

Eteach UK Limited

Directors' Report and Consolidated
Financial Statements

Year Ended

31 July 2006

TUESDAY



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BDO Stoy Hayward
Chartered Accountants

Eteach UK Limited

Annual report and financial statements for the year ended 31 July 2006

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Directors

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Directors

J P Howells
C Stevens
D A S Burn
J A M Sloss

Secretary and registered office

R Eadle, Academy House, 403 London Road, Camberley, Surrey, GU15 3HL

Company number

3841479

Auditors

BDO Stoy Hayward LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire, RG1 3EX

Eteach UK Limited

Report of the directors for the year ended 31 July 2006

The directors present their report and the consolidated financial statements for the year ended 31 July 2006.

Principal activities and future developments

The company's and group's principal activity during the period was provision of recruitment services for the education sector. There have been no changes in the company's activities in the year under review. There has been no significant changes in the company's and group's activities since the year end.

Review of the business

The profit and loss account is set out on page 5 and shows turnover for the year of £3,658,992 and profit for the year of £43,034.

Turnover has increased by 18% and based on the first quarter results and orders in the pipeline the directors believe this rate will increase next year.

The directors do not recommend the payment of a dividend.

During the year, the recruitment websites for both Eteach.com and FEJobs.com were rebuilt completely using .NET 2.0 technology. This provides a more stable platform for existing and future developments.

There have been no events since the balance sheet date which materially affect the position of the company.

Principal risks and uncertainties

The market for the provision of recruitment services for the education sector remains highly competitive. The company seeks to manage the risk of losing customers to key competitors by the provision of added value services to customers, improving the handling of customer queries and by maintaining strong relationships and local representation with key customers.

The company's credit risk is attributable to its trade debtors. Credit risk is managed by monitoring payments against the Government payment targets set for local authorities.

The company has an overdraft facility for £700,000 with NatWest Bank at a rate negotiated quarterly.

The company monitors cash flow as part of its day to day control procedures. The Chief Executive Officer considers cash flow projections on a regular basis and ensures that appropriate facilities are available to be drawn upon as necessary.

Directors

The directors who served during the year and their beneficial interests in the company's issued share capital were:

	Ordinary shares of 0.1p each 2006	Ordinary shares of 0.1p each 2005	Options 2006	Options 2005
J P Howells	1,266,001	1,266,001	-	-
C Stevens	104,663	104,663	20,000	20,000
D A S Burn	72,197	72,197	-	-
J A M Sloss	471,804	471,804	-	-

J P Howells' shareholder interest includes £939,601 (2005 -939,601) ordinary shares held in a trust for the benefit of J P Howells and his family.

Details of the directors' share options are shown in note 10. No options were exercised during the period.

Directors' responsibilities

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 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 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 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.

Eteach UK Limited

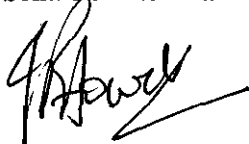
Report of the directors for the year ended 31 July 2006 (*Continued*)

Auditors

The auditors, BDO Stoy Hayward LLP will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act relating to small companies.

On behalf of the Board



J P Howells
Director

Date: 20.12.06

Eteach UK Limited

Report of the independent auditors

To the shareholders of Eteach UK Limited

We have audited the group and parent company financial statements (the "financial statements") of (Eteach UK Limited) for the year ended 31 July 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets 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).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

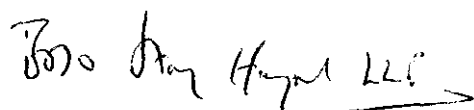
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 group's and 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 group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 July 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 July 2006;
- 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.



BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
Reading

Date: 20 DECEMBER 2006

Eteach UK Limited**Profit and loss account for the year ended 31 July 2006**

	Note	2006 £	2005 £
Turnover	2	3,658,992	3,092,695
Cost of sales		(752,835)	(594,005)
Gross profit		2,906,157	2,498,690
Administrative expenses		(2,791,388)	(2,973,984)
Operating profit / (loss)	4	114,769	(475,294)
Profit / (loss) on ordinary activities before interest		114,769	(475,294)
Interest receivable		-	258
Interest payable		(71,735)	(54,556)
Profit / (loss) on ordinary activities before tax		43,034	(529,592)
Tax on profit on ordinary activities		-	-
Profit / (loss) on ordinary activities after tax and Amount transferred to reserves		43,034	(529,592)

All amounts relate to continuing activities.

There were no other recognised gains or losses in the year.

The notes on pages 8 to 16 form part of these financial statements.

Eteach UK Limited**Consolidated Balance sheet at 31 July 2006**

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible fixed assets	5		328,075		281,924
Intangible fixed assets	6		600,000		675,000
			<u>928,075</u>		<u>956,924</u>
Current assets					
Debtors	8	1,218,550		983,546	
Cash at bank and in hand		32,028		18,608	
		<u>1,250,578</u>		<u>1,002,154</u>	
Creditors: amounts falling due within one year	9	(2,140,568)		(1,964,027)	
		<u></u>		<u></u>	
Net current liabilities			(889,990)		(961,873)
			<u></u>		<u></u>
Total assets less current liabilities			38,085		(4,949)
Creditors: amounts falling due after more than one year	9		-		-
			<u></u>		<u></u>
			38,085		(4,949)
			<u></u>		<u></u>
Capital and reserves					
Called up share capital	10		2,176		2,176
Share Premium account	11		3,196,304		3,196,304
Merger reserve	11		1,312,020		1,312,020
Profit and loss account	11		(4,472,415)		(4,515,449)
			<u></u>		<u></u>
Shareholders' funds			38,085		(4,949)
			<u></u>		<u></u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the Board on 20.12.06


J P Howells
Director

The notes on pages 8 to 16 form part of these financial statements.

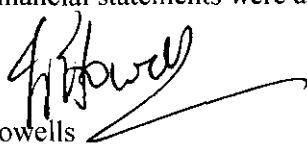
Eteach UK Limited

Company Balance sheet at 31 July 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible fixed assets			328,075		281,924
Investments in subsidiaries	7		750,000		750,000
			<hr/>		<hr/>
			1,078,075		1,031,924
Current assets					
Debtors	8	1,218,550		932,658	
Cash at bank and in hand		31,642		4,316	
		<hr/>		<hr/>	
		1,250,192		936,974	
Creditors: amounts falling due within one year	9	(2,161,036)		(1,919,699)	
		<hr/>		<hr/>	
Net current liabilities			(910,844)		(982,725)
			<hr/>		<hr/>
Total assets less current liabilities			167,231		49,199
Creditors: amounts falling due after more than one year	9		-		-
			<hr/>		<hr/>
Net liabilities			167,231		49,199
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	10		2,176		2,176
Share Premium account	11		3,196,304		3,196,304
Merger reserve	11		1,312,020		1,312,020
Profit and loss account	11		(4,343,269)		(4,461,301)
			<hr/>		<hr/>
Shareholders' funds			167,231		49,199
			<hr/>		<hr/>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the Board on 29.12.06


J P Howells
Director

The notes on pages 8 to 16 form part of these financial statements.

1 Accounting policies

Basis of preparation of financial statements

The accounts have been prepared under the historical cost convention.

The accounts have been prepared using the Financial reporting standard for small and medium size entities (FRSSE effective June 2002).

The company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The company's own profit after taxation and dividends for the year is £118,032 (2005 loss - £414,764).

Basis of consolidation

The consolidated accounts incorporate the financial statements of Eteach UK Limited and all of its subsidiary undertakings made up to 31 July 2006. The group uses the acquisition method of accounting to consolidate the results of subsidiary undertakings where the acquisition method is used, the results of the subsidiary undertaking are included from the date of acquisition.

Cash flow statement

The group and company has taken advantage of the exemption confirmed by the Financial Reporting Standard for Smaller Entities not to prepare a cash flow statement.

Turnover

Turnover comprises of membership fees, subscriptions and other operating charges to club members net of Value Added Tax.

Subscription income is recognised equally over 12 months.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Leasehold improvements	20% per annum
Computer equipment	33% per annum
Office furniture and equipment	25% per annum

Web site development costs

Development costs are charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

1 Accounting policies (*Continued*)

In such circumstances the costs are carried forward and amortised over a period of between two to three years, commencing in the year the company starts to benefit from the expenditure.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. The assets of the scheme are held separately from those of the company in an independently administered fund.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

Eteach UK Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

3 Directors

	2006	2005
	£	£
Directors' emoluments (including pension contributions)	115,606	188,720

There was 1 director in the company's defined contribution pension scheme during the year (2005 - 1).

4 Operating profit / loss

	2006	2005
	£	£
The operating profit / loss is stated after charging:-		
Amortisation of intangible fixed assets	75,000	75,000
Depreciation of tangible fixed assets	203,885	196,623
Hire of other assets - operating leases	74,490	74,490
Hire of plant and machinery - operating leases	2,325	2,325
Auditors' remuneration	22,500	50,000

5 Tangible assets

Group and Company	Leasehold improvements £	Computer equipment £	Office fixtures and equipment £	Web site development costs £	Total £
<i>Cost</i>					
At 1 August 2005	2,230	161,439	84,123	917,211	1,165,003
Additions		52,333		197,703	250,036
Disposals	-	-	-	-	-
At 31 July 2006	2,230	213,772	84,123	1,114,914	1,415,039
<i>Depreciation</i>					
At 1 August 2005	484	135,325	72,007	675,263	883,079
Charge for the year	631	21,763	4,632	176,859	203,885
Disposals					
At 31 July 2006	1,115	157,088	76,639	852,122	1,086,964
<i>Net book value</i>					
At 31 July 2006	1,115	56,684	7,484	262,792	328,075
At 31 July 2005	1,746	26,114	12,116	241,948	281,924

Eteach UK Limited**Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)****6 Intangible fixed assets**

	£
<i>Cost</i>	
At 1 August 2005 and 31 July 2006	1,205,123
	<u> </u>
<i>Amortisation</i>	
At 1 August 2005	(530,123)
charge for the period	(75,000)
	<u> </u>
At 31 July 2006	(605,123)
	<u> </u>
Net book value	
At 31 July 2006	600,000
	<u> </u>
At 31 July 2005	675,000
	<u> </u>

7 Investment in subsidiaries

	£
<i>Cost</i>	
At 1 August 2005 and 31 July 2006	1,353,380
	<u> </u>
<i>Provisions</i>	
At 1 August 2005	(603,380)
Further provision	-
	<u> </u>
At 31 July 2006	(603,380)
	<u> </u>
Net book value	
At 31 July 2006	750,000
	<u> </u>
At 31 July 2005	750,000
	<u> </u>

Eteach UK Limited owns 100% of the ordinary shares of Go-Temping Limited, a company which is incorporated in Great Britain and specialises in the provision of recruitment services for the education sector.

Eteach UK Limited

Notes forming part of the financial statements for the year ended 31 July 2006 (Continued)

8 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Due within one year				
Trade debtors	528,554	364,905	528,554	347,463
Other debtors	44,707	47,686	44,707	42,686
Prepayments	91,289	16,955	91,289	16,955
Amount due from subsidiary undertaking	-	-	-	71,554
Deferred taxation	554,000	554,000	554,000	454,000
	<u>1,218,550</u>	<u>983,546</u>	<u>1,218,550</u>	<u>932,658</u>
Deferred taxation				
At 1 August 2005 and 31 July 2006	<u>554,000</u>	<u>554,000</u>	<u>554,000</u>	<u>454,000</u>
Deferred taxation				
Tax losses carried forward to future periods	<u>554,000</u>	<u>554,000</u>	<u>554,000</u>	<u>454,000</u>

9 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans and overdraft (secured)	693,381	692,735	693,381	692,635
Trade creditors	166,898	252,274	166,898	208,381
Social security and other taxes	191,101	111,929	191,101	111,491
Other Loans	61,845	152,525	61,845	152,525
Other creditors and accruals	175,175	132,263	175,175	132,366
Amounts owed to Group undertaking	-	-	20,468	-
Deferred income	852,168	622,301	852,168	622,301
	<u>2,140,568</u>	<u>1,964,027</u>	<u>2,161,036</u>	<u>1,919,699</u>

The bank borrowings are secured by a personal guarantee given by J P Howells, a director of the company.

10 Called up share capital

	2006 £	2005 £
Authorised, allotted, called up and fully paid 2,176,000 Ordinary Shares shares of £0.001 each	2,176	2,176
	<u>2,176</u>	<u>2,176</u>

Enterprise Management Incentive Scheme

In March 2001 the directors of the company put in place a share option scheme that suitably incentivised staff and directors. The scheme was approved by the Inland Revenue and the following share options in respect of the ordinary shares were granted and remain unexercised at the year end.

Date of grant	Number of shares	Period of option	Price per share
2001	20,000	2004 - 2011	£1.70

11 Reserves

Group	Merger reserve £	Share premium account £	Profit and loss account £
At 1 August 2005	1,312,020	3,196,304	(4,515,449)
Profit for the year	-	-	43,034
	<u>1,312,020</u>	<u>3,196,304</u>	<u>(4,472,415)</u>
At 31 July 2006	1,312,020	3,196,304	(4,472,415)
	<u>1,312,020</u>	<u>3,196,304</u>	<u>(4,472,415)</u>
Company	Merger reserve £	Share premium account £	Profit and loss account £
At 1 August 2005	1,312,020	3,196,304	(4,461,301)
Profit for the year	-	-	118,032
	<u>1,312,020</u>	<u>3,196,304</u>	<u>(4,343,269)</u>
At 31 July 2006	1,312,020	3,196,304	(4,343,269)
	<u>1,312,020</u>	<u>3,196,304</u>	<u>(4,343,269)</u>

12 Commitments under operating leases

As at 31 July 2006, the company had annual commitments under non-cancellable operating leases as set out below:

	2006 Land and buildings £	2006 Other £	2005 Land and buildings £	2005 Other £
Operating leases which expire:				
Within one year				
In two to five years	74,490	2,325	74,490	2,325
	<u>74,490</u>	<u>2,325</u>	<u>74,490</u>	<u>2,325</u>

13 Controlling party

The directors consider that the company was controlled throughout the current and previous period by J P Howells, by value of his control over 58% (2005 : 58%) of the ordinary shares of the company.

14 Related party transactions

Included in the creditors at the year end is an amount of £31,845 (2005 £127,072) due to J P Howells. A director of the company. No interest has been enforced on this loan. In addition the balance on J P Howells current account at the year end was £25,454 due to him from the company (2005 £34,454).

At the year end £79,532 (2005 71,554) was owed to the company by Go Temping Limited.

15 Taxation on profit from ordinary activities

	Year ended 31 July 2006 £	Year ended 31 July 2006 £	Year ended 31 July 2005 £	Year ended 31 July 2005 £
<i>Current tax</i>				
UK corporation tax on profits of the year/period	-		-	
Adjustment in respect of previous years	-		-	
Total current tax		-		-
<i>Deferred tax</i>				
Origination and reversal of timing differences	-		-	
Effect of reduced tax rate on opening liability	-		-	
Movement in deferred tax provision (note 8)		-		-
Taxation on profit on ordinary activities		-		-

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

	2006 £	2005 £
Profit / loss on ordinary activities before tax	43,034	(529,592)
tax charge / (credit) on profit on ordinary activities at the standard rate of corporation tax in the UK of 30 % (2005 – 30 %)	12,910	(158,878)
Effects of:		
Expenses not deductible for tax purposes	22,312	19,060
Depreciation in excess of capital allowances for year	65,320	54,699
Other differences	22,500	34,525
Unrelieved tax losses and other deductions arising in the period	-	50,594
Tax losses and other deductions utilised in the period	(123,042)	-
Current tax charge for year/period	-	-