

INCLUSIVE TECHNOLOGY LIMITED

REPORT AND ACCOUNTS

30 JUNE 2003

Company No. 3525459

INCLUSIVE TECHNOLOGY LIMITED

COMPANY INFORMATION

Directors	M Littler P M C Hornsey R L H Bates H L Carr
Secretary	H L Carr
Company number	3525459
Registered office	Gatehead Business Park Delph Oldham Lancashire OL3 5BX
Auditors	Wheawill & Sudworth 35 Westgate Huddersfield HD1 1PA
Solicitors	Baxter Caulfield 13 Station Street Huddersfield HD1 1LY
Bankers	Barclays Bank plc 10 Market Street Bradford BD1 1XW
US Advisors	Accountants Carr, Daley, Sullivan & Weir, PC Certified Public Accountants & Consultants 2 Shunpike Road Madison NJ 07940

INCLUSIVE TECHNOLOGY LIMITED

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INCLUSIVE TECHNOLOGY LIMITED

CHAIRMAN'S REPORT

FOR THE YEAR ENDED 30TH JUNE 2003

Gordon Brown sailed up to us and shook hands. He is a big man and was being towed around the packed bar by a very small woman with a large clipboard.

"We are Inclusive Technology we produce software for people with disabilities and..."

"Assistive Technology" he broke in. "I know ... I know what you do". The clipboard lady tugged hard, she was at nearly forty-five degrees.

"Keep up the good work - I like what you do" he said and smiled. Another tug and the great man was gone.

There were a hundred people in the room. The Chancellor would have been briefed and, they say, has an astonishing memory for detail. Even so we were taken aback... compared to the others in the bar we are very small beer.

Small, but growing fast. This year Inclusive Technology grew by 46% bringing our sales up to £5.3 million in the UK. Our American company Inclusive TLC, Inc. completed its first full year of trading with sales of \$2 million. Our training and exhibitions company, Inclusive Consultancy and Training Ltd added another another £1.2 million bringing annual group revenues to \$12.8 million.

For the second successive year we have been in both the semi-finals and finals of Ernst and Young's Entrepreneur of the Year Awards and Deloitte's 2002 and 2003 Fast Fifty technology companies in the North of England. Out of the hundreds of technology companies who entered we were number 28, six places up on last year.

In Britain Trish Hornsey, our Managing Director, won £1.4 million in contracts to supply equipment to make UK Online accessible to disabled people. Our operations staff worked out new logistics for this regional roll out while our information team flew around the country training the recipients. We are a major supplier to the Communication Aids Project delivering the right assistive technology directly into the hands of individual learners - exactly where it is needed. This is an excellent government initiative well led and administered by Becta.

In America, our company president, Janet De Senzo, has stabilised the new company in a difficult post-acquisition period and is building the standards of sales and service that bring repeat business and rapid growth.

The third founder of Inclusive, Roger Bates, has thought up and specified successful new AAC devices which we then produce in partnership with specialist manufacturing and assistive technology companies. New major products are on the way.

Our feet are now planted firmly in the two major markets for assistive technology: the United Kingdom and the United States. Our expanded software development team is producing exciting additions to our SwitchIt! Range which launch simultaneously into both UK and US markets. Meanwhile our extended market reach attracts distributorships for leading American assistive technology companies. We are now the exclusive distributor for both IntelliTools and AMDi with, we hope, two more top distributorships in the offing.

In just five years since our MBO we have become the leading UK assistive technology supplier by a substantial margin. Within five years we intend to achieve this in the United States too. Already our attention is turning toward the Euro market. Next year the European Union's GDP will reach \$10.5 trillion passing the economy of the United States. Our planned Euro initiative should find the right person or company in each European country to promote the new technology that can help disabled people in learning and living life to the full.

Martin Littler

Chairman and CEO, Inclusive Group

2nd October 2003

INCLUSIVE TECHNOLOGY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30TH JUNE 2003

The directors present their report and the audited accounts for the company for the year ended 30 June 2003.

Principal activities

The company's principal activity was that of providers of educational software and hardware for people with special needs.

The main UK subsidiary undertaking's principal activity was that of providers of training for teachers of pupils with severe and complex special educational needs. The USA subsidiary had the same principal activity as that of the parent company.

Directors and their interests

The directors who held office during the year and their beneficial interests in the company's issued share capital are given below:

	Ordinary shares	
	At 30th June 2003	At 1st July 2002
M Littler	299	299
P M C Hornsey	299	299
R L H Bates	196	196
H L Carr	-	-

Charitable contributions

During the year the company made the following charitable contributions:

Sundry charitable contributions	£ 1,277
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Statement of directors' responsibilities

Company law requires the directors to prepare accounts 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 for that year. In preparing those accounts the directors are required to:

Select suitable accounting policies and then 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 accounts;

Prepare the accounts 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 enable them to ensure that the accounts 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.

INCLUSIVE TECHNOLOGY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30TH JUNE 2003

Auditors

A resolution confirming the appointment of Wheawill & Sudworth 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 relating to small companies within Part VII of the Companies Act 1985.

This report was approved by the board on 2nd October 2003 and signed on its behalf by:

M Littler
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INCLUSIVE TECHNOLOGY LIMITED

We have audited the accounts of Inclusive Technology Limited for the year ended 30th June 2003 on pages 5 to 15. These accounts have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002), under the historical cost convention and the accounting policies set out on pages 7 and 9.

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 accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you 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 other information contained in the Annual 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 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.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30th June 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Wheawill & Sudworth
Chartered Accountants and Registered Auditors
35 Westgate
Huddersfield
HD1 1PA
2nd October 2003

INCLUSIVE TECHNOLOGY LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30TH JUNE 2003

	Notes	2003 £	<i>11 months ended 30th June 2002 £</i>
Turnover	2	5,298,232	3,316,371
Cost of sales		(3,616,256)	(2,232,086)
Gross profit		1,681,976	1,084,285
Administrative expenses		(1,221,983)	(921,186)
Operating profit	3	459,993	163,099
Income from investments		545,000	133,821
Profit on ordinary activities before interest		1,004,993	296,920
Interest receivable	4	28,250	7,910
Interest payable	5	(3,638)	(4,812)
Profit on ordinary activities before taxation		1,029,605	300,018
Tax on profit on ordinary activities	6	(146,407)	(45,656)
Profit for the financial year	15	883,198	254,362

The notes on pages 7 to 15 form part of these accounts.

INCLUSIVE TECHNOLOGY LIMITED

BALANCE SHEET

AS AT 30TH JUNE 2003

	Notes	2003	2002
		£	£
Fixed assets			
Tangible assets	7	148,821	140,745
Investments	8/9	38,161	38,061
		<u>186,982</u>	<u>178,806</u>
Current assets			
Stocks		326,014	202,323
Debtors	10	1,398,820	580,527
Cash at bank and in hand		31,003	31,999
		<u>1,755,837</u>	<u>814,849</u>
Creditors: amounts falling due within one year	11	<u>(615,666)</u>	<u>(465,733)</u>
Net current assets		<u>1,140,171</u>	<u>349,116</u>
Total assets less current liabilities		<u>1,327,153</u>	<u>527,922</u>
Creditors: amounts falling due after more than one year	12	(11,048)	(14,415)
Provisions for liabilities and charges			
Deferred taxation	14	(6,900)	(6,500)
Net assets		<u>1,309,205</u>	<u>507,007</u>
Capital and reserves			
Share capital	16	794	900
Share premium account	15	24,404	24,404
Capital redemption reserve	15	206	100
Profit and loss account	15	1,283,801	481,603
Shareholders' funds		<u>1,309,205</u>	<u>507,007</u>

These accounts have been prepared in accordance with the special provisions relating to small companies within Part VII of the Companies Act 1985 and the Financial Reporting Standard for Smaller Entities (effective June 2002)

These accounts were approved by the board on 2nd October 2003 and signed on its behalf by:

M Littler
Director

P M C Hornsey
Director

The notes on pages 7 to 15 form part of these accounts.

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

1 Accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

The company has taken advantage of the exemptions in Financial Reporting Standard No. 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

Consolidation

The accounts contain information about Inclusive Technology Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 248 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as the group it heads qualifies as a medium group.

Turnover

Turnover comprises the value of sales and royalties receivable excluding value added tax and trade discounts.

Investment income

Investment income comprises dividends and interest and is accounted for on a receivable basis.

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets over their expected useful lives. The rates and periods generally applicable are:

Computer and office equipment	Three to five years straight line
Motor vehicles	25% reducing balance
Furniture and fixtures	Five years straight line

In the year of acquisition tangible fixed assets are depreciated from the date of acquisition.

Stocks

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

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes.

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

Contribution to pension funds

The company operates defined contribution pension schemes. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Hire purchase and leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet at their fair value and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

2 Turnover

The percentage of turnover attributable to overseas markets was 8% (2002: 11%).

3 Operating profit

<i>The operating profit is stated after charging:</i>	2003	2002
	£	£
Depreciation of tangible fixed assets:		
-owned assets	50,297	33,105
-assets held under finance leases and hire purchase contracts	13,283	14,022
Loss on disposal of fixed assets	3,240	2,815
Directors' remuneration (see below)	293,890	448,348
Auditors' remuneration	5,500	5,500

Retirement benefits are accruing to 3 directors (2002 3) under defined contribution pension schemes.

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

4	Interest receivable	2003	2002
		£	£
	Bank deposits	74	-
	Overpaid tax	-	10
	Group loan	28,176	7,900
		<u>28,250</u>	<u>7,910</u>
5	Interest payable and similar charges	2003	2002
		£	£
	Interest payable on bank loans and overdrafts	7	603
	Finance leases and hire purchase contracts	3,471	4,125
	Interest payable on other loans	160	84
		<u>3,638</u>	<u>4,812</u>
6	Taxation	2003	2002
		£	£
	Current tax		
	Uk corporation tax	146,700	46,000
	Adjustments in respect of a prior period	(693)	(344)
	Total current tax charge	<u>146,007</u>	<u>45,656</u>
	Deferred tax		
	Timing differences, origination and reversal	400	-
	Total deferred tax	<u>400</u>	<u>-</u>
	Tax on profit on ordinary activities	<u>146,407</u>	<u>45,656</u>

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

7 Tangible fixed assets

	Computer and office equipment	Motor vehicles	Furniture and fixtures	Total
Cost	£	£	£	£
At 1st July 2002	107,778	84,512	65,031	257,321
Additions	33,455	40,659	7,682	81,796
Disposals	(11,004)	(15,000)	-	(26,004)
At 30th June 2003	130,229	110,171	72,713	313,113
Depreciation				
At 1st July 2002	70,609	22,133	23,834	116,576
Charge for the year	29,278	20,648	13,654	63,580
Disposals	(8,087)	(7,777)	-	(15,864)
At 30th June 2003	91,800	35,004	37,488	164,292
Net book value				
At 30th June 2003	38,429	75,167	35,225	148,821
<i>At 30th June 2002</i>	<i>37,169</i>	<i>62,379</i>	<i>41,197</i>	<i>140,745</i>

Assets held under finance leases and hire purchase originally cost £79,587 (2002: £68,717) and have a net book value of £51,291 (2002: £47,191). Depreciation charged for the year was £13,283 (2002: £14,022).

8 Fixed asset investments

	Shares in group undertakings
Cost	£
At 1st July 2002	38,061
Additions	100
At 30th June 2003	38,161
Net book value	
At 30th June 2003	38,161
<i>At 30th June 2002</i>	<i>38,061</i>

Of this balance £35,061 represents the investment in Inclusive TLC Inc a company incorporated in America. The directors have considered the likely future trading and profit profile of this company. In their opinion any diminution in value of this investment will be of a temporary nature such that no provision is required in these accounts.

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

9 Shares in group undertakings

Name of company and registered office	Country of incorporation	Details of investment	Proportion held by company	Nature of business
Inclusive Consultancy and Training Limited Gatehead Business Park Delph Oldham OL3 5BX	England	1,000 Ordinary £1 shares	100%	Providers of training and consultancy
Inclusive Investments Limited Gatehead Business Park Delph Oldham OL3 5BX	England	1,000 Ordinary £1 shares	100%	Dormant
Inclusive Group Limited Gatehead Business Park Delph Oldham OL3 5BX	England	1,000 Ordinary £1 shares	100%	Dormant
Inclusive TLC Inc. 315 Wootton Street Boonton USA NJ 07005	USA	\$50,000	100%	Providers of educational software and hardware
Inclusive Limited Gatehead Business Park Delph Oldham OL3 5BX	England	100 Ordinary £1 shares	100%	Dormant

The capital and reserves and profit or loss for the subsidiaries as at their financial period ending with the financial year of the holding company were as follows :

	Profit/(loss) for the year £	Capital and reserves £
Inclusive Consultancy and Training Limited	365,639	575,419
Inclusive Investments Limited	-	1,000
Inclusive Group Limited	-	1,000
Inclusive TLC Inc.	(235,513)	(415,067)
Inclusive Limited	-	100

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

10 Debtors	2003	2002
	£	£
Trade debtors	397,222	327,442
Amounts owed by subsidiary undertakings (Note 21)	984,849	226,610
Other debtors	4,882	2,447
Prepayments and accrued income	11,867	24,028
	1,398,820	580,527

Debtors include an amount of £211,726 (2002: £170,000) falling due after more than one year.

11 Creditors: amounts falling due within one year	2003	2002
	£	£
Bank loans and overdrafts	35,149	-
Obligations under hire purchase contracts and finance leases	19,298	20,362
Trade creditors	248,530	192,495
Amounts owed to subsidiary undertakings (Note 21)	2,100	2,000
Corporation tax	146,700	46,000
Other taxes and social security	24,130	85,469
Accruals and deferred income	128,074	62,476
Directors' loans (Note 21)	11,685	56,931
	615,666	465,733

12 Creditors: amounts falling due after more than one year	2003	2002
	£	£
Obligations under hire purchase contracts and finance leases	11,048	14,415

13 Secured indebtedness	2003	2002
	£	£
Aggregate amount of secured liabilities	65,495	34,777

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

14 Deferred taxation

The movements in deferred taxation during the current and previous years are as follows:

	2003	<i>2002</i>
	£	<i>£</i>
At 1st July 2002	6,500	<i>6,500</i>
Movement in the year	400	<i>-</i>
At 30th June 2003	<u>6,900</u>	<i><u>6,500</u></i>

Deferred taxation provided for in the accounts is set out below.

	Amount provided	
	2003	<i>2002</i>
	£	<i>£</i>
Accelerated capital allowances	<u>6,900</u>	<i><u>6,500</u></i>

15 Reserves

	Share premium account	Capital redemption reserve	Profit and loss account
	£	£	£
At 1st August 2001	24,404	100	227,241
Profit for the year	-	-	254,362
At 1st July 2002	24,404	100	481,603
Retained profit for the year	-	-	883,198
Transfers between reserves	-	106	(106)
Repurchase of shares	-	-	(80,894)
At 30th June 2003	<u>24,404</u>	<u>206</u>	<u>1,283,801</u>

16 Share capital

	2003	<i>2002</i>
	£	<i>£</i>
Authorised		
1,000 Ordinary shares of £1.00 each	<u>1,000</u>	<i><u>1,000</u></i>
Allotted		
794 Allotted, called up and fully paid ordinary shares of £1.00 each	<u>794</u>	<i><u>900</u></i>

On 14 October 2002 the company purchased 100 of its own ordinary shares for a cash consideration of £75,000. This transaction was undertaken to enable a shareholder to realise its investment in the company.

On 14 November 2002 the company purchased 6 of its own ordinary shares for a cash consideration of £6,000. This transaction was undertaken to enable a shareholder to realise her investment in the company.

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

17 Pension scheme

The company operates defined contribution pension schemes for the benefit of the employees and directors. The assets of the schemes are administered by trustees in funds independent from those of the company.

The total contributions paid in the year amounted to £8,372 (2002 £57,159).

18 Operating lease commitments

At 30th June 2003 the company had annual commitments under non-cancellable operating leases as set out below:

	2003	2002
	£	£
Operating leases which expire: Between two and five years	31,829	<i>30,753</i>

19 Contingent liabilities

The company and a subsidiary company have given cross-guarantees in relation to their bank borrowings. Such bank borrowings at 30 June 2003 amounted to £nil (2002 £nil).

The company is a member of the Inclusive Technology Limited VAT scheme under Section 43 of the Value Added Tax Act 1994 and in consequence may be held responsible for the liabilities of other members which at 30 June 2003 totalled £728 (2002 £28,292).

20 Post balance sheet event

On 20 August 2003 the company purchased 180 of its own ordinary shares for a cash consideration of £90,000. This transaction was undertaken to enable a shareholder to realise his principal investment in the company.

INCLUSIVE TECHNOLOGY LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 30TH JUNE 2003

21 Related party disclosures

During the period the company recharged costs to Inclusive Consultancy & Training Limited, a subsidiary company, at an amount of £126,731 (2002 £187,505).

The company has traded with this subsidiary on normal commercial terms, transactions during the period amounted to sales of £107,213 (2002 £108,092) and purchases of £nil (2002 £3,798).

Amounts owed by Inclusive Consultancy & Training Limited at 30 June 2003 amounted to £432,075 (2002 £800) as disclosed in note 10.

Amounts owed to Inclusive Investments Limited at 30 June 2003 amounted to £1,000 (2002 £1,000) as disclosed in note 11.

Amounts owed to Inclusive Group Limited at 30 June 2003 amounted to £1,000 (2002 £1,000) as disclosed in note 11.

Amounts owed to Inclusive Limited at 30 June 2003 amounted to £100 (2002 £nil) as disclosed in note 11.

Amounts owed by Inclusive TLC Inc., a subsidiary company, at 30 June 2003 amounted to £552,774 (2002 £225,810) as disclosed in note 10, £211,726 of this balance is not receivable within one year. During the year interest receivable on this balance amounted to £28,176 (2002 £7,900).

The company has traded with this subsidiary on normal commercial terms, transactions during the year amounted to sales of £180,633 (2002 £196,486).

During the year two of the directors, M Littler and P M C Hornsey, made interest free loans to the company. The aggregate amounts outstanding at the year end were £11,685 (2002 £56,931) and were unsecured and repayable on demand.

There is no one controlling party in relation to the company.