ended 31 March 2007.

Principal activities and business review

The principal activity of the company is the creation and sale of educational software and related products

Business review

The results for the year, as set out on page 5, have been impacted by the decision to amend the company's accounting policy for development expenditure. Such costs previously capitalised are now written off as incurred. A prior year adjustment has been made, the impact of which is summarised on page 8.

The results for year ended 31 March 2007 are disappointing. During the year the company focused on its core activities and continued to develop its product range, however the prevailing market conditions made it difficult to increase revenue to the extent anticipated. Both staff costs and overheads have been reduced since the year end. The directors consider that the accounts include the key performance indicators of the business, specifically turnover and operating profit.

The directors are of the view that the company will be able to more successfully exploit its products in the forthcoming year.

Results and dividends

The results for the year are set out on page 5. The directors do not recommend payment of a dividend in respect of the year ended 31 March 2007 (2006 Nil).

Financial risk management

The company's operations exposed it to a variety of financial risks that include the effects of changes in credit risk and interest rates. The company has procedures to check the financial position of potential customers, and manages a range of fixed and variable rate funding to ensure that it has sufficient funds for its operations.

Given the size of the company, the directors had not delegated the responsibility of monitoring the financial risk management to a sub-committee of the board. The policies set by the board of directors were implemented by the company's finance department.

Directors and their interests

The directors who served during the year and their interests in the company's share capital are as stated below

	31 March 2007		31 March 2006	
	Ordinary Shares	'A' Ordinary Shares	Ordinary Shares	'A' Ordinary Shares
JM Case	23,433	-	15,833	-
RA Coles	23,433	-	15,833	-
W S Harris	10,837	2,092	7,322	2,092
SR Jones	6,543	-	1,463	-
AB Morgan	3,479	503	1,759	503

CJ Griffiths who was a director at 1 April 2006, resigned as a director on 12 March 2007

Research and development

The company continues to incur significant investment in research and development into new products

Birchfield Interactive Plc

Directors' report for the year ended 31 March 2007 (continued)

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 these, directors are required to

- Select suitable accounting policies and 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 do so

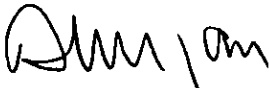
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Provision of information to auditors

As far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware.

Each director has taken appropriate steps to ensure that they are aware of such relevant information, and that the company's auditors are aware of that information.

By order of the Board



Company Secretary

Independent auditors' report to the members of Birchfield Interactive Plc

We have audited the financial statements of Birchfield Interactive Plc for the year ended 31 March 2007, which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may save where expressly agreed by our prior consent in writing.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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.

Opinion

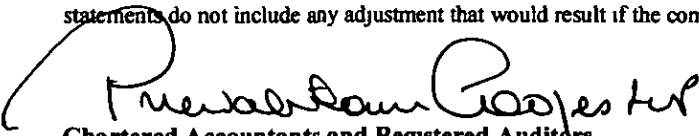
In our opinion

- The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its loss and cash flows for the year then ended,
- The financial statements have been properly prepared in accordance with the Companies Act 1985, and
- The information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the company's ability to continue on a going concern. The company incurred a pre tax loss of £245,736 for the year ended 31 March 2007 and at that date had net liabilities of £56,753.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustment that would result if the company was unable to continue as a going concern.


Chartered Accountants and Registered Auditors

Cardiff, 27 September 2007

Birchfield Interactive Plc

Profit and loss account for the year ended 31 March 2007

	Note	Continuing Operations 12 months ended 31 March 2007	Continuing Operations 18 months ended 31 March 2006 (Restated)
		£	£
Turnover	2	1,602,799	2,584,891
Administrative expenses		(1,829,055)	(3,108,519)
Operating loss	3	(226,256)	(523,628)
Interest payable and similar charges	4	(19,480)	(24,907)
Loss on ordinary activities before taxation		(245,736)	(548,835)
Tax on loss on ordinary activities	7	100,000	102,516
Loss on ordinary activities after taxation and loss for the period		(145,736)	(446,019)

Statement of total recognised gains and losses

	Continuing Operations 12 months ended 31 March 2007 (Restated)
	£
Loss for the period	(145,736)
Prior year adjustment	(442,036)
Total losses recognised since last annual report	(587,772)

There is no difference between the loss on ordinary activities before taxation and the retained loss for the years stated above and their historical cost equivalents

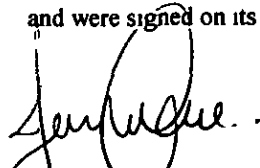
Birchfield Interactive Plc

Balance sheet as at 31 March 2007

	Note	2007 £	2007 £	Restated 2006 £	2006 £
Fixed assets					
Tangible assets	8		19,445		56,532
Current assets					
Debtors	9	198,595		260,802	
Cash at bank and in hand		84,407		-	
		283,002		260,802	
Creditors: amounts falling due within one year	10	(240,273)		(331,841)	
Net current assets/(liabilities)			42,729		(71,039)
Total assets less current liabilities			62,174		(14,507)
Creditors: amounts falling due after one year	11		(118,927)		(213,134)
Provisions for liabilities and charges	13		-		-
Total assets less liabilities			(56,753)		(227,641)
Capital and reserves					
Called up share capital	14		99,030		56,813
Share premium account	15		1,017,760		743,353
Profit and loss account	15		(1,173,543)		(1,027,807)
Equity Shareholders' funds	16		(56,753)		(227,641)

The financial statements on pages 5 to 17 were approved by the board of directors on and were signed on its behalf by:

25th September 2007


JM CASE
Director


AB MORGAN
Director

Birchfield Interactive Plc

Cash flow statement for the year ended 31 March 2007

	Note	12 months ended 31 March 2007 £	18 months ended 31 March 2006 (Restated) £
Reconciliation of operating loss to net cash inflow from operating activities			
Operating loss		(226,256)	(523,628)
Depreciation of tangible assets		53,801	79,035
Decrease in debtors		63,154	151,385
Decrease in creditors		(103,776)	(95,321)
Net cash outflow from operating activities		(213,077)	(388,529)
Cash flow statement			
Net cash outflow from operating activities		(213,077)	(388,529)
Returns on investments and servicing of finance	20	(19,480)	(24,907)
Taxation	20	99,053	48,287
Capital expenditure and financial investment	20	(16,714)	(46,474)
		(150,218)	(411,623)
Financing	20	(77,551)	(113,581)
Share capital issue		316,624	-
Increase/(decrease) in cash in the year		88,855	(525,204)

Birchfield Interactive Plc

Accounting Policies

Accounting convention

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Changes in accounting policies

The directors have reviewed the former accounting policy of capitalising product development costs in the context of industry practice, and are of the view that it is appropriate that these costs are written off as incurred. The comparative figures have been restated accordingly.

The change in policy has resulted in a prior year adjustment (see note 16). This decreased reserves at 1 October 2004 by £423,122. There was an increase in the losses before tax of £118,267 in the period ended 31 March 2006. In addition, opening reserves at 1 April 2006 have been decreased by £423,122 and there was a decrease in the loss before tax of £46,298 for the year ended 31 March 2007.

Turnover

Turnover represents the total invoice value, excluding value added tax, of sales made during the year.

Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Office equipment	33% per annum straight line
Fixtures and fittings	33% per annum straight line

Operating lease rentals

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

Stocks

Stock is valued at the lower of cost and net realisable value.

Product and development costs

Product development costs are written off as incurred.

Deferred taxation

Full provision is made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment or receipt is more likely than not to occur. The company has chosen not to discount deferred tax assets and liabilities.

Birchfield Interactive Plc

Notes to the financial statements For the year ended 31 March 2007

1 Basis of accounting

The company has incurred pre tax losses of £245,736 during the year ended 31 March 2007 and at that date had net liabilities of £56,753

The directors have taken action to reduce the cost base of the company in light of the losses referred to above. The company has prepared financial projections and the directors are satisfied that provided the company performs in line with the assumptions used to prepare these projections, including working capital assumptions, that the company will have adequate funds available for a period of twelve months from the date of the approval of the financial statements.

The directors recognise that in the event that these assumptions are inappropriate they would need to take action to introduce additional funds into the company and believe that they would be successful in raising such additional finance. On this basis the directors consider it appropriate to prepare these financial statements on a going concern basis. In the event that the company does not perform in line with expectations and that additional funds could not be made available, the going concern basis would not be appropriate and the assets of the company would need to be restated to their realisable value and provision made for additional liabilities that would arise in those circumstances.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom. Turnover is recognised on the acceptance by customers of software.

3 Operating loss

	12 months ended 31 March 2007 £	18 months ended 31 March 2006 (Restated) £
Operating loss is stated after charging:		
Depreciation of tangible fixed assets	53,801	79,035
Operating lease rentals	62,170	105,868
Auditors' remuneration – Audit fee	7,500	7,000
Auditors' remuneration – Non audit work	1,450	1,050
Research and development expenditure	262,160	570,720

4 Interest payable and similar charges

	12 months ended 31 March 2007 £	18 months ended 31 March 2006 £
On bank loans and overdrafts	19,480	24,907

Birchfield Interactive Plc

Notes to the financial statements for the year ended 31 March 2007 (continued)

5 Employees

	12 months ended 31 March 2007 £	18 months ended 31 March 2006 Number
Number of employees		
The average numbers of employees (including the executive directors) during the year were		
Executive directors	2	2
Administrative software and marketing staff	28	33
	30	35

	12 months ended 31 March 2007 £	18 months ended 31 March 2006 £
Employment costs		
Wages and salaries	810,156	1,337,839
Social security costs	78,172	127,566
	888,328	1,465,405

6 Directors' emoluments

	12 months ended 31 March 2007 £	18 months ended 31 March 2006 £
Total		
Remuneration and other emoluments	149,401	258,857

Birchfield Interactive Plc

Notes to the financial statements for the year ended 31 March 2007 (continued)

7 Tax on loss on ordinary activities

	12 months ended 31 March 2007 £	18 months ended 31 March 2006 (Restated) £
Current tax:		
UK Corporation tax on loss of the year	(100,000)	(99,053)
Total corporation tax	(100,000)	(99,053)
Deferred tax:		
Origination and reversal of timing differences	-	(3,463)
Total deferred tax (note 13)	-	(3,463)
Taxation on loss on ordinary activities	(100,000)	(102,516)

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

	12 months ended 31 March 2007 £	18 months ended 31 March 2006 (Restated) £
Loss on ordinary activities before tax	(245,736)	(548,835)
UK Corporation tax at 19%	(46,690)	(104,279)
Effects of		
- Capital allowances in excess of depreciation	5,457	8,308
- Expenses not deductible for tax purposes	(142,304)	(75,997)
- Losses not recognised	64,849	72,915
- Tax at marginal rates	18,688	-
Current tax credit for the year	(100,000)	(99,053)

Birchfield Interactive Plc

Notes to the financial statements for the year ended 31 March 2007 (continued)

8 Tangible fixed assets

	Office Equipment £	Fixtures & Fittings £	Total £
Cost			
At 1 April 2006	155,566	10,732	166,298
Additions	16,714	-	16,714
At 31 March 2007	172,280	10,732	183,012
Depreciation			
At 1 April 2006	99,034	10,732	109,766
Charge for the year	53,801	-	53,801
At 31 March 2007	152,835	10,732	163,567
Net book values			
At 31 March 2007	19,445	-	19,445
At 31 March 2006	56,532	-	56,532

9 Debtors

	2007 £	2006 £
Trade debtors	92,990	141,887
Prepayments and accrued income	5,605	19,862
Corporation tax recoverable	100,000	99,053
	198,595	260,802

10 Creditors: amounts falling due within one year

	2007 £	2006 £
Bank overdraft (see note 18)	-	4,448
Bank loan (see note 18)	68,460	68,460
Trade creditors	44,273	146,543
Other taxes and social security costs	60,827	56,585
Accruals and deferred income	66,713	55,805
	240,273	331,841

Birchfield Interactive Plc

Notes to the financial statements for the year ended 31 March 2007 (continued)

11 Creditors: amounts falling due after one year

	2007 £	2006 £
Accruals and deferred income	1,404	18,060
Bank loan (see note 18)	117,523	195,074
	118,927	213,134

12 Maturity of Debt

	2007 £	2006 £
Bank loan		
In one year or less, or on demand	68,460	68,460
In more than one year but not more than two years	68,460	68,460
In more than two years but not more than five years	49,063	126,614
	185,983	263,534

13 Provisions for liabilities and charges

Deferred taxation

Deferred taxation provided in the financial statements is as follows

	2007 £	2006 £
Tax effect of timing differences:		
Excess of tax allowances over depreciation	(5,000)	1,000
Other	70,000	-
Losses	(65,000)	(1,000)
	-	-

A deferred taxation asset of £110,000 (2006 £113,000) has not been accounted for on the basis of the uncertainty as to its recovery

Birchfield Interactive Plc

Notes to the financial statements for the year ended 31 March 2007 (continued)

14 Share capital

	2007 £	2006 £
Authorised equity		
143,717 (2006 100,000 ordinary shares of £1 each)	143,717	100,000
6,283 'A' ordinary shares of £1 each	6,283	6,283
	150,000	106,283
Allotted and called up equity		
80,272 (2006 38,055) ordinary shares of £1 each, fully paid	80,272	38,055
6,283 'A' ordinary shares of £1 each, fully paid (2006 6,283)	6,283	6,283
Allotted and partly called up equity		
49,901 (2006 49,901) ordinary shares of £1 each, called up 25p per share	12,475	12,475
	99,030	56,813

During the year, 42,217 ordinary shares of £1 each were issued at a premium of £6 50 per share in order to strengthen the company's capital base

The "A" ordinary shares are pari passu with the ordinary shares other than on a disposal of the company's entire share capital.

15 Reserves

	Share premium account £	Profit and loss account £
At 1 April 2006 as originally stated	743,353	(585,771)
Prior year adjustment	-	(442,036)
At 1 April 2006 as restated	743,353	(1,027,807)
On issue of shares in the year	274,407	-
Loss for the year	-	(145,736)
At 31 March 2007	1,017,760	(1,173,543)

Birchfield Interactive Plc

Notes to the financial statements for the year ended 31 March 2007 (continued)

16 Reconciliation of movements in shareholders' funds

	2007	2006
	£	(Restated) £
Opening shareholders' funds as originally stated	214,395	641,500
Prior year adjustment	(442,036)	(423,122)
Opening shareholders' funds as restated	(227,641)	218,378
Loss for the year	(145,736)	(446,019)
Share capital issued	316,624	-
Closing shareholders' funds	(56,753)	(227,641)

17 Financial commitments

At 31 March 2007 the company had annual commitments under non-cancellable operating leases as follows

	Plant and machinery	
	2007	2006
	£	£
Expiry date		
Between one and five years	6,192	-

18 Security given

The company has given a First Legal Mortgage Debenture to its bankers over the Company's assets incorporating a fixed charge over book debts in respect of bank overdrafts and loans totalling £185,983 (£267,982 at 31 March 2006)

19 Controlling interest

The company is controlled by the directors of the company who own 51.53% of the share capital

Birchfield Interactive Plc

Notes to the financial statements for the year ended 31 March 2007 (continued)

22 Analysis of changes in net debt

	Opening Balance £	Cash flows £	Closing Balance £
Cash at bank	(4,448)	88,855	84,407
Bank loan	(263,534)	77,551	(185,983)
Net debt	(267,982)	166,406	(101,576)

23 Related party transactions

Included in administrative expenses are costs of £35,004 (2006 £47,502), which have been paid to Hafren Ventures, a partnership operated by, inter alia, AB Morgan, director of the company

Included in administrative expenses are costs of £30,000 (2006 £5,000) which have been paid to Avonglen Limited, a company in which WS Harris, a director of the company, listed a directorship

The company's bank borrowing is partially secured by the personal guarantees of CJ Griffiths, JM Case and RA Coles, in the sum of £75,000