Company registration number 3525459

INCLUSIVE TECHNOLOGY LIMITED

FINANCIAL STATEMENTS

30 JUNE 2006

INCLUSIVE TECHNOLOGY LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006

CONTENTS | **PAGES**

INCLUSIVE TECHNOLOGY LIMITED

COMPANY INFORMATION

The board of directors	M Littler P M C Hornsey R L H Bates H L Carr (resigned - 31 December 2006) S Gill
Company secretary	M Littler
Registered office	Riverside Court Huddersfield Road Delph Oldham OL3 5BX
Auditor	Wheawill & Sudworth 35 Westgate Huddersfield HD1 1PA
Bankers	Barclays Bank plc 10 Market Street Bradford BD1 1NR
Solicitors	Baxter Caulfield 13 Station Street Huddersfield HD1 1LY

INCLUSIVE TECHNOLOGY LIMITED

CHAIRMAN'S STATEMENT

YEAR ENDED 30 JUNE 2006

Inclusive Technology became a brand in 1996 as the education division of Ocean Software - we have recently celebrated our tenth birthday with our customers locally and nationally.

The management buyout which formed Inclusive Technology Ltd took place in April 1998 and we had traded profitably since.

2005/06 was the exception. Sales dropped by 8% from £4.8 to £4.4 million and we scraped an operating profit of £28,000, but actually lost £47,000 after exceptional items.

We have turned this around in the last seven months: sales in the first quarter held steady; in the second quarter our sales grew by 16% while in January '07 we were 40% up on last year. We are now confident of finishing the year with well in excess of £5 million in sales.

After substantial reductions in overhead last June, every month in the first two quarters have been comfortably profitable and I expect to finish the year with net profit before tax well above the current education supply industry average of 4%.

There are now plenty of things running our way, but I believe that the major reason for this is a change in our marketing strategy - particularly in the use of catalogues.

The former strategy was mailing pretty much our whole database with the same catalogue twice a year. This had served us well taking our revenues from zero to £4 million. But after this level it becomes increasingly costly as the database expands.

What we now do is to take advantage of the huge amount of data we now have on our customer's responsibilities and interests, as expressed in their past purchases. We use this to produce much smaller runs of more specialised catalogues: Early Learning; Communication, Primary School and, most recently, an Assistive Technology Handbook aimed squarely at the special school market.

This approach brings a much better level of service to our customers who are reading a catalogue written for them and tailored to their needs - and this is reflected in sales. For instance our Communication catalogue was sent only to customers who bought communication products and then bundled with the Royal College of Speech Therapists journal. This approach succeeded in taking our communication product sales from 9% to 19% of our total revenues in just a couple of months.

Although producing six different catalogues in a year takes a great deal of time, the costs of much smaller print runs sent to lean lists of people have represented substantial cost savings too.

During our ten years our major market, special schools, has suffered attrition with 10% of special schools closing as the pendulum swung against separate special provision. In the last hundred years the percentage of special school pupils has swung between 1.2% (the current level) and around 2.2%. As with a pendulum, the drivers in both directions are the same, in this case there are three: cost comparisons; parental preference; and the educational philosophy in vogue. Our assessment of the current climate is that the costs of providing the level of individual special provision and support for some learners with severe and complex special needs is becoming oppressive in mainstream schools. Extra funding for these learners is either not provided as with BSF (Building Schools for the Future) or not ring-fenced and leaks away. This is one of the factors which now has parents fighting for special school places where they once campaigned for mainstream.

Educational philosophy led the integration with mainstream in the eighties and now slightly trails the other two drivers. However with Baroness Warnock now leading us back to more separate provision, and one political party calling for a moratorium on special school closure, we are clearly headed back toward the centre.

Whether in mainstream or special school we have worked for more attention to be paid to the needs of learners with severe and complex special needs. The tide has turned and, for the first time in ten years, is running in our direction.

This is a market we increasingly dominate and with lower costs and sharply focused marketing, the volume of service we offer should now grow year by year.

Martin Littler
Chairman

INCLUSIVE TECHNOLOGY LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2006

The directors present their report and the accounts of the company for the year ended 30 June 2006.

Principal activity

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

Directors
The directors who held office during the year and their beneficial interests in Inclusive Group Limited's, the parent company, issued share capital at the beginning of the year and at the end of the year are given below:

	2006	**2005**
	Ordinary 1p shares	**Ordinary £1 shares**
M Littler	30,800	308
P M C Hornsey	13,800	138
R L H Bates	1,200	12
H L Carr	-	-
S Gill	-	-

H L Carr and S Gill hold options over 849 and 606 Ordinary 1p shares respectively in the parent company in accordance with the terms of an Enterprise Management Incentive Scheme.

H L Carr resigned as a director on 31 December 2006.

Directors' responsibilities

The directors are responsible for preparing the report and accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period 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 apply them consistently;
- Make judgements and estimates that are prudent and reasonable;
- 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors 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.

In so far as the directors are aware:

there is no relevant audit information of which the company's auditors are unaware; and

the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 30 JUNE 2006

Donations

During the year the company made the following contributions:

	2006	2005
	£	£
Charitable	**5,889**	1,311
Political	**-**	5,000

Auditor

A resolution to re-appoint Wheawill & Sudworth as auditors will be put to the shareholders at the Annual General Meeting.

Small company provisions

This report has been prepared in accordance with the special provisions for small companies within Part VII of the Companies Act 1985.

This report was approved by the board on 22 February 2007 and signed on its behalf by:

M Littler
Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INCLUSIVE TECHNOLOGY LIMITED

We have audited the financial statements of Inclusive Technology Limited for the year ended 30 June 2006 on pages 7 to 15 which have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005) and on the basis of the accounting policies set out on pages 9 to 10.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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 (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 applicable to Smaller Entities, of the state of the company's affairs as at 30 June 2006 and of its loss 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 for the year ended 30 June 2006.

Wheawill & Sudworth
Chartered Accountants & Registered Auditors

35 Westgate
Huddersfield
HD1 1PA
22 February 2007

INCLUSIVE TECHNOLOGY LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 JUNE 2006

	Note	2006 £	2005 £
Turnover	2	**4,438,158**	*4,810,254*
Cost of sales		**(2,663,590)**	*(2,766,758)*
Gross profit		**1,774,568**	*2,043,496*
Administrative expenses		**(1,746,555)**	*(1,703,392)*
Operating profit	3	**28,013**	*340,104*
Cost of restructuring the company		**(19,026)**	–
Write off of inter company trade debt		**(48,455)**	–
		(39,468)	*340,104*
Interest receivable and similar income		**28**	*5,347*
Interest payable and similar charges		**(10,270)**	*(6,578)*
(Loss)/profit on ordinary activities before taxation		**(49,710)**	*338,873*
Tax on (loss)/profit on ordinary activities	5	**2,410**	*(117,646)*
(Loss)/retained profit for the financial year	19	**(47,300)**	*221,227*

The notes on pages 9 to 15 form part of these accounts.

INCLUSIVE TECHNOLOGY LIMITED

BALANCE SHEET

30 JUNE 2006

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	6	150,394	143,861
Investments	7	3,101	3,101
		153,495	146,962
Current assets			
Stocks		325,933	324,937
Debtors	8	1,166,602	1,138,870
Cash at bank and in hand		7,901	29,572
		1,500,436	1,493,379
Creditors: Amounts falling due within one year	9	(816,550)	(742,113)
Net current assets		683,886	751,266
Total assets less current liabilities		837,381	898,228
Creditors: Amounts falling due after more than one year	10	(15,865)	(31,012)
		821,516	867,216
Provisions for liabilities			
Deferred taxation	13	(4,500)	(2,900)
Net assets		817,016	864,316
Capital and reserves			
Share capital	17	614	614
Share premium account	18	24,404	24,404
Other reserves		386	386
Profit and loss account	19	791,612	838,912
Shareholders' funds		817,016	864,316

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective January 2005).

These financial statements were approved by the board on the 22 February 2007 and are signed on their behalf by:

M Littler
Director

S Gill
Director

The notes on pages 9 to 15 form part of these accounts.

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 January 2005).

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 samall company.

Consolidation
In the opinion of the directors, the company and its subsidiary undertakings comprise a small group. The company has therefore taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts.

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

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:

Fixtures and fittings	-	Five years straight line
Motor vehicles	-	25% reducing balance
Computer and office equipment	-	Three to five years straight line

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

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.

Contributions to pension funds
The company operates a defined contribution pension scheme. 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.

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.

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.

Investments
Investments are valued at the lower of cost and net realisable value.

2. Turnover

The percentage of turnover attributable to overseas markets was 8% (2005: 7%).

3. Operating profit

Operating profit is stated after charging:

	2006	2005
	£	*£*
Directors' emoluments (including pension contributions)	**343,262**	*309,055*
Depreciation of tangible fixed assets:		
- owned assets	**47,535**	*42,538*
- assets held under hire purchase agreements	**7,321**	*8,337*
Loss on disposal of fixed assets	**9,844**	*4,225*
Auditor's fees	**6,000**	*6,000*

4. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2006	2005
	£	*£*
Aggregate emoluments	**341,144**	*307,391*
Value of company pension contributions to money purchase schemes	**2,118**	*1,664*
	343,262	*309,055*

The number of directors who accrued benefits under company pension schemes was as follows:

	2006	2005
	No	*No*
Defined contribution schemes	**2**	*1*

5. Taxation

	2006	2005
	£	£
Current tax:		
UK Corporation tax based on the results for the year	**(4,000)**	*119,200*
(Over) provision in prior year	**(10)**	*(54)*
Total current tax	**(4,010)**	*119,146*
Deferred tax:		
Origination and reversal of timing differences	**1,600**	*(1,500)*
Tax on (loss)/profit on ordinary activities	**(2,410)**	*117,646*

6. Tangible fixed assets

	Fixtures & Fittings	**Motor Vehicles**	**Computer and office equipment**	**Total**
	£	**£**	**£**	**£**
Cost				
At 1 July 2005	**92,433**	**124,432**	**165,865**	**382,730**
Additions	**135**	**30,500**	**86,745**	**117,380**
Disposals	**–**	**(90,687)**	**–**	**(90,687)**
At 30 June 2006	**92,568**	**64,245**	**252,610**	**409,423**
Depreciation				
At 1 July 2005	**61,773**	**37,061**	**140,035**	**238,869**
Charge for the year	**12,472**	**23,969**	**18,415**	**54,856**
On disposals	**–**	**(34,696)**	**–**	**(34,696)**
At 30 June 2006	**74,245**	**26,334**	**158,450**	**259,029**
Net book value				
At 30 June 2006	**18,323**	**37,911**	**94,160**	**150,394**
At 30 June 2005	*30,660*	*87,371*	*25,830*	*143,861*

Included within the net book value of £150,394 is £33,738 (2005 - £101,555) relating to assets held under hire purchase agreements. The depreciation charged in the year in respect of such assets amounted to £7,321 (2005 - £8,337).

7. Investments

	Shares in group undertakings
	£
Cost	
At 1 July 2005 and 30 June 2006	**3,101**
Net book value	
At 30 June 2006	**3,101**
At 30 June 2005	*3,101*

7. Investments ***(continued)***

The company owns 100% of the issued share capital of the companies listed below,

	2006	2005
	£	£
Aggregate capital and reserves		
Inclusive Consultancy & Training Limited (dormant)	**1,000**	*1,000*
Inclusive Investments Limited (dormant)	**1,000**	*1,000*
Avidcase Limited (dormant)	**1,000**	*1,000*
Inclusive Distribution Limited (dormant)	**100**	*100*
Inclusive TLC Inc.	**(513,303)**	*(513,303)*
(Providers of educational software and hardware, ceased trading during the year)		
Profit and (loss) for the year		
Inclusive TLC Inc.	**–**	*(132,678)*

Incorporated in USA.
Registered office: 2206 Legacy Oak Drive, Waxhaw, USA, NC 28173.

Under the provision of section 248 of the Companies Act 1985 the company is exempt from preparing consolidated accounts and has not done so, therefore the accounts show information about the company as an individual entity.

8. Debtors

	2006	2005
	£	£
Trade debtors	**373,242**	*405,205*
Amounts due from group undertakings (note 16)	**710,000**	*710,000*
Director's loan account (note 16)	**14,232**	*1,965*
Corporation tax recoverable	**4,000**	–
Prepayments and accrued income	**65,128**	*21,700*
	1,166,602	*1,138,870*

Trade debtors include amounts totalling £363,023 (2005 £392,746) which have been negotiated or assigned in relation to advances and loans included in other loans.

9. Creditors: Amounts falling due within one year

	2006	2005
	£	£
Trade creditors	**302,440**	*214,454*
Amounts owed to subsidiary undertakings (note 16)	**3,100**	*3,100*
Invoice finance facility	**305,087**	*164,848*
Corporation tax	**–**	*119,200*
Other taxes and social security	**51,049**	*41,127*
Obligations under hire purchase contracts	**13,479**	*23,110*
Director's loan account (note 16)	**31,132**	*73,567*
Other creditors (note 16)	**–**	*7,165*
Accruals and deferred income	**110,263**	*95,542*
	816,550	*742,113*

10. Creditors: Amounts falling due after more than one year

	2006	2005
	£	£
Obligations under hire purchase contracts	15,865	*31,012*

11. Pensions

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

The total contributions paid in the year amounted to £13,447 (2005: £14,461).

12. Secured liabilities

	2006	2005
	£	£
Aggregate amount of secured liabilities	334,431	*218,970*

13. Deferred taxation

The movement in the deferred taxation provision during the year was:

	2006
	£
Provision brought forward	2,900
Profit and loss account movement arising during the year	1,600
Provision carried forward	4,500

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2006	2005
	£	£
Excess of taxation allowances over depreciation on fixed assets	4,500	*2,900*
	4,500	*2,900*

14. Commitments under operating leases

At 30 June 2006 the company had aggregate annual commitments under non-cancellable operating leases as set out below.

	2006	2005
	£	£
Operating leases which expire:		
Within one year	26,133	-
Within two to five years	18,704	*61,961*
	44,837	*61,961*

15. Contingencies

The company and a subsidiary company have given cross-guarantees in relation to their bank borrowings. Such bank borrowings at 30 June 2006 amounted to £nil (2005 £nil).

16. Related party transactions

Amounts owed by Inclusive Group Limited at 30 June 2006 amounted to £710,000 (2005 £710,000) as disclosed in note 8.

Amounts owed to Inclusive Group Limited at 30 June 2006 amounted to £1,000 (2005 £1,000) as disclosed in note 9.

Amounts owed to Inclusive Consultancy & Training Limited at 30 June 2006 amounted to £1,000 (2005 £1,000) as disclosed in note 9.

Amounts owed to Inclusive Investments Limited at 30 June 2006 amounted to £1,000 (2005 £1,000) as disclosed in note 9.

Amounts owed to Inclusive Distribution Limited at 30 June 2006 amounted to £100 (2005 £100) as disclosed in note 9.

Amounts owed to Inclusive TLC Inc. at 30 June 2006 amounted to £nil (2005 £7,165) as disclosed in note 9. The company has traded with this company on normal commercial terms, transactions during the year amounted to sales of £55,621 (2005 £108,706) and purchases of £nil (2005 £26,172). This company ceased trading during the year due to adverse market conditions and this has resulted in a trading debt write-off of £48,455 in these accounts.

During the year one of the directors, P M C Hornsey, made a loan to the company. The amount outstanding at the year end was £31,132 (2005 £71,602) and this loan was unsecured and repayable on demand. Interest has been charged on the loan at 2.25% above bank base rate.

During the year one of the directors, M Littler, has received a loan from the company. The amount outstanding at the year end was £14,206 (2005 £1,965). This debt was repaid in full to the company in October 2006. Also during the year, M Littler purchased a motor vehicle from the company at its market value of £30,500. He also assumed the remaining finance obligations and the net consideration receivable by the company was £4,340.

During the year a son of one of the directors, M Littler, made a loan to the company of £100,000 which was repaid during the year. Interest has been charged on the loan at 1.7% above bank base rate amounting to £1,546.

17. Share capital

Authorised

	2006	2005
	£	*£*
1,000 Ordinary shares of £1 each	**1,000**	*1,000*

Allotted, called up and fully paid:

	2006		2005	
	No	**£**	*No*	*£*
Ordinary shares of £1 each	**614**	**614**	*614*	*614*

18. Share premium account

There was no movement on the share premium account during the financial year.

19. Profit and loss account

	2006	2005
	£	£
Balance brought forward	**838,912**	*617,685*
(Accumulated loss)/retained profit for the financial year	**(47,300)**	*221,227*
Balance carried forward	**791,612**	*838,912*

20. Ultimate parent company

The company is a subsidiary of Inclusive Group Limited and is ultimately controlled by M Littler.