PNI Holdings Limited

Registered Number: 3897811

Directors' Report and Accounts

Year ended 30 June 2005

The directors submit their report and the audited financial statements of the company for the year ended 30 June 2005.

Principal activity and review of business

As a sub-holding company, PNI Holdings Limited has incurred administrative costs and interest payable, but has no trading activity in the year.

The directors do not recommend the payment of a dividend *(2004: £nil).*

Education Lecturing Services (limited by guarantee and another group company) has 'eligible body status' granted by HMRC enabling it to charge for its educational services to FE colleges without the imposition of VAT, which is not recoverable by such colleges. HMRC are currently re-reviewing this status. See note 1 to the financial statements.

Holding company support

Protocol Associates NV, the Protocol group holding company, have agreed to support the company for the foreseeable future.

Directors

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

G Stevens	
S Burgess	(appointed 16 May 2005)
J Rowley	(resigned 16 May 2005)

No director had any beneficial interest in the share capital of the company at 30 June 2005 or 30 June 2004.

S Burgess has no interest in the shares of Protocol Associates NV. The interests of J Rowley and G Stevens in the shares of Protocol Associates NV, the company's ultimate parent company at 30 June 2005, are disclosed in the accounts of Protocol Associates NV.

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 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 2005 and that applicable accounting standards have been followed. They also confirm that 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.

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

S Burgess
Director
4 October 2005

Independent auditors' report to the members of PNI Holdings Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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.

Fundamental uncertainty

Furthermore we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of a VAT enquiry in progress concerning the eligible body status of Education Lecturing Services, a group company. An unsuccessful outcome may crystalise a significant VAT claim against the company and other entities within the same VAT registration group. On the basis of information presently available, the directors and their advisors are of the opinion that sufficient evidence exists such that a claim could be successfully defended. However if the action were to be decided against the company, there could be a materially adverse effect on the financial position disclosed in these financial statements which, in turn, may affect the company's ability to continue as a going concern. Details of the circumstances relating to this fundamental uncertainty are described in note 1. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
4 October 2005

Profit and loss account for the year ended 30 June 2005

	Note	2005 £'000	2004 £'000
Administrative expenses		(3)	(17)
Operating loss	3	**(3)**	(17)
Interest receivable and similar income	4	118	183
Interest payable and similar charges	5	(6,418)	(5,882)
Loss on ordinary activities before taxation		**(6,303)**	(5,716)
Taxation	6	1,118	1,258
Loss for the financial year	13, 14	**(5,185)**	**(4,458)**

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

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

The notes on pages 6 to 13 form part of these financial statements.

Balance sheet as at 30 June 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Investments	7	11,468	11,468
Current assets			
Debtors	8	50,005	54,352
Cash at bank and in hand		-	1,580
		50,005	55,932
Creditors - amounts falling due within one year	9	(13,882)	(16,857)
Net current assets		**36,123**	39,075
Total assets less current liabilities		**47,591**	50,543
Creditors - amounts falling due after more than one year	10	(68,969)	(66,736)
Provision for liabilities and charges	11	(350)	(350)
Net liabilities		**(21,728)**	(16,543)
Capital and reserves			
Called up share capital	12	1,029	1,029
Share premium account	13	114	114
Profit and loss account	13	(22,871)	(17,686)
Equity shareholders' deficit	14	**(21,728)**	(16,543)

Approved by the Board
4 October 2005

G Stevens
Director

The notes on pages 6 to 13 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

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 Number 18 (FRS 18).

Basis of preparation

Education Lecturing Services (limited by guarantee and another group company) has 'eligible body status' granted by HMRC which enables it to charge for its educational services without the imposition of VAT. This status was granted in 1995, renewed in 1998 and is currently the subject of a further review by HMRC. In the event that such status is not renewed the directors are of the opinion, after considering advice from their advisers, that there is a small possibility that HMRC may seek to raise an assessment for additional unquantifiable VAT for earlier years. There are strong grounds for refuting any such claim given the historical reviews conducted by HMRC in the past and, as such, no amounts have been provided in this respect.

In addition, whilst the group breached certain of its existing banking covenants on 30 June 2005 and is expected to continue to breach such covenants in the next twelve months, a letter of support has been received from the group's bankers indicating their continued support for a period of twelve months from the date of these accounts.

The group holding company have agreed to support the company for its foreseeable future.

The financial statements have therefore been prepared by the directors on a going concern basis which assumes no material additional VAT liability will arise from the current HMRC review of 'eligible body status' and assuming the continued support of the Group's bankers by way of existing loan and overdraft facilities. In the absence of these assumptions, 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 re classify fixed assets and long term liabilities as current assets and current liabilities.

Cash flow statement

The company is exempt from the requirement to prepare group financial statements as it is a wholly owned subsidiary of Protocol Associates NV, a company registered in Belgium which prepares consolidated accounts which are publicly available. In addition the company takes advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 for the same reason.

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.

Investments

The company's investments in subsidiaries are stated at cost less any impairment provision for diminution in value. Impairments are made if a diminution in value is considered to be permanent.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities are translated at year end exchange rates (or at a contractual rate if applicable) and the resulting exchange rate differences are dealt with in the determination of profit for the financial year.

2 Employees

The average number of persons employed by the company (all directors) during the year was 2 *(2004: 2)*.

The total emoluments of the directors, including pension contributions was £nil *(2004: £nil)*.

Directors emoluments in respect of services to the company for the year ended 30 June 2005 are borne by Protocol Systems Limited, another group company, and such 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.

3 Operating loss

Operating loss is stated after charging:		***2005 £'000***	***2004 £'000***
Auditors' remuneration	- for audit work	2	2
	- for other services	1	-

4 Interest receivable and similar income

	2005 £'000	***2004 £'000***
Bank interest	118	183

5 Interest payable and similar charges

	2005 £'000	***2004 £'000***
Bank interest	1,929	1,982
Amortisation of issue costs	209	221
Loan note interest	3,887	3,532
Intercompany interest	57	51
Bank charges	336	96
	6,418	**5,882**

6 Taxation

The tax (credit), based on the loss for the year, comprises:

	2005	***2004***
	£'000	***£'000***
UK Corporation tax at 30% *(2004: 30%)*	(1,100)	(622)
(Over) provision in respect of prior years	(18)	(636)
	(1,118)	**(1,258)**

There is no actual or potential deferred tax liability *(2004: £nil).*

The corporation tax debtor has been adjusted by the group relief of losses surrendered to Tektra Limited, Protocol Education Limited and Protocol Skills Limited for which payment of £1,118,000 (2004: £622,000 surrendered to Protocol National Limited) is receivable.

Factors affecting tax charge for the year

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

	2005	***2004***
	£'000	***£'000***
Loss on ordinary activities before tax	(6,303)	(5,716)
Loss on ordinary activities multiplied by 30% standard rate of corporation tax in the UK	(1,891)	(1,715)
Effects of:		
Permanent differences	-	3
Adjustments in respect of previous years	(18)	(636)
Other timing differences	791	1,090
Actual tax on loss on ordinary activities	**(1,118)**	**(1,258)**

7 *Investments*

	£'000
Cost and net book value	
At 1 July 2004 and at 30 June 2005	11,468

Details of wholly owned subsidiary undertakings, all of which are registered in Great Britain, are as follows:

Name	*Nature of business*
Protocol Systems Limited	Provision of hardware and software technical support
Protocol Training Limited	Training consultants
Tektra Limited	Training providers and management of associated training schemes
Protocol Learning Limited	Intermediate holding company of Protocol Skills Limited
Protocol Recruitment Limited	Dormant company
Harnser Associates Limited	Dormant company

8 *Debtors*

	2005 *£'000*	*2004* *£'000*
Amounts owed by group companies	50,005	54,352

9 Creditors - amounts falling due within one year

	2005 *£'000*	*2004* *£'000*
Bank overdraft	2,168	-
Bank loans *(note 10)*	2,699	3,147
Amounts due to group undertakings	8,897	13,612
Accruals and deferred income	118	98
	13,882	16,857

10 Creditors - amounts falling due after more than one year

	2005 *£'000*	*2004* *£'000*
Loan notes	49,229	45,342
Bank loans	19,136	20,847
Term loan to a fellow group company	604	547
	68,969	66,736

The term loan to a fellow group company includes interest of £57,000 for 2005 *(2004: £51,000)* which is rolled over quarterly at a rate of 10% per annum. The beneficiary of the loan is Protocol Associates NV.

Maturity of Debt	*2005* *£'000*	*2004* *£'000*
In one year or less, or on demand	4,867	3,147
In more than one year, but not more than two years	16,634	4,778
In more than two years, but not more than five years	2,502	16,069
In more than five years	604	-
Total instalment debt	**24,607**	23,994
Loan notes repayable otherwise than by instalments	49,229	45,342
Total borrowings	**73,836**	69,336

10 Creditors - amounts falling due after more than one year (cont'd.)

Terms of repayment

With respect to the £49,229,000 of unsecured loan notes falling due after more than one year, payment becomes due on a takeover or Listing. The company also has the option of repaying the loan note at 30 days notice.

Bank loans, which are stated net of issue costs released to the Profit and Loss Account over the life of the loans, are as follows:

Tranche A amounting to £13,762,918 is repayable in instalments which commenced 31 March 2004.

Tranche B amounting to £3,067,148 is repayable in full on 31 December 2006.

Tranche C amounting to £5,005,000 is repayable in two equal instalments on 30 June 2007 and 31 December 2007.

In accordance with FRS 4, bank loans are stated after an arrangement fee of £1,116,000 which is being amortised over the period of the loans. The charge in the current year was £209,000 *(2004: £221,000).*

Rates of interest payable

With respect to £42,983,000 of loan notes repayable otherwise than by instalments, interest is added to the principal of the loan notes in arrears on 30 June and 31 December. One half of all interest is accrued in arrears at a rate of 8%, with the remaining half being accrued in arrears at 12% per annum.

With respect to £6,246,000 of loan notes repayable otherwise than by instalments, interest is added to the principal of the loan notes in arrears on 31 March and 30 September. Interest is accrued in arrears at 8% per annum.

With respect to bank loans, interest is payable at rates between 2.25% and 3.5% above LIBOR.

11 Provision for liabilities and charges

	2005	***2004***
	£'000	***£'000***
Contingent fees	350	350

Provision for liabilities and charges represents professional fees of £350,000 payable to Bridgepoint Capital (Nominees) Limited which have been deferred until disposal of the group.

12 Share capital

Authorised, allotted and fully paid	*2005* *£'000*	*2004* *£'000*
Equity		
999,999 Ordinary shares of 90p each	900	900
142,857 'A' ordinary shares of 90p each	129	129
1 £1 share	-	-
	1,029	1,029

Share Rights

The ordinary shares and 'A' ordinary shares rank pari passu with regard to distribution rights. With regard to voting rights the holders of 'A' ordinary shares are entitled to cast, in relation to each resolution proposed, such number of votes as shall comprise three quarters of all votes so cast. The one pound share has the same rights as an ordinary share.

13 Reserves

	Share premium account £'000	*Profit and loss account £'000*	*Total £'000*
At 1 July 2004	114	(17,686)	**(17,572)**
Loss for the financial year	-	(5,185)	**(5,185)**
At 30 June 2005	**114**	**(22,871)**	**(22,757)**

14 Reconciliation of movements in shareholders' funds

	2005 *£'000*	*2004* *£'000*
Opening shareholders' funds	(16,543)	(12,085)
Loss for the financial year	(5,185)	(4,458)
Closing shareholders' deficit	**(21,728)**	(16,543)

15 Deferred tax

Deferred tax assets have not been provided as follows:

	2005	*2004*
	£'000	*£'000*
Losses	3,438	2,805
Other timing differences	30	14
	3,468	2,819

16 Contingent liabilities

The company, as part of an interest set-off arrangement, has guaranteed the overdraft facilities of a number of fellow group undertakings. The maximum liability under the guarantee is limited to the credit balances in those accounts which totals £30,996,000 at 30 June 2005 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 is secured by fixed and floating charges across the undertakings of the group.

17 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.

18 Ultimate parent company

The company's entire issued share capital is owned by Protocol Associates NV. 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 101 Finsbury Pavement, London, EC2A 1EJ.