Protocol Education Limited

Registered Number 2926583

Annual Report and Financial Statements

for the year ended 30 June 2007

The directors submit their report and the audited financial statements of the company for the year ended 30 June 2007

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 £2,348,000 (*2006 £2,513,000*) for the year and sales of £35,567,000 (*2006 £38,427,000*)

The directors do not recommend the payment of a final dividend (*2006 £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 comprise

- 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

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	(resigned 20 March 2007)
G Stevens	(resigned 13 March 2007)
S Lawrence	
S North	(resigned 23 November 2007)
P Swain	
D Lewis	(appointed 20 February 2007)
P Fox	(appointed 2 May 2007)

No director had any beneficial interest in the share capital of the company at 30 June 2007 or 30 June 2006

The interests of S North in the shares of Protocol Associates NV, the company's ultimate parent company at 30 June 2007, are as follows

	Number of 'B' Shares held	
	2007	*2006*
S North	10,230	10,230

S Lawrence, M Davy, P Fox and P Swain have no interest in the shares of Protocol Associates NV The interests of G Stevens and D Lewis in the shares of Protocol Associates NV, the company's ultimate parent company at 30 June 2007, 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 2007 unpaid creditors of the company amounted to 50 days of purchases *(2006 34 days)*

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

So far as the directors at the date of this report are aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware
The directors have taken all the steps that they ought to have taken as directors in order to make themselves 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
22 May 2008

D Lewis
Director

We have audited the financial statements of Protocol Education Limited for the year ended 30 June 2007 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 2007 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
21 May 2008

Profit and loss account for the year ended 30 June 2007

	Note	2007 £'000	2006 £'000
Turnover	2	35,567	38,427
Cost of sales		(25,459)	(27,032)
Gross profit		**10,108**	**11,395**
Administrative expenses		(9,163)	(9,629)
Exceptional items	5	62	(345)
Total administrative expenses		**(9,101)**	**(9,974)**
Operating profit	6	**1,007**	**1,421**
Interest receivable and similar income	7	1,359	1 112
Interest payable and similar charges	8	(18)	(20)
Profit on ordinary activities before taxation		**2,348**	**2,513**
Taxation	9	-	(759)
Profit for the financial year	16, 17	**2,348**	**1,754**

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 7 to 14 form part of these financial statements

Balance sheet as at 30 June 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Intangible assets	10	3,655	3,923
Tangible assets	11	339	321
		3,994	**4,244**
Current assets			
Debtors	12	4,997	5,161
Cash at bank and in hand		19,213	17 404
		24,210	**22,565**
Creditors amounts falling due within one year	13	(11,046)	(12,049)
Net current assets		**13,164**	**10,516**
Total assets less current liabilities		**17,158**	**14,760**
Provisions for liabilities and charges	14	(151)	(101)
Net assets		**17,007**	**14,659**
Capital and reserves			
Called up share capital	15	-	-
Profit and loss account	16	17,007	14,659
Total shareholders' funds	17	**17,007**	**14,659**

Approved by the Board
22 May 2008

S Lawrence
Director

The notes on pages 7 to 14 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 group continues to be in breach of certain banking covenants Significant debt was repaid to the bank by the Group in September 2007 following the sale of the entire share capital of Protocol Skills Limited Revised facilities have since agreed with the bank which are due for repayment in April 2009 Neither the directors nor the bank envisage any reason why sufficient new facilities will not be made available from April 2009

In the previous year, the directors stated that a review by HMRC of the VAT status of Education Lecturing Services (limited by guarantee), a fellow group company, had found in the company's favour and there was no longer a material risk for the Group Education Lecturing Services has adopted an alternative basis for accounting for VAT 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

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

The financial statements have therefore been prepared by the directors on a going concern basis

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

	2007 ***£'000***	***2006*** ***£'000***
Wages and salaries	4,330	4,663
Social security costs	493	526
Other pension costs *(note 22)*	135	114
	4,958	**5,303**

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

	2007 ***number***	***2006*** ***number***
Recruitment	124	121
Head office	29	33
	153	**154**

4 *Directors' emoluments*

	2007 £'000	2006 £'000
Directors' aggregate emoluments	352	272
Company contributions paid to money purchase schemes	29	17

The aggregate emoluments of the highest paid director were £205,000 *(2006 £218,000)*, including £17,500 *(2006 £10,000)* contributions paid to money purchase pension schemes Retirement benefits are accrued to three 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 2007 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, Castle Marina Road, Castle Marina Park, Nottingham, NG7 1TN The directors receive no emoluments for services to this company

5 *Exceptional items*

	2007 £'000	2006 £'000
Litigation - net proceeds/(costs)	62	(345)
	62	(345)

Exceptional item relate to the successful settlement of litigation against a third party less associated costs in the pursuit of the claim

6 *Operating profit*

Operating profit is stated after charging/(crediting)		2007 £'000	2006 £'000
Depreciation	- owned assets	144	213
Operating lease rentals	- land and buildings	708	690
Auditors' remuneration	- for audit work	12	16
Goodwill amortisation *(note 10)*		268	268
Exceptional (profit)/loss *(note 5)*		(62)	345

7 *Interest receivable and similar income*

	2007 £'000	2006 £'000
Bank interest	1,359	1 112

8 *Interest payable and similar charges*

	2007 £'000	2006 £'000
Bank charges	18	20

9 *Taxation*

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

	2007 £'000	2006 £'000
UK Corporation tax at 30% *(2006 30%)*	-	906
Adjustments in respect of previous years	-	(147)
Total current tax	-	**759**

The corporation tax liability has been adjusted by the group relief of losses surrendered by Protocol Associates Limited, PNI Holdings Limited and Protocol Systems Limited of £2,736,000 (2006 £759,000 surrendered by Protocol Associates Limited and PNI Holdings Limited) for which no payment has been made

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

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	2 237	2,513
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK (30%)	671	754
Effects of		
Permanent differences	109	97
Adjustments in respect of previous years	-	(147)
Group relief	(821)	-
Other timing differences	41	55
Current tax charge for the year	-	**759**

10 *Intangible assets: goodwill*

	Total £'000
Cost	
At 1 July 2006 and at 30 June 2007	**5,263**
Amortisation	
As at 1 July 2006	1,340
Charge for the year	268
At 30 June 2007	**1,608**
Net book value	
As at 30 June 2007	**3,655**
As at 30 June 2006	3,923

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 2006	121	2,027	**2,148**
Additions	-	162	**162**
Disposals	(39)	(694)	**(733)**
At 30 June 2007	**82**	**1,495**	**1,577**
Depreciation			
1 July 2006	121	1,706	**1,827**
Charge for the year	-	144	**144**
Disposals	(39)	(694)	**(733)**
At 30 June 2007	**82**	**1,156**	**1,238**
Net book value			
At 30 June 2007	-	**339**	**339**
At 1 July 2006	-	321	321

12 Debtors

	2007 £'000	2006 £'000
Trade debtors	2,880	3,126
Amounts owed by group undertakings	94	194
Prepayments and accrued income	1,873	1,820
Other debtors	150	21
	4,997	**5,161**

13 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	498	371
Amounts owed to group undertakings	8,028	8,935
Other taxes and social security	1,654	1,719
Accruals and deferred income	257	398
Other creditors	609	626
	11,046	**12,049**

14 Provisions for liabilities and charges

	Dilapidation provisions £'000
At 1 July 2006	101
Increase in the year	50
At 30 June 2007	**151**

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

15 Called up share capital

	2007 £	2006 £
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 2006	14,659
Profit for the financial year	2,348
At 30 June 2007	**17,007**

17 Reconciliation of movements in shareholders' funds

	2007 £'000	2006 £'000
Opening total shareholders' funds	14,659	12 905
Profit for the financial year	2,348	1 754
Closing total shareholders' funds	**17,007**	**14,659**

18 Operating leases commitments

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

	Land and Buildings	
	2007 £'000	2006 £'000
Leases which expire		
Within one year	24	5
Between one and five years	666	681
In over five years	-	-
	690	**686**

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 £32,951,000 at 30 June 2007 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 in April 2009

The VAT position of the Group is necessarily complex as a result of the sectors in which it operates The existing VAT status of Protocol National, a fellow group company, has been confirmed by HMRC The VAT status of Education Lecturing Services (limited by guarantee) a fellow group company, was withdrawn and an alternative basis was adopted which allows for the charging of services without material levels of VAT being applied
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*

A net deferred tax asset is regarded as recoverable and therefore recognised only when, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Potential deferred tax assets not recognised

	2007 £'000	2006 £'000
Fixed asset timing differences	570	576
Other timing differences	7	3
	577	**579**

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 £135,000 *(2006 £114,000)*

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, Castle Marina Road, Castle Marina Park, Nottingham, NG7 1TN

Bridgepoint Capital (Nominees) Limited have a majority shareholding in Protocol Associates NV This shareholding is for the benefit of a number of investment vehicles managed 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