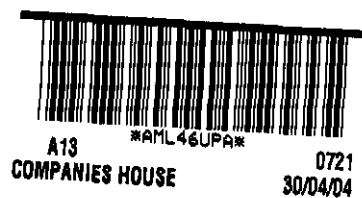


Citizen Connect Limited

**Directors' report and financial
statements**

Registered number 3464607

30 June 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2003.

Principal activities

The main business activity of the company is to encourage and facilitate economic inclusion and social regeneration through the application of technologies and the development of effective diagnostic tools to empower individuals to maximise their own potential and economic contribution to a learning society.

Business review

The main thrust of the marketing impetus of Citizen Connect was to develop the sales of Application Software, which was centred mainly in the field of e-learning, career management and continuous professional development. The main target markets for these products included governments and governmental organizations, as well as a range of various public and private sector businesses.

Citizen Connect will continue to extend the existing target client base by utilising the web-enabled applications software that the organization develops in alternative market and client sectors.

Dividends

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the period were as follows:

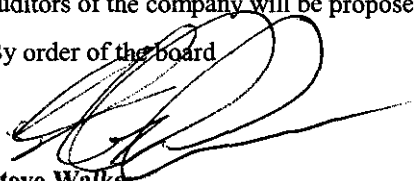
Steve Murgatroyd
Steve Walker
Bronwen Robinson
Barrie Hopson
Murray Wallace
Graeme Lynch

None of the directors had any interest in the ordinary shares of the company, according to the register of directors' interests either at the beginning or at the end of the period. The interests of the directors in group companies are shown in the financial statements of the ultimate parent undertaking.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company will be proposed at the forthcoming Annual General Meeting.

By order of the board


Steve Walker
Director

Unit 68
Annexe 4
Batley Business & Technology Centre
Batley
WF17 6ER

27 April 2004

Statement of directors' responsibilities

(in respect of the preparation of the financial statements)

Company law requires the directors to prepare financial statements 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 period. In preparing those financial statements, 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 financial statements; and
- prepare the financial statements 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. They have general responsibility for taking such steps as are reasonably open to them to *safeguard the assets of the company and to prevent and detect fraud and other irregularities.*



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Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Citizen Connect Limited

We have audited the financial statements on pages 4 to 13.

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

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with 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 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 of the state of the company's affairs as at 30 June 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'KPMG LLP'.

KPMG LLP
Chartered Accountants
Registered Auditors

28 April 2004

Profit and loss account
for the year ended 30 June 2003

	Note	2003 £	2002 £
Turnover	1	692,251	418,977
Cost of sales		(356,590)	(350,517)
Gross profit		335,661	68,460
Administrative expenses		(988,833)	(1,094,180)
Operating loss		(653,172)	(1,025,720)
Interest payable and similar charges	5	(36,308)	(78,189)
Loss on ordinary activities before taxation	2-4	(689,480)	(1,103,909)
Tax on loss on ordinary activities	6	-	-
Retained loss for the period	15	(689,480)	(1,103,909)

There are no other gains or losses in the periods other than the results shown above.

The result as measured on an unmodified historical basis is not materially different from that reported above.

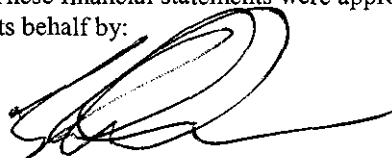
Reconciliation of movements in shareholders' funds
for the year ended 30 June 2003

	2003 £	2002 £
Retained loss for the period	(689,480)	(1,103,909)
Net reduction in shareholders' funds	(689,480)	(1,103,909)
Opening shareholders' deficit	(1,645,091)	(541,182)
Closing shareholders' deficit	(2,334,571)	(1,645,091)

Balance sheet
at 30 June 2003

	<i>Note</i>	2003	2002
		£	£
Fixed assets			
Intangible assets	7	-	-
Tangible assets	8	48,304	40,348
Investment	9	-	-
		<u>48,304</u>	<u>40,348</u>
Current assets			
Stocks	10	-	6,008
Debtors	11	84,633	251,867
Cash at bank and in hand		60,304	-
		<u>144,937</u>	<u>257,875</u>
Creditors: amounts falling due within one year	12	(2,527,812)	(1,943,314)
		<u>(2,527,812)</u>	<u>(1,943,314)</u>
Net current liabilities		(2,382,875)	(1,685,439)
Net liabilities		(2,334,571)	(1,645,091)
		<u>(2,334,571)</u>	<u>(1,645,091)</u>
Capital and reserves			
Called up share capital	14	7,500	7,500
Profit and loss account	15	(2,342,071)	(1,652,591)
		<u>(2,342,071)</u>	<u>(1,652,591)</u>
Shareholders' deficit - equity		(2,334,571)	(1,645,091)
		<u>(2,334,571)</u>	<u>(1,645,091)</u>

These financial statements were approved by the board of directors on its behalf by:



S Walker
Director

27 April

2004 and were signed on

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on the going concern basis which assumes that the company will continue to trade. The validity of this assumption is dependent on the continued support of Axia Netmedia Corporation which is the company's major creditor and parent company. Axia Netmedia Corporation has agreed to provide financial support to Citizen Connect Limited to meet its financial obligations for at least the next 12 months.

These financial statements present information about the company as an individual undertaking and not about its group. Consolidated financial statements have not been prepared since the company is entitled to the exemption from the requirement to prepare group accounts under section 248 of the Companies Act 1985.

Cash flow statement

The company is exempt from the requirement of Financial Reporting No. 1 to prepare a cash flow statement as it is a wholly owned subsidiary.

Revenue recognition

Subscription Revenue is triggered when a subscription is taken up and is recognised over 12 months from the month the first subscription is taken up. If a subscription is not taken up within the allowable time frame (12 months) then all the revenue corresponding to those subscriptions will be recognised at the end of the allowable time frame.

Hosting Revenue is recognised in the period in which it is earned.

Development Revenue is recognised when the milestones outlined in the contract are completed.

Intangible fixed assets and amortisation

Concessions, patents, licences and trademarks purchased by the company are amortised to nil by equal annual instalments over their useful economic lives, generally their respective unexpired periods up to 3 years.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer Equipment	-	3 years
Furniture	-	5 years

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of work in progress, cost is taken at production costs incurred, less those transferred to the profit and loss account after deducting foreseeable losses and payments on account not matched with turnover.

Long Term Contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account matched with turnover.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred, without discounting, because of timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

The geographical split of turnover is as follows:

	2003 £	2002 £
United Kingdom	667,813	384,164
Italy	-	18,049
Canada	24,438	16,764
	692,251	418,977

Notes (continued)

2 Loss on ordinary activities before taxation

	2003 £	2002 £
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	11,800	6,190
Depreciation and other amounts written off tangible and intangible fixed assets:		
Owned	42,827	59,408
Foreign exchange gains	17,420	4,830
Operating lease rentals	48,339	8,633
	<u>118,386</u>	<u>137,051</u>

3 Remuneration of directors

	2003 £	2002 £
Directors' emoluments	135,683	143,493
	<u>135,683</u>	<u>143,493</u>

4 Staff numbers and costs

The average number of persons employed by the company during the year, analysed by category, was as follows:

	Number of employees	
	2003	2002
Sales and administration	11	9
	<u>11</u>	<u>9</u>

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	368,339	326,920
Social security costs	70,017	39,105
	<u>438,356</u>	<u>366,025</u>

Notes (continued)

5 Interest payable and similar charges

	2003 £	2002 £
On intercompany loan	32,055	74,559
Bank charges	4,253	3,630
	<u>36,308</u>	<u>78,189</u>

6 Taxation

	2003 £	2002 £
UK corporation tax at 30% (2000: 30%)		
- current year charge	-	-
- prior year adjustment	-	-
	<u>-</u>	<u>-</u>

Reconciliation of current year charge

The standard rate of corporation tax for the year is 30%. The current year tax charge is lower than 30% for the reasons set out in the following reconciliation:

	2003 £	2002 £
Loss on ordinary activities before taxation	(689,480)	(1,103,909)
Tax on loss on ordinary activities at standard rate	(206,844)	(395,144)
Factors affecting charge:		
Movement in unprovided deferred tax	205,500	379,616
Expenses not deductible for tax purposes	1,344	5,221
Non-qualifying depreciation	-	10,307
Current tax charge for year	<u>-</u>	<u>-</u>

Notes (continued)

7 Intangible assets

	Concessions, patents, licences, trade marks and similar rights and assets £
Cost	
At beginning and end of period	205,759
Amortisation	
At beginning and end of period	205,759
Net book value	
At 30 June 2003 and 30 June 2002	-

8 Tangible assets

	Computer equipment £
Cost	
At beginning of period	88,155
Additions	50,783
At end of period	138,938
Depreciation	
At beginning of period	47,807
Charge for period	42,827
At end of period	90,634
Net book value	
At 30 June 2003	48,304
At 30 June 2002	40,348

Notes (continued)

9 Investment

Citizen Connect Limited has a £100 investment in Lifeskills Learning Ltd representing 100% of the share capital. The company is dormant and is registered in the UK. The investment has been written down to £nil.

10 Stocks

	2003 £	2002 £
Finished goods and goods for resale	-	6,008
	<u>-</u>	<u>6,008</u>
	<u>-</u>	<u>6,008</u>

11 Debtors

	2003 £	2002 £
Trade debtors	29,511	207,232
Corporation tax	-	19,870
Other debtors and prepayments	55,122	24,765
	<u>84,633</u>	<u>251,867</u>
	<u>84,633</u>	<u>251,867</u>

12 Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	67,270	115,824
Amounts owed to group companies	2,295,448	1,528,013
Other taxation and social security	-	26,241
Accruals and deferred income	165,094	266,626
Bank overdraft	-	6,610
	<u>2,527,812</u>	<u>1,943,314</u>
	<u>2,527,812</u>	<u>1,943,314</u>

Notes (continued)

13 Provision for liabilities and charges

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2003		2002	
	Provided £	Unprovided £	Provided £	Unprovided £
Difference between accumulated depreciation and amortisation and capital allowances	-	28,000	-	(15,000)
Other timing differences	-	677,000	-	(544,000)
	<u>-</u>	<u>705,000</u>	<u>-</u>	<u>(559,000)</u>

The company has a deferred tax asset of approximately £705,000, which it has chosen not to recognise.

14 Called up share capital

	2003 £	2002 £
Authorised		
Equity: Class A £1 ordinary shares	7,500	7,500
Equity: Class B £1 ordinary shares	2,500	2,500
	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each – Class A	7,500	7,500
	<u>7,500</u>	<u>7,500</u>
Allotted, called up and unpaid		
Equity: Ordinary shares of £1 each – Class B	-	-
	<u>-</u>	<u>-</u>

15 Reserves

	Profit and loss account £
At beginning of period	(1,652,591)
Retained loss for the period	(689,480)
	<u>(2,342,071)</u>
At end of period	<u>(2,342,071)</u>

Notes (continued)

16 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	2003 £	2002 £
Operating leases which expire:		
Within one year	-	38,433
In the second to fifth year inclusive	29,835	54,675
	<u>29,835</u>	<u>93,108</u>

17 Related party transactions

During the period Citizen Connect Limited received charges of £45,677 (2002: £78,588) from Lifeskills International and charges of £638,119 (2002: £936,264) from Axia NetMedia Corporation for services rendered.

At the period end Citizen Connect Limited owed £37,750 (2002: £26,907) to Lifeskills International Limited and £1,524,127 (2002: £1,104,276) to Axia NetMedia Corporation.

All transactions were at arms length.

18 Ultimate parent company

The company is a 100% subsidiary undertaking of Axia Netmedia Corporation, incorporated in Canada. The largest group in which the results of the company are consolidated is that headed by Axia Netmedia Corporation. The consolidated accounts are available to the public and may be obtained from Axia Netmedia Corporation, Suite 3300, 450-1st Street S.W., Calgary, Alberta, T2P 5H1, Canada.