Protocol Education Limited

Registered Number: 2926583

Directors' Report and Accounts

Year ended 30 June 2006

The directors submit their report and the audited financial statements of the company for the year ended 30 June 2006.

Principal activity, review of business and developments

Protocol Education Limited ("the company") provides temporary and permanent teachers to schools. Temporary teachers can be provided on a short term or a longer term basis.

The results for the company show a profit before tax of £2,513,000 (2005 : £2,593,000) for the year and sales of £38,427,000 (2005 : £39,274,000).

The directors do not recommend the payment of a final dividend (2005: £nil).

Business environment

The company operates through a number of offices in London and in cities throughout the UK. The overall market is fragmented although smaller agencies continue to be acquired by their larger competitors.

There are a number of factors affecting the levels of growth achieved:

- Competition for the limited school funds available
- Market share gains can be achieved but margins can deteriorate as a result
- Shortage of the Teacher pool in several critical subject areas

Strategy

The company's objectives are set against the backdrop of this volatile and competitive market but compromise:

- Continuing to develop new offices to their full potential
- Strengthening of the supply chain through the maximisation of overseas recruitment
- Development of the client base through improving customer relationships
- Improvement in teacher retention.
- Continuing investment in the sales force generating productivity capabilities.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks affecting the company are set out below:

Competition

The company operates in a competitive but fragmented market with a large number of similar businesses, although there has been some consolidation in recent years.

Employees

The company's performance depends on its employees and management structure. The resignation of key individuals and the inability to recruit people of the right experience and skills could adversely impact the company's performance. To mitigate these issues the company have in place a number of initiatives designed to reward performance and retain individuals. There has been a reduction in the operational staff turnover in the current year.

Supply chain

The supply chain is key in ensuring a pool of teachers are available and the company utilises UK and international networks to ensure that recruitment is maximised.

Key Performance Indicators ("KPI's")

The following KPI's demonstrate the progress of the company:

- Long term teacher days
- Short term teacher days
- Permanent recruitment
- Gross profit per teacher day

Directors and their interests

The directors of the company who held office during the year and subsequently were:

M Davy	
G Stevens	
S Lawrence	
S North	(appointed 29 September 2005)
P Swain	(appointed 1 September 2006)

No director had any beneficial interest in the share capital of the company at 30 June 2006 or 30 June 2005.

The interests of S North in the shares of Protocol Associates NV, the company's ultimate parent company at 30 June 2006, are as follows:

	Number of 'B' Shares held	
	2006	***2005***
S North	10,230	10,230

S Lawrence and M Davy have no interest in the shares of Protocol Associates NV. The interests of G Stevens in the shares of Protocol Associates NV, the company's ultimate parent company at 30 June 2006, are disclosed in the accounts of Protocol Associates NV.

Financial Risk Management

The company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk and interest rate risk. The director's monitor any risk considered to be significant to the company and establish appropriate risk management policies.

The only risk deemed to be significant that is monitored and controlled at a company level is credit risk. The company has implemented policies that require appropriate credit checks on potential customers before sales are made, and then ongoing controls to monitor customer debt against approved credit limits.

Liquidity risk and interest rate risk are managed at group level as the company is part of a group pooling arrangement and is funded through intercompany balances with entities that carry the group's external debt. The company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Creditors payment policy

The company agrees terms and conditions for its business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. At 30 June 2006 unpaid creditors of the company amounted to 34 days of purchases *(2005: 22 days).*

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of affairs of the company and of the profit or loss of the company for that year. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently, that reasonable and prudent judgements have been made in preparing the financial statements for the period ended 30 June 2006 and that applicable accounting standards have been followed. The business continues to review its ongoing banking arrangements as referred to in the basis of preparation in Note 1 of the accounts. The directors are of the opinion it is appropriate to prepare the financial statements on a going concern basis.

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 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.

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Relevant information is defined as "information needed by the company's auditors in connection with preparing their report".

Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the forthcoming Annual General Meeting.

By order of the Board

M Davy
Director
30 November 2006

We have audited the financial statements of Protocol Education Limited for the year ended 30 June 2006 which comprise the Profit and Loss Account, the Balance Sheet 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 come 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 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 judgments 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 30 June 2006 and of its profit 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands
30 November 2006

Profit and loss account for the year ended 30 June 2006

	Note	*2006* *£'000*	*2005* *£'000*
Turnover	2	38,427	39,274
Cost of sales		(27,032)	(27,620)
Gross profit		**11,395**	**11,654**
Administrative expenses		(9,629)	(9,913)
Exceptional items	5	(345)	(118)
Total administrative expenses		**(9,974)**	**(10,031)**
Operating profit	6	**1,421**	**1,623**
Interest receivable and similar income	7	1,112	984
Interest payable and similar charges	8	(20)	(14)
Profit on ordinary activities before taxation		**2,513**	**2,593**
Taxation	9	(759)	(945)
Profit for the financial year	16, 17	**1,754**	**1,648**

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

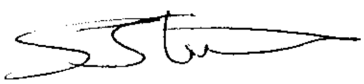
There are no recognised gains or losses other than the profit for the year shown above. All operations are continuing operations.

The notes on pages 8 to 15 form part of these financial statements.

Balance sheet as at 30 June 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Intangible assets	10	3,923	4,191
Tangible assets	11	321	304
		4,244	**4,495**
Current assets			
Debtors	12	5,161	5,657
Cash at bank and in hand		17,404	16,199
		22,565	**21,856**
Creditors: amounts falling due within one year	13	(12,049)	(13,334)
Net current assets		**10,516**	**8,522**
Total assets less current liabilities		**14,760**	**13,017**
Provisions for liabilities and charges	14	(101)	(112)
Net assets		**14,659**	**12,905**
Capital and reserves			
Called up share capital	15	-	-
Profit and loss account	16	14,659	12,905
Equity shareholders' funds	17	**14,659**	**12,905**

Approved by the Board
30 November 2006



G Stevens
Director

The notes on pages 8 to 15 form part of these financial statements.

1 Accounting policies

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

Accounting convention and cash flow statement

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards all of which have been applied consistently throughout the year and the preceding year. Where a choice of treatment is available the directors apply the most appropriate accounting policy and estimation technique in accordance with Financial Reporting Standard 18 (FRS 18).

The company is exempt from the requirement to prepare a cash flow statement under the terms of FRS 1 as it is a wholly owned subsidiary of Protocol Associates NV, a company registered in Belgium which prepares consolidated accounts which are publicly available.

Basis of preparation

As in the previous year the company continues to be in breach of certain banking covenants. The group's bankers have indicated to the directors that it is their intention to continue to support the group by continuing to provide current debt and working capital facilities until their current expiry date.

Furthermore, and acknowledging scheduled bank loan repayments arising from the last banking renegotiation are due for repayment by 31 December 2006 and 30 June 2007 (as detailed in note 9 of the financial statements of PNI Holdings Limited and note 8 of the financial statements of Protocol Associates Limited) neither the directors nor the bank envisage any reason why sufficient new facilities will not be made available from 1 January 2007, extending for a period of at least twelve months from that date.

In the previous year, the directors also assumed that a material liability would not arise from a review by HMRC of the VAT status of Education Lecturing Services (limited by guarantee), a fellow group company. This review has found in the company's favour and there is no longer a material risk for the Group. Further details are included in note 19 of these accounts.

The financial statements have therefore been prepared by the directors on a going concern basis which assumes the continued support of the group's bankers by way of existing loan and overdraft facilities. In the absence of this assumption, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and current liabilities.

Fixed assets and depreciation

Fixed assets are stated at cost less any provision for diminution in value. Depreciation has been provided at rates appropriate to write off the cost of the assets over the shorter of the length of the finance lease and their estimated useful lives as follows:

Short leasehold property	-	over the lease term
Furniture and IT equipment	-	20%-33% per annum

Leased assets

Assets held under finance leases are capitalised as fixed assets and the corresponding leasing commitment is included in obligations under finance leases. Interest is charged to the profit and loss account over the period of the lease. Rentals under operating leases are charged against income as incurred. The obligation to pay future rentals on operating leases is shown by way of a note to the financial statements.

1 *Accounting policies (cont'd)*

Computer software costs

Computer software costs are charged to the profit and loss account in the year of purchase.

Deferred taxation

Full provision is made for deferred taxation arising on all timing differences. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted

Goodwill

Acquired goodwill is capitalised, and is subsequently measured through an annual impairment review or an annual amortisation charge based on the individual circumstances of each business acquired. Annual amortisation is calculated to write off goodwill over the useful economic life of each business acquired.

2 *Turnover*

Turnover represents the sales value of services provided in the year, net of value added tax, and is invoiced in line with the delivery of service. All turnover is derived in the United Kingdom.

3 *Employees*

Staff costs were as follows:

	2006 *£'000*	*2005* *£'000*
Wages and salaries	4,663	4,553
Social security costs	526	499
Other pension costs *(note 22)*	114	132
	5,303	**5,184**

The average number of people, including directors, who were employed by the company during the year was as follows:

	2006 *number*	*2005* *number*
Recruitment	121	115
Head office	33	41
	154	**156**

4 Directors' emoluments

	2006	*2005*
	£'000	*£'000*
Directors' aggregate emoluments	272	-
Company contributions paid to money purchase schemes	17	-

The aggregate emoluments of the highest paid director were £218,000 *(2005: £nil)*, including £10,000 *(2005: £nil)* contributions paid to money purchase pension schemes. Retirement benefits are accruing to two directors and are under the company's money purchase pension scheme.

Other directors' emoluments in respect of services to the company for the year ended 30 June 2006 are borne by Protocol Systems Limited, another group company, and their emoluments are shown in the financial statements of that company. Copies of these financial statements can be obtained from the company Secretary, Unit 9C, Redbrook Business Park, Wilthorpe Road, Barnsley, S75 1JN. The directors receive no emoluments for services to this company.

5 Exceptional items

	2006	*2005*
	£'000	*£'000*
Restructuring and redundancy	-	118
Professional fees	345	-
	345	**118**

Professional fees relate to legal and associated costs in the pursuit of a claim. Prior year costs are associated with restructuring and redundancy.

6 Operating profit

Operating profit is stated after charging/(crediting):		*2006*	*2005*
		£'000	*£'000*
Depreciation	- owned assets	213	220
Operating lease rentals	- land and buildings	690	746
Auditors' remuneration	- for audit work	16	15
Goodwill amortisation *(note 10)*		268	268
Exceptional items *(note 5)*		345	118

7 Interest receivable and similar income

	2006	*2005*
	£'000	*£'000*
Bank interest	1,112	984

8 *Interest payable and similar charges*

	2006 *£'000*	*2005* *£'000*
Bank charges	20	14

9 *Taxation*

The tax charge, based on the profit for the year, comprises:

	2006 *£'000*	*2005* *£'000*
UK Corporation tax at 30% *(2005: 30%)*	906	945
Adjustments in respect of previous years	(147)	-
	759	**945**

The corporation tax liability has been adjusted by the group relief of losses surrendered by Protocol Associates Limited and PNI Holdings Limited for which payment of £759,000 (2005:£945,000 surrendered by Protocol Systems Limited and PNI Holdings Limited) is owed.

Factors affecting tax charge for the year

The tax assessed for the year is higher than the 30% standard rate of corporation tax in the UK. The differences are explained below:

	2006 *£'000*	*2005* *£'000*
Profit on ordinary activities before tax	2,513	2,593
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	754	778
Effects of:		
Permanent differences	97	114
Adjustments in respect of previous years	(147)	-
Other timing differences	55	53
Actual tax on profit on ordinary activities	**759**	**945**

10 Intangible assets: goodwill

	Total £'000
Cost	
At 1 July 2005 and at 30 June 2006	**5,263**
Amortisation	
As at 1 July 2005	1,072
Charge for the year	268
At 30 June 2006	**1,340**
Net book value	
As at 30 June 2006	**3,923**
As at 30 June 2005	4,191

Goodwill arose on the acquisition of the trade and assets of Protocol Education Services Limited. It is being amortised over its useful economic life of 20 years, the period over which the company expect to benefit from the acquisition's reputation, brand and skills.

11 Tangible assets

	Short leasehold property £'000	*Furniture and IT equipment £'000*	*Total £'000*
Cost			
1 July 2005	121	2,001	**2,122**
Additions	-	230	**230**
Disposals	-	(204)	**(204)**
At 30 June 2006	**121**	**2,027**	**2,148**
Depreciation			
1 July 2005	121	1,697	**1,818**
Charge for the year	-	213	**213**
Disposals	-	(204)	**(204)**
At 30 June 2006	**121**	**1,706**	**1,827**
Net book value			
At 30 June 2006	-	**321**	**321**
At 1 July 2005	-	304	304

12 Debtors

	2006	*2005*
	£'000	*£'000*
Trade debtors	3,126	3,651
Amounts owed by group undertakings	194	10
Prepayments and accrued income	1,820	1,988
Other debtors	21	8
	5,161	5,657

13 Creditors: amounts falling due within one year

	2006	*2005*
	£'000	*£'000*
Trade creditors	371	331
Amounts owed to group undertakings	8,935	8.974
Other taxes and social security	1,719	1,930
Accruals and deferred income	398	739
Other creditors	626	1,360
	12,049	**13,334**

14 Provisions for liabilities and charges

	Dilapidation provisions £'000
At 1 July 2005	112
Utilised in the year	(11)
At 30 June 2006	**101**

The provision for property dilapidations represents the estimated value of the company's contractual obligations.

15 Share capital

	2006	*2005*
	£	*£*
Authorised		
1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2

16 Reserves

	Profit and loss account £'000
At 1 July 2005	12,905
Profit for the financial year	1,754
At 30 June 2006	**14,659**

17 Reconciliation of movements in shareholders' funds

	2006 £'000	*2005 £'000*
Opening shareholders' funds	12,905	11,257
Profit for the financial year	1,754	1,648
Closing shareholders' funds	**14,659**	12,905

18 Operating leases commitments

At 30 June the company had annual commitments payable under non-cancellable operating leases as follows:

	Land and Buildings	
	2006 £'000	*2005 £'000*
Leases which expire:		
Within one year	5	25
Between one and five years	681	660
In over five years	-	20
	686	705

19 Contingent liabilities

The group, as part of an interest set-off arrangement, has guaranteed the overdraft facilities of subsidiary companies. The maximum liability under the guarantee is limited to the credit balances in those accounts which totals £35,030,000 at 30 June 2006 which are part of the interest set-off arrangement together with the proceeds of any items in the course of collection for the credit of such bank accounts.

Bank debt held by the group is secured by fixed and floating charges across the undertakings of the group. Significant repayments of this bank debt are due within one year and this is further commented on in note 1 to these accounts.

The VAT position of the Group is necessarily complex as a result of the sectors in which it operates. During the year, the existing VAT status of Education Lecturing Services (limited by guarantee) a fellow group company, was withdrawn and an alternative basis has been subsequently agreed with HMRC which allows for the charging of services without material levels of VAT being applied. The most significant matter has now been satisfactorily resolved and the directors are of the view that VAT legislation has been correctly applied and the risk of further reviews being successfully pursued by HMRC is low. Therefore no additional provisions for VAT liabilities are considered necessary.

20 Deferred tax

Potential deferred tax assets not recognised:

	2006	*2005*
	£'000	*£'000*
Fixed asset timing differences	576	521
Other timing differences	3	2
	579	523

21 Related party transactions

The company has taken advantage of the exemption available under Financial Reporting Standard 8 for 90% owned subsidiaries not to disclose related party transactions with members of the same group.

22 Pensions

A defined contribution scheme is in operation where the company contributes a variable contribution to individual employee's schemes, but has no further liability to provide retirement benefits once the employee is no longer employed by the company. The company's contributions for the year amounted to £114,000 *(2005: £132,000).*

23 Ultimate parent company

The company's entire issued share capital is owned by ELS Group Limited. This company is the immediate parent undertaking.

Protocol Associates NV is the smallest and largest group to consolidate these financial statements. Protocol Associates NV is registered in the European Union. Copies of the group financial statements can be obtained from the Company Secretary, Unit 9C, Redbrook Business Park, Wilthorpe Road, Barnsley, S75 1JN.

Bridgepoint Capital (Nominees) Limited have a majority shareholding in Protocol Associates NV. This shareholding is for the benefit of a number of investment vehicles administered by Bridgepoint Capital Limited. In the opinion of the directors there is no ultimate controlling party. Copies of the financial statements of these companies are available at their registered office at 30 Warwick Street, London, W1B 5AL