



Carter & Carter Group plc

# A journey of achievement



Carter & Carter  
Group plc

**Carter & Carter Group plc**  
is a major provider of learning  
solutions and outsourced  
support services to corporate  
organisations and SMEs.



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## Highlights 2006

- > Clear market leadership in government funded vocational learning
- > Excellent position in the Government's flagship Train to Gain programme
- > Acquisition and integration of Assa, Fern and ReMIT
- > Good organic growth
- > 6,535 NVQ achievements, 1,815 apprentice framework completions and 1,707 people helped into jobs
- > Final dividend increased by 48% to 4.75p per share



Underlying operating profit

**£18.6M\***

\*Underlying operating profit increased by 81% to £18.6m (2005: £10.3m)

**Operating profit increased by 29% to £11.9m (2005: £9.2m)**

Underlying EPS

**28.5P\***

\*Underlying basic earnings per share increased by 62% to 28.5p (2005: 17.6p)

**Basic earnings per share increased by 17% to 15.6p (2005: 13.3p)**

Underlying profit before tax

**+111%\***

\*Underlying profit before tax increased by 111% to £15.2m (2005: £7.2m)

**Profit before tax increased by 39% to £8.5m (2005: £6.1m)**

Revenue

**+85%**

**Revenue increased by 85% to £94.1m (2005: £51.0m)**

\* Excludes intangibles amortisation and exceptional costs.

# A Year of Achievement

SEPTEMBER

JANUARY

## Acquisition of Assa Training & Learning

Assa was acquired on 1 September 2005 for consideration of £24.2m. Assa is a major provider of workforce training for adults. The acquisition substantially broadened the Group's vocational learning offer.

## Contract win

Outsource Services wins the contract to operate the Volkswagen Group National Academy. This includes all five brands; VW, Audi, Seat, Skoda and Volkswagen Commercial Vehicles. The academy is responsible for delivering 70,000 technical and commercial training days per annum.



A Carter & Carter Group plc company



# 6,535

Assa achieved 6,535 NVQs

Revenue £m		
		94.1
38.2	51.0	
04	05	06

**+85%**

Revenue increased by 85% to £94.1m



FEBRUARY

**Acquisition of the Fern group of companies**

Fern was acquired on 9 February 2006 for £15.5m. The business is a leading provider of government funded programmes such as New Deal and New Deal for Disabled people which are aimed at supporting people back into work.

**New Company of the Year**

In February Carter & Carter Group plc won the New Company of the Year award at the 'National PLC Awards 2005' organised by the Financial Times.

**Apprenticeship achievements**

**1,815**

Number of apprentices achieving their framework qualification



APRIL

**Group wins £2.6m Motorsport Academy contract**

Motorsport Development UK awarded a £2.6m contract to Carter & Carter who in partnership with the Motorsport Industry Association, will manage and deliver the UK Motorsport Academy. The Academy will develop learning solutions and support the development needs of the motorsport sector.

MAY

**Acquisition of ReMIT**

The Group acquired Retail Motor Industry Training (ReMIT) on 17 May 2006 for £25.5m. The acquisition doubled the Group's apprentice numbers to over 11,000. ReMIT also provides access to additional blue chip clients including Ford and offers increased penetration into the independent motor trade.

JUNE

**Craig Phillips Building Skills acquisition**

In June Craig Phillips Building Skills was acquired which provides the Group with training facilities from which to deliver construction qualifications in the North West.

JULY

**Train to Gain success**

Carter & Carter was successful in receiving funding allocations in eight LSC regions which gives the Group an excellent position in this flagship national training programme.



CRAIG PHILLIPS BUILDING SKILLS



# Vocational Learning Division

The Vocational Learning Division provides a range of learning services and solutions to support the varied development needs of individuals. Following the acquisitions of Assa, Fern and ReMIT the Group is the largest provider of vocational learning in the UK.

Vocational Learning increased its revenue by 148% to £66.1m in 2006 (2005: £26.7m). The division aims to provide learning programmes and solutions which impact on workplace productivity and competitiveness by improving workforce skills and giving disadvantaged groups the opportunity to get back into employment. Following the acquisition of ReMIT, the Group has over 11,000 apprentices. The division has a reputation for delivering high quality provision and has received very good grades in the most recent Adult Learning Inspectorate inspections. Vocational Learning operates through two business units; Apprentice Learning, and Employability & Skills.



Revenue £m		
17.8	26.7	66.1
04	05	06

## +148%

Revenue increased  
by 148% to £66.1m

## Apprentice Learning

Apprentice Learning provides training programmes to people aged between 14 and 24 years old. Expert teams manage apprentice programmes across a range of specialisms that deliver quality, value and consistency for our clients. Innovative training solutions are employed to push the apprentice's motivation and productivity, delivering benefits for the individual, the employer and the funding body. The integration of all brands and sectors under the single identity of Apprentice Learning has set the foundations for a faster, leaner and more efficient structure from which to deliver ongoing growth. Our services include:

- securing vacancies for apprentices with employers;
- recruitment of apprentices;
- matching and placing of successful applicants;
- design and delivery of training programmes;
- assessment and certification; and
- ongoing training opportunities.

## Employability & Skills

Employability & Skills comprises the former Assa and Fern operations and delivers a wide range of programmes that help to improve opportunities and quality of life for individuals at all stages of learning. It supports customers through the delivery of workforce development and productivity improvement using NVQ products across a range of specialisms which are applicable to a wide range of sectors from retailing to manufacturing. Employability & Skills also operates programmes under the Government's New Deal and New Deal for Disabled People initiatives, LSC and European Social Fund programmes supporting individuals to develop skills to prepare them for sustainable employment.



*"Never before had I been given an opportunity to actually use what skills I had and little did I know what skills I had. I knew I had something, I knew I had an idea, but if it wasn't for nurturing that from the start, then I truly believe that I wouldn't be here now."*

Martyn Harries  
Ex-Offender and former Carter & Carter  
New Deal Self-Employment client

*"I knew I had something, I knew I had an idea."*

#### **Sector focus**

Vocational Learning balances government funding and employer contributions to provide learning that impacts on workplace productivity across a range of activities.

#### **Automotive Retail**

Carter & Carter is the largest provider of apprenticeships in the automotive retail sector. Vocational Learning provides programmes for both the independent sector and fully branded programmes to major automotive manufacturers and franchised dealer groups. In addition provision for the non franchised sector has been expanded through the operation of day release programmes from regional facilities.

- We deliver 15 different automotive Advanced Apprenticeship specialisms offered through 31 branded programmes in conjunction with 37 major automotive brands.
- There are eight apprentice programmes to support the independent sector, dealer groups and other automotive companies using block, day and on site delivery models.
- Automotive pre-apprenticeships for 14 to 16 year olds.

#### **Construction**

Vocational Learning provides its services to both large and small construction contractors in a range of training from new-build to refurbishment and maintenance. Following the acquisition of the Craig Phillips Building Skills operation the division has purpose built facilities in Merseyside from which to deliver a broad range of apprentice training products. Apprentice Learning delivers four apprentice specialisms and a further three are planned which will add significant numbers of new learners and further expand our training proposition.

- Four construction NVQ specialisms delivered.
- Ambrose Project – innovative community refurbishment programme delivered with Carter & Carter learners.
- First regional contract to deliver construction skills to benefit claimants.

# Vocational Learning Division

# 1,707

Number of job outcomes delivered by Fern since acquisition

## Customer Care & Administration

Vocational Learning offers a range of qualifications for either internal or external customer facing roles including:

- Customer Service NVQ Level 2.
- Callability – Call Handling basic skills to individuals on health related benefits.

## Engineering & Manufacturing

The Vocational Learning division utilises government and employer funding to deliver programmes to customers that meet the challenges of improving productivity and competitiveness through delivery of:

- NVQ programmes and qualifications tailored to meet the clients' own internal operations.
- Bespoke management development programmes.
- Training on key productivity improvement tasks such as 5 S, 7 Tools and Kaizen.

## Food Manufacturing & Processing

Successfully improving productivity and competitiveness in the Food and Drink sector relies upon the delivery of generic programmes within the restrictions placed on manufacturing in this environment. The division's programmes include:

- Basic skills.
- Productivity improvement tools.
- Food standard certifications.

## Health & Care

The inclusion of care units in the Vocational Learning delivery reflects a change in NHS focus from purely occupationally competent employees to those employees also having a basic understanding of care. In this sector we deliver:

- NVQ Level 2 Support Services in Health Care.
- Decontamination and Sterilisation in Health Care Environments RIPH Level 2.
- Managing and Safe Handling of Medicines.
- Control of infections and contaminations.

## Sport & Leisure

Vocational Learning operates and delivers a specialist apprenticeship programme for the FA Premier League. Under this programme we deliver the Apprenticeship in Sporting Excellence which is aimed at young people with realistic potential to achieve the highest levels in their sport.

*"By providing the industry with skilled and valuable workers I have recruited around 15 labourers and bricklayers and the level of training is to a very high standard – their practical experience is invaluable."*

Joy Harrison  
Company Secretary  
E W Construction



The qualification is aimed at improving technical, tactical, physiological and mental aspects of the individual sport, as well as looking at lifestyle management, health and safety and communication skills. The programme is delivered to 18 FA Premier League football clubs. We will also be delivering training as part of our Motorsport Academy contract.

**Business development highlights**

The division has continued to deliver strong growth. Some of the business development highlights are outlined below:

- Train to Gain – Contract awarded by the LSC to deliver in eight of the nine regions and we are also part of a successful consortium to deliver in the ninth region. The key goals of the service are to make sure that training is demand led by the employer to enable them to access funding, through providers, for NVQ levels 2 and 3 and Skills for Life provision.
- Apprentice Learning has devised an innovative new apprenticeship programme for Piaggio, Europe’s leading scooter and motorcycle manufacturer.

- OLASS – Contract awarded to deliver the Offender Learning & Skills programme across all 13 prisons in the West Midlands.
- Volkswagen Group Apprentice Learning Centre – Continuing the investment in new facilities, the state of the art dedicated Volkswagen Group Apprentice Training Centre opened this year providing fully branded facilities for all the programmes within the Volkswagen Group.

**Looking forward**

The ongoing development and growth of the Vocational Learning Division will be focused around:

- Continued high quality, innovative provision.
- Strong employer engagement delivering in a flexible, cost effective way.
- Increasing our portfolio of clients to further leverage our expertise.
- Continued investment in training facilities.
- Continued support of the Government’s Vocational Learning priorities.



3,000<sup>TH</sup>

July 06 3,000<sup>th</sup> New Deal Job Outcome in Humber

5,000<sup>TH</sup>

June 06 5,000<sup>th</sup> New Deal Job Outcome in Leicestershire

1<sup>ST</sup>

First learning provider to deliver BIT to NVQ Level 4

# Outsource Services Division

Outsource Services works across the motor industry providing manufacturers and their retailer networks, dealer groups and suppliers with a range of specialist services.

The division will increasingly focus on leveraging its skill base across other sectors. Following the acquisitions of the Group, the Outsource Services Division is able to develop bespoke solutions which incorporate government funding. The division provides dedicated teams of people that work within the vehicle manufacturers' organisations supplying services through three business units; People Development, Sales, and Network Development.

Revenue £m		
20.5	24.3	28.0
04	05	06

+15%

Revenue increased  
by 15% to £28.0m

## People Development

The People Development unit provides automotive brands and first-tier automotive suppliers with:

- brand dedicated programmes providing recruitment, training, coaching and administration support with the intention of improving staff effectiveness and competency levels;
- branded teams of technical trainers who work within the automotive brand to deliver technical training to franchise dealer staff; and
- training and advising vehicle manufacturer approved bodyshops to improve performance standards and processes.

## Sales

The Sales unit provides automotive brands with dedicated, brand aligned teams that:

- provide training and advice to dealership personnel in selling vehicle manufacturer branded parts and provide telemarketing operations in selling direct to the independent trade;
- operate as in-house business sales teams to large corporate customers;
- advise dealership personnel on the marketing and selling of financial solutions; and
- train and advise dealership personnel to improve used car sales.

## Network Development

The Network Development unit focuses on the franchised dealer network and provides teams that:

- implement and maintain quality standards up to and including ISO9002;
- develop and deliver first time fix programmes;
- maximise workshop capacity through technical and process efficiencies;
- manage and maintain effective warranty processes and audit programmes to deliver warranty spend savings to manufacturers;
- maximise service workshop sales through effective marketing strategies;
- provide specialist technical support via in-house call centre and field teams;
- provide vehicle preparation support services for manufacturer demonstration, fleet and media units;
- provide technical support workshops for resolution of complex technical and warranty issues with customer vehicles;
- provide a post-accident customer assistance service on behalf of the automotive brand through call centre facilities; and
- conduct Health and Safety audits to approved bodyshop networks.



**Business development highlights**

Some of the divisions main business development highlights are outlined below:

- Volkswagen Academy – complete outsource of Volkswagen Group’s training function to dealer staff for all group brands: Volkswagen, Audi, Seat, Skoda and Volkswagen Commercial Vehicles.
- Goodyear Academy – Setup and management of a central training function for all Goodyear owned and franchised retail outlets in the UK.
- Motorsport Academy – Setup and management of a single national organisation for all education, training and career development in the motorsport industry.

**Measuring the value we provide**

A key ingredient in our successful retention of existing contracts and the provision of competitive advantage in winning new business is the accurate and timely measurement of the value our dedicated teams provide clients. This is facilitated by our internal performance tracking techniques and tools that are aligned to the achievement of the client’s commercial objectives. Our guiding philosophy – Measurable Business Improvement – is ingrained in the way we think and the actions we take on a day-to-day basis within our teams. This enables the client to quantify the value we provide on an ongoing basis.

**Looking forward**

The outlook for the Outsource Services Division is very positive as Carter & Carter’s reputation for delivering a measurable business improvement and value becomes more widespread. The opportunity to cross-sell existing products to existing clients is supplemented by the competitive advantage of integrating regional and national government funding streams into our training intervention solutions.

Market conditions within the automotive sector continue to favour established partners with a track record for delivering value in a transparent and measured way. We are using our experience and implementation expertise within automotive retail to expand into sectors with similar market dynamics and aim to deliver new programmes in these sectors within 2007. Our focus on forging close relationships with clients and demonstrating and delivering value in all programmes provides a solid foundation for future growth.

Volkswagen Group awarded Carter & Carter the contract to provide all people development activity on behalf of the group’s five branded networks – Volkswagen, Audi, Seat, Skoda and Volkswagen Commercial Vehicles – for a period of three years.

The contract involves delivering commercial training, technical training, field based consultancy and operational support to the respective networks’ staff. The Volkswagen Learning Services team, operated by Carter & Carter, focuses on the recruitment, development and retention of talented people who continually improve the business results of the Volkswagen brands in the UK.

# Lifelong Learning

Carter & Carter Group plc is committed to providing a first class learning experience for everyone, at whatever stage of their life, that develops their learning skills and inspires them to pursue their own personal learning journey through life.



YOUNG APPRENTICESHIPS

TECHNICAL TRAINING

NEW DEAL  
18-24



AGE  
**14**

ADVANCED APPRENTICESHIPS

ADULT APPRENTICESHIPS



E2E

SKILLS 4 LIFE

NEW DEAL FOR  
DISABLED PEOPLE



NEW DEAL  
25+

MANAGERIAL  
DEGREE LEVEL

SUPERVISORY

AGE  
65+



ADULT  
TRAINING

NEW DEAL  
50+

## Achieving for our stakeholders

Carter & Carter is committed to providing a first class learning experience, for everyone at whatever stage of their life, that develops their learning skills and inspires them to pursue their own personal learning journey through life.

### THE LEARNER & EMPLOYER

- Personal career development with continual learning experience
- Maximum benefit from allocated government funding



### THE GOVERNMENT

- Carter & Carter is focused on delivering in government priority areas



### THE RETURN

- By delivering for learners and meeting government targets we deliver excellent returns for shareholders

# Business Review

Markets

*Our Market Opportunity*



Welcome to our Business Review for the year ended 31 July 2006. Carter & Carter Group plc has enjoyed a highly successful year delivering outstanding growth both organically and through acquisitions. In the large growing government funded vocational learning market, Carter & Carter has established clear market leadership and an excellent platform for further growth. I would like to take this opportunity to thank all of our team members for their hard work and invaluable contribution during the last year.

Phillip Carter  
Chief Executive Officer

The Business Review is prepared to assist the members to assess the Group's strategy and the potential for that strategy to succeed. The Business Review contains certain statements that are or may be forward-looking. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report. These statements should be treated with caution as they involve risk and uncertainty because they relate to future events and circumstances. There are a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements.

The Group operates in and serves two core sectors; the vocational learning market and the market for the provision of outsourced services to the automotive retail sector. In aggregate, the Group's addressable market is approximately £3.0bn, which is comprised as follows:

#### Market Analysis

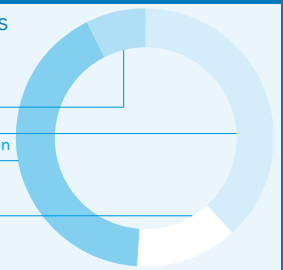
**£2.6bn**  
Vocational Learning

Train to Gain £0.2bn

Welfare to Work £1.1bn

Work based learning £1.3bn

**£0.4bn**  
Outsource Services

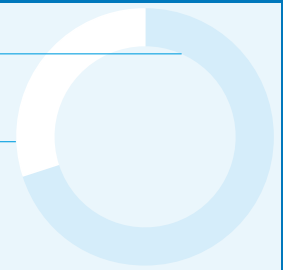


Our revenue split between the two sectors for the year ended 31 July 2006 is shown below:

#### Group Split

**70%**  
Vocational Learning  
£66.1m

**30%**  
Outsource Services  
£28.0m



## Vocational Learning

Vocational or work based learning provides training programmes to improve the skills of the workforce. These training programmes include apprenticeships for young people and NVQs for adults.

This market sector also encompasses programmes to assist unemployed and other disadvantaged groups to get back to work. The primary sources of public funding for vocational learning are the Department for Education and Skills, through the Learning & Skills Council (LSC), and the Department for Work and Pensions, through Job Centre Plus. There are around 270,000 young people on government funded apprenticeship programmes in the UK.

Among the LSC's key priorities are increasing the numbers of young people who attain qualifications, increasing the basic skills of adults, increasing employer engagement in training together with generally driving up the quality of education and training provision. In order to increase the numbers of adults with a first Level 2 qualification (equivalent to five good GCSE passes) the Government is committing significant funding to the roll out of a national training programme, Train to Gain, aimed directly at providing flexible, tailored training that meets the needs of employers. Funding in 2006/07 is £230m, increasing to £400m in 2007/08.

The work based learning market is highly fragmented with high levels of poor provision and low achievement rates. There are around 1,080 providers holding LSC work based learning contracts. Over 80% of these providers have contracts with a value of less than £1.0m. The LSC is committed to driving up achievement rates and improving the quality of provision.

More robust public sector procurement processes are being introduced and we anticipate that this will accelerate over forthcoming years. These dynamics will almost certainly result in the LSC contracting with fewer, larger providers.

### Vocational Learning Market Drivers

- Ongoing skills shortages and low levels of basic skills in the UK workforce will require continued government focus and funding of vocational learning.
- Skills shortages and inadequate training provision are particularly acute in certain sectors, e.g. construction.
- LSCs aim to drive up quality and rationalise the fragmented network of work based learning providers.
- The LSCs own restructuring programme has created more autonomous regions and significantly reduced their headcount. The LSC will need to work with a smaller number of large providers who are able to deliver high quality provision. This in turn will lead to larger contracts for the best providers.
- Focus on increasing the number of people with first Level 2 qualifications demonstrated by the funding of Train to Gain.
- Strong pressure on schools to introduce vocational programmes which will increase the work based opportunities in the 14 to 19 sector.
- Improving the quality of provision in Further Education colleges through contestability for FE funding.
- The Government's Welfare to Work reforms aimed at decreasing the numbers of people claiming incapacity benefit by getting them back into work.

## Outsource Services

Outsource Services is an established partner with most of the world's leading automotive brands in the UK, providing a range of solutions tailored to individual needs.

The market for outsourced support services in the UK automotive retail sector is estimated to be worth around £400m per annum. The drive to control and reduce distribution costs by automotive manufacturers whilst increasing customer satisfaction, creating competitive differentiation and improving dealer performance continues to gather pace as brands outsource organisational support functions not considered to be operationally critical.

Whilst new vehicle sales remain under pressure the overall vehicle parc continues to grow and it is the vehicle parc, along with the improvement of incremental revenue streams, that fuels the demand for the majority of our support services.

### Outsource Services Market Drivers

- The ongoing strategy of automotive brands to reduce fixed cost and build flexibility into the cost base.
- Opportunities to provide similar services to first tier suppliers.
- Developing solutions to bring down the high cost of manufacturer warranty claims.
- Automotive brands requirements to improve the profitability and performance of dealership networks.
- Selling more of our existing services across our current customer base.

# Business Review

## Strategy & Outlook



### *Our strategy...*

#### **Business strategy**

We aim to provide an outstanding learning experience through an in depth knowledge of the sectors in which we operate that results in class leading achievement rates and people who have the ability to excel in their employer environment. With an extensive product range and geographic spread we aim to provide a complete outsource solution for employers that optimises government and employer spend. Scale provides the ability to extend the reach to SMEs and hard-to-reach learners. Using our depth of sector knowledge and national employer reach our target is to become a key outsource provider with colleges.

Our strategy also encompasses:

- delivering a range of vocational learning solutions and programmes for people from age 14 to 65 focused on those priority sectors and on the qualifications which address the UK skills shortages;
- delivering programmes and providing service delivery which is of a consistent high quality and through which the stakeholders can see a measurable business improvement;
- expanding our offering into new attractive industry sectors, by acquisition where appropriate;
- investing in a scalable business infrastructure including the establishment of a regional business development team to support and drive long-term, organic growth across all our operating businesses;
- continuing to innovate and develop solutions which offer real value for money for our funders and customers; and
- leveraging our financial strength and competitive position to take maximum advantage of the opportunities presented by the rapidly developing market and secure long-term, visible revenue streams.



### *...in action.*

*"We have delivered on our promises with Train to Gain which has resulted in significant success. However, this is just the start, with strong growth set to continue as a result of the further large scale tendering of other activities by the LSC in the immediate future. Our investments in the past 12 months and high quality delivery is paying dividends for the public sector, our customers, learners and our business."*

Peter Marples,  
Group Business  
Development Director

One of the Government's key priorities is to improve the productivity and competitiveness of the UK economy. Central to this is improving the skills of adults and in particular targeting the seven million people in the working population who do not have a Level 2 qualification. In support of this, the LSC has embarked upon an ambitious programme, Train to Gain. In order to launch the initiative, the LSC conducted a regionally focused tender process during the summer. Carter & Carter Group plc was successful in receiving funding allocations in eight of the nine regions of the country and as a result we are one of the largest national providers of Train to Gain funding activity. The overall funding for Train to Gain is set to grow from £230m in 2006/07 to £400m in 2007/08 with further increases forecast in future years.

Our success in this area has been underpinned by our competitive strength and position in the work based learning sector, where we:

- have a clear understanding of both national and regional priorities;
- have an existing track record of high quality delivery;
- understand the importance of employer engagement – addressing employer needs and targeting those who are ready to engage in Train to Gain;
- can offer financial stability – a robustness that enables the LSC to award large contracts with certainty of solvency and transparency; and
- can offer innovation and value for money.



### Outlook and future growth

The pace of rationalisation of all aspects of vocational learning, from 14 to 16 vocational programmes, pre-entry employment, apprenticeships and adult vocational skills is set to increase over the next 12 months and beyond which will provide the business with significant opportunities for growth.

Train to Gain funding increases from £230m in 2007 to over £400m the following year. Our excellent performance in the recent tender process and resultant strong position provides excellent prospects.

The LSC has indicated that they will be tendering a large amount of apprenticeship training in the next few months for commencement in August 2007. Initial indications are that around £200m to £300m of activity will be tendered across England. The LSC is seeking to rationalise its provider base away from operators that have not achieved the prescribed achievement rates and who are not able to demonstrate continuous improvement and adequate financial strength. This tender process will not affect the Group's existing contracts but does present a significant opportunity for incremental growth. We believe we are very well placed to benefit from this programme, underpinned by the investment we are making in our regional business development structure, and our strong financial position together with our quality track record.

The opportunities in the construction sector are particularly exciting. This is an industry sector which suffers from particular skills shortages combined with poor quality training provision and low achievement rates. After engineering, construction is the second biggest LSC funded occupational sector. We believe there is an opportunity to replicate in construction what we have achieved in the automotive retail sector.

The acquisition of the Fern business gave us our first entry into the sector and in order to further develop our presence we acquired a construction training facility in Liverpool. Consequently, we were awarded an LSC contract to deliver construction apprenticeships in the North West which is worth £1.5m in the first year. We anticipate being able to grow our construction revenues significantly over the medium term.

The Government is introducing contestability for further education funding as part of its strategy to drive up quality in the sector. This will provide further significant market opportunities. We are already in discussions with a number of colleges about how we can work strategically with them in this area. This is likely to result in some significant long-term contracts for the Group. We also plan to expand our offer to the 14 to 16 age group community, with student numbers doubling in 2007.

The Department for Work & Pensions also continue to review their activities which we anticipate will provide further opportunity for us in the future. The Welfare to Work reforms which are designed to get significant numbers of people off Incapacity Benefit and back into work should provide excellent opportunities for the Group given our strong track record in working with disadvantaged groups.

We expect further growth through acquisition focused on businesses which add product range and sector coverage on a regional and national basis. The experience we have gained, particularly over the past year, of integrating acquired businesses provides us with confidence in our ability to deliver early benefits to customers, learners and funders whilst generating shareholder value.

Overall, the outlook for our Vocational Learning business is extremely positive, indeed there is likely to be rapid and significant opportunity in the next year with few providers having the financial and management capability to be able to respond to the opportunities.

The outlook for the Outsource Services Division remains positive. Our primary focus for growth comes through understanding the varying needs of the automotive brands to facilitate the cross-selling of existing solutions to clients together with developing innovative solutions. We are also seeking to develop new business opportunities with first-tier automotive suppliers who need to control costs to meet their customers' challenging cost and quality requirements. The opportunity to cross-sell existing products to existing clients presents a sizeable opportunity that is supplemented by the competitive advantage of integrating regional and national government funding streams into our training solutions.

Additionally, market conditions continue to favour established partners with a track record for delivering value in a transparent and measured way. These factors, combined with a focus on forging close relationships with clients, provide a solid foundation for future growth.

The Board is pleased with the start to the new financial year. We go into the year with government funding in place to support approximately 95% of the business plans for Vocational Learning which is the strongest position the division has ever been in. The opportunities through Train to Gain are particularly exciting. The pipeline of new business opportunities being generated by the Group gives the Board confidence for 2007 and beyond.

# Business Review

## Operating & Financial Review

### Financial Highlights

	2006 £m	2005 £m	Change
Revenue	94.1	51.0	85%
Operating profit before amortisation and exceptional items	18.6	10.3	81%
Interest	(3.4)	(3.1)	
Profit before tax, amortisation and exceptional items	15.2	7.2	111%
Intangible amortisation	(3.0)	(0.1)	
Exceptional items	(3.7)	(1.0)	
Profit before tax	8.5	6.1	39%
Tax	(2.7)	(2.1)	
Profit for the year	5.8	4.0	47%
Underlying earnings per share	28.5p	17.6p	62%
Basic earnings per share	15.6p	13.3p	17%
Dividend per share	6.75p	3.2p	111%

The Group now prepares its accounts in accordance with International Financial Reporting Standards (IFRS). In the results above, the comparatives have been restated to reflect this change.

In the year ended 31 July 2006, revenue increased by 85% to £94.1m (2005: £51.0m). Operating profit, before amortisation of intangible assets and exceptional costs, increased by 81% to £18.6m (2005: £10.3m). Underlying operating margin reduced marginally to 19.7% (2005: 20.2%). This reflects the combined impact of lower margins in the acquired businesses, higher margins in the Outsource Services Division and the impact of higher central costs following flotation. Operating profit increased by 29% to £11.9m (2005: £9.2m). Profit before tax, amortisation and exceptional costs, increased by 111% to £15.2m (2005: £7.2m). Profit before tax increased by 39% to £8.5m (2005: £6.1m).

Underlying earnings per share, excluding intangibles amortisation, exceptional costs and the related tax, increased by 62% to 28.5p (2005: 17.6p). Basic earnings per share increased by 17% to 15.6p (2005: 13.3p).

The proposed final dividend is 4.75p per share (2005: 3.2p), taking the total dividend for the year to 6.75p (2005: 3.2p) per share.

### Vocational Learning Division

	2006 £m	2005 £m	Change
Revenue	66.1	26.7	148%
Operating profit*	14.3	7.2	97%
Operating margin*	21.6%	27.1%	

\* Before intangibles amortisation and exceptional items.

Vocational Learning revenue increased by 148% to £66.1m (2005: £26.7m) largely driven by the impact of the Assa, Fern and ReMIT acquisitions. Of the overall revenue increase of £39.4m, some £5.9m was generated through organic growth with the balance coming from acquisitions.

Average numbers of apprentice learners increased by 50% to 6,684 (2005: 4,446) through a combination of organic growth in automotive retail apprentices of 7% and the remainder from the acquisitions of Assa

and ReMIT. We ended the year with 11,124 apprentice learners (2005: 4,674). Average revenue per apprentice learner increased by 2% to £6,120 (2005: £6,005). Underlying organic revenue growth per learner was stronger at 15%, reflecting the combined impact of general increases in funding levels, delivery of apprenticeship courses over shorter periods and higher numbers of apprentices achieving their qualifications in the year. Some 1,311 (2005: 684) apprentices in our existing automotive retail operation achieved their qualification in 2006, an increase of 92%. As a result, achievement rates have continued to improve, rising to 62% in 2006 compared to the national average of 50%. Average revenues per apprentice in the Assa and ReMIT businesses are currently around £4,000.

In the period since acquisition, Fern has performed particularly strongly, primarily as a result of its principal New Deal contracts which are benefiting from the impact of higher levels of unemployment in the economy. Fern is also achieving higher levels of sustainable job placements for its clients, which is a key measure of success.

Assa's performance was weaker than originally anticipated, particularly in the second half of the financial year, primarily as a result of a reduction in the level of Learndirect funding available. In previous years, the business has benefited from growth in Learndirect funding, however this reduction was reflective of the reduced levels of funding which are being allocated to the Learndirect programme by the LSC. Ufi, the body responsible for Learndirect, has made the strategic decision to in-source funding management, an area that Assa has historically been particularly active in. Assa was also unsuccessful in winning a training delivery contract for 2007. As a result, Assa is not operating in the Learndirect market in the current financial year and as a

Revenue £m			
		33.5	94.1
	9.6		
51.0			
05	Organic growth	Acquisitions	06

consequence, intangible assets of £1.4m associated with Learndirect, that were recognised on acquisition, have been written off as at 31 July 2006 reflecting the change in the business going forward. Nevertheless, the Group's success in positioning itself as a leading provider of NVQs through Train to Gain demonstrates the strategic importance of the Assa acquisition.

Operating profit, before amortisation and exceptional items, increased by 97% to £14.3m (2005: £7.2m). Organic profit growth of 24% generated £1.7m and the acquired businesses contributed £5.3m. Operating profit increased to £9.1m (2005: £7.2m). The operating margin, before amortisation and exceptional costs, decreased to 21.6% from 27.1% in 2005. The operating margin in our existing apprenticeship operation was broadly unchanged year on year and was offset by the impact of the inherently lower margins in the acquired businesses combined with the higher level of central costs.

### Outsource Services Division

	2006 £m	2005 £m	Change
Revenue	28.0	24.3	15%
Operating profit*	4.3	3.0	41%
Operating margin*	15.2%	12.5%	

\* Before intangibles amortisation and exceptional items.

Outsource Services experienced another year of good growth with revenue increasing by 15% to £28.0m (2005: £24.3m). The division benefited from the increased volume of technical training revenues and the commencement of the contract to run the VW Group National Academy.

The average number of fee earning staff increased by 22% to 438 (2005: 360). As expected, the average revenue generated per fee earner reduced by 5% to £63,900 (2005: £67,500) reflecting our strategy of providing a broader range of services to clients.

Operating profit, before amortisation and exceptional items, increased by 41% to £4.3m (2005: £3.0m). Operating margins showed a further increase to 15.2% (2005: 12.5%). Over the last two years operating margins have increased by six percentage points.

Operating profit was £2.8m (2005: £3.0m). This is lower than last year because of the impact of the restructuring costs referred to below.

### Acquisitions

A core part of our strategy is to grow our business through selective acquisitions which extend our range of services and solutions in priority areas or sectors or which bring additional learners in existing areas of expertise.

We have invested over £67m in three key acquisitions in 2006 which have underpinned our position as the leading provider of vocational training and significantly increased our geographic spread.

On 1 September 2005, we acquired the Assa Training & Learning group of companies (Assa) for £24.2m. Assa is a leading provider of vocational training to adults across a range of industry sectors including automotive, food and drink processing, engineering and general manufacturing. This acquisition substantially extended the Group's work based learning offer which, to that point, had been primarily focused on apprenticeships for 16 to 24 year olds in the automotive retail sector.

On 9 February 2006, we acquired the Fern Training & Development group of companies (Fern) for £15.5m. This acquisition gave the Group access to an important new opportunity, 'employability'. Fern is a leading provider of training, advice and support to unemployed and disabled people.

On 17 May 2006, we acquired Retail Motor Industry Training Limited (ReMIT) for £25.5m. ReMIT, with around 6,000 learners, was the Group's largest competitor in the automotive retail apprenticeship sector. This acquisition doubled the size of the Group's apprenticeship activities, brought with it additional blue chip branded manufacturer programmes and provided greater access to the independent retailer sector. In addition, we are able to derive substantial revenue and cost saving benefits by integrating ReMIT with our existing EMTEC business.

These acquisitions were funded through a combination of debt and equity. A total of £31.4m was raised in two equity placings, shares with a total value of £6.8m were issued to the vendors and the balance of the consideration, net of the deferred elements and associated costs, was funded from banking facilities.

Goodwill and other intangible assets recognised as a result of these acquisitions amounted to £71.4m and £5.4m respectively. The other intangible assets primarily relate to the value of acquired contracts which will be amortised over their estimated lives. The low value of intangible assets relative to goodwill reflects the nature of the acquired contracts combined with the Group's ability to drive the value of the businesses as a result of its scale, market position and synergistic benefits that derive from combining the operations. The associated

# Business Review

## Operating & Financial Review

intangible amortisation charge is £1.7m in 2006 which will reduce to £1.2m in the current year. The overall amount of the goodwill and intangibles of £76.8m relative to the consideration of £67m is impacted by a number of items; the low asset intensity of people based businesses, the working capital dynamics of the operations together with the recognition of certain legacy matters which are being resolved post acquisition where the Group is protected through the acquisition agreements.

### Restructuring and integration

The Group incurred one off charges primarily related to integrating the acquired operations and restructuring to suit the enlarged business. The total charge for the year ended 31 July 2006 is £3.7m.

Cost associated with staff restructuring and exiting surplus properties amounted to £2.7m. Of this charge, £1.0m was incurred in cash prior to the year end. The remainder will mainly be incurred in cash in the current financial year. It is anticipated that further restructuring charges of around £0.8m will be incurred in 2007 related to these acquisitions. This restructuring activity is realising the savings we anticipated at the time of the acquisitions.

On the acquisition of Assa, Peter Marples received a conditional award of shares under the Group's LTIP scheme. The purpose of the award was to attract Peter Marples to the Group and to secure his services in the post acquisition period. The charge for the year of £0.3m has been included within exceptional charges due to its nature and size. As LTIP awards cover a three year period, there will be further charges in 2007 and 2008 at which point the shares will vest if the LTIP performance conditions have been satisfied.

The substantial UK market opportunities in both Vocational Learning and Outsource Services has led us to review our overseas operations. As a result, we have decided to downsize our operations in Germany and the US so that we can focus our resources primarily in the UK. This has resulted in a one off write down of assets amounting to £0.6m.

In the year ended 31 July 2005, the exceptional charge of £1.0m related to the costs associated with the flotation of the Company in February 2005.

### Taxation

The tax charge of £2.7m in 2006 equates to an effective rate of 31.5% compared to 34.8% in 2005. The tax charge in 2005 was impacted by the costs of flotation, the majority of which were not tax deductible. In 2007 we expect the effective tax rate to remain at 31.5%.

### Cash flow and working capital

	2006 £m	2005 £m
Operating profit	11.9	9.2
Non cash items	4.4	0.8
EBITDA	16.3	10.0
Working capital movement	(8.5)	(2.1)
Operating cash flow	7.8	7.9
Interest	(3.3)	(3.3)
Tax	(3.1)	(1.8)
Capital expenditure	(4.3)	(4.0)
Acquisitions	(56.0)	(5.2)
Dividends paid	(2.0)	(0.8)
Equity financing	30.5	10.1
Other	–	(0.5)
Net cash flow	(30.4)	2.4
Opening net debt	(29.1)	(31.5)
Closing net debt	(59.5)	(29.1)

A summarised cash flow statement is shown in the table. Cash flow from operations was £7.8m (2005: £7.9m). This is substantially lower than earnings before interest, tax, depreciation and amortisation, a measure of cash profits generated, of £16.3m and represents a cash conversion rate of 48% (2005: 79%). Our target rate of cash conversion continues to be 80%. The relatively low conversion rate in 2006 reflects a number of factors that have adversely impacted cash generation in the year. The LSC moved to making payments to providers one month in arrears based on actual performance from the previous practice of paying to a pre-agreed payment schedule. This one-off structural change accounted for approximately £2.0m of the increase in working capital. The working capital requirements of the acquired businesses have accounted for approximately 20 percentage points (£3.5m) of the lower conversion. Whilst the Group assumed £2.8m of cash with the acquired businesses to offset these working capital flows, this is required to be disclosed within acquisitions in the cash flow statement rather than shown as operating cash flows. Finally, the more efficient delivery of learning programmes combined with the substantial growth of the business, particularly in the second half of the year, has resulted in higher levels of working capital, some of which is recoverable over a longer period of time.

We anticipate our operating cash flow conversion being around 65% in 2007 and hence below our target rate. This is due to the continued strong growth in the business, which is seasonally weighted towards the second half of the year, combined with the fact that the ReMIT operation is not affected by the change in the LSC payment terms until the current financial year.

### Capital investment

Capital expenditure amounted to £4.3m in 2006 (2005: £4.0m). The principal capital project that was undertaken during the year was the completion of the construction of the VW Group Apprentice Training Centre at our Ruddington site. The overall spend on this project was £3.7m of which £2.1m was incurred in 2006. The balance of the capital expenditure incurred in 2006 mainly related to investment in our IT infrastructure together with general property enhancements.

Over the last three years we have invested over £9.0m in our training facilities which has provided the Group with some of the best facilities anywhere in the UK. We anticipate capital expenditure of around £5.0m in the current financial year primarily in respect of further investment in training facilities and the Group's IT infrastructure.

Construction work will shortly commence on another major new project which will further enhance the Group's facilities. This 93,000 square foot development, located in Derby, should be complete by late summer next year. This will enable us to consolidate some existing activities from other centres in the East Midlands, provide a dedicated flagship centre for the Daimler Chrysler Apprentice Programme, and provide specialist facilities to deliver construction training. The Group is entering into a 15 year lease to occupy these premises.

### Financing

The Group's principal source of liquidity comes from its operating cash flow. Longer term funding comes from banking facilities and through the issue of new equity share capital. The Group aims to maintain an appropriate level of balance sheet gearing which provides sufficient flexibility to enable us to continue to invest in the business.

At 31 July 2006, the Group had net borrowings of £59.5m (2005: £29.1m). This increase principally relates to the debt used to fund acquisitions and additional financing required to fund the investment in working capital during the period. The ratio of net debt to earnings before interest, tax, depreciation, amortisation and exceptional costs was 3.0 times (2005: 2.6 times).

As a result of the increase in average borrowings during the year, the interest charge increased to £3.4m (2005: £3.1m). However, interest cover, being the ratio of operating profit before amortisation and exceptional costs to the net interest charge, improved to 5.6 times (2005: 3.4 times).

During the year, the Company issued 6,934,549 shares with an aggregate value of £35.7m in order to part fund the acquisitions.

The Group's treasury function is run as part of the finance function and seeks to reduce or eliminate foreign exchange, interest rate and other financial risks and to ensure sufficient liquidity is available to meet foreseeable needs. It does not operate as a profit centre and transacts only in relation to underlying business requirements. Overseas companies account for less than 3% of the Group's turnover and therefore Group results are not significantly impacted by currency movements. The Board regularly reviews the need to put specific currency hedging arrangements in place.

During the year the Group entered into interest rate hedge agreements which cap the interest payable on approximately £19.7m of the outstanding senior debt. An interest floor is also included in these arrangements.

### Earnings and earnings per share

Profit after taxation was £5.9m and the weighted average number of shares in issue during the year was 37.6 million, generating basic earnings per share of 15.6p (2005: 13.3p). Underlying earnings per share, which excludes the impact of amortisation and exceptional one off costs, increased by 62% to 28.5p (2005: 17.6p). On 31 July 2006 there were 40.3 million ordinary shares in issue.

### Dividends

The Board adopts a progressive dividend policy whilst at the same time ensuring a prudent level of dividend cover is maintained. In considering the dividend level, the Board takes account of the outlook for earnings growth, cash flow generation, anticipated levels of investment and financial gearing.

The Board recommends a final dividend of 4.75p per share bringing the full year dividend to 6.75p per year. On a pro-forma basis, assuming the 2005 final dividend equated to two thirds of the full year payout, this represents dividend growth of 41%. The final dividend will be paid on 6 December 2006 to shareholders on the register on 10 November 2006.

### Seasonal weighting

Our business is traditionally weighted to the second half of the financial year. We anticipate this weighting will be more pronounced in 2007. This is primarily due to the phasing of learners' vocational qualification achievements combined with the impact of new contracts and projects which are likely to commence in the second half in line with customer plans. As a result, we expect the Group to have a second half weighting of around 70%.

*"We believe that we are the architects of a model for the future of learning and skills in the UK."*

Phillip Carter  
Chief Executive



### Risk Factors

The Group has undertaken further work during the year to develop and embed the system of internal control, including financial, operational and risk management which is designed to protect shareholders' investments and the Group's assets and reputation.

Risk registers are maintained at business unit and Group level and are reviewed at least annually and more frequently where necessary. The risk registers identify the key risks, the likelihood of those risks occurring, their potential impact on the business and the actions being taken to reduce and mitigate the risks. Risks are prioritised using a consistent scoring system across the Group.

The key risks facing the business are included in the Group risk register as are the risks which are directly managed at Group level.

The risk registers are reviewed regularly with progress against risk mitigation actions tracked as part of normal performance management. Key changes to risks, causes and associated actions are reported by exception to the Group Executive Committee on a monthly basis. Registers are subject to a thorough review as part of the business planning cycle. The consolidated register sets out the annual Group risk profile which is presented to the Board. On an annual basis the Board reviews progress on risk management.

Outlined below is a description of the principal risk factors that may affect the Group's business. Not all the factors are within the Group's control. Other factors

besides those listed below may also adversely affect the Group. Actions being taken by management to mitigate some of these risks are identified where appropriate. The risk factors should be considered in conjunction with the cautionary note to shareholders in relation to forward-looking statements set out on page 12.

#### Government funding

The Group has considerable reliance on continued government funding. In 2006 £57.6m, 61% of the Group's revenue was ultimately publicly funded. This is likely to increase to around 70% in 2007. Whilst the Board believe that the current Government is committed to the continued funding of work based learning and employability programmes, there can be no assurance that government policy or practice will remain the same or that public funding will continue at the same levels or on the same terms.

This risk is mitigated in a number of ways:

- The funding is derived through a number of direct and indirect contractual arrangements.
- By ensuring the Group is rigorous in delivering high quality training.
- Considerable focus and investment is placed on maintaining and managing key relationships with the various funding bodies.
- Ensuring the Group is focused on those priority sectors which will continue to benefit from public funding.
- Understanding and influencing future policy and its impact on the funding regime.

#### Reputation management

This is critically important given the significance of the Group's relationships with the Government, the public and private sector.

#### Development of operational talent

As a people based business it is essential that the Group is able to attract, retain and develop high calibre staff.

#### Adequacy of business infrastructure

This risk encompasses the potential for the business infrastructure, including its management information systems, not being capable of supporting the growth of the business. This also covers the continuity of business operations in the event of adverse events. The Group seeks to mitigate this risk as follows:

- Significant investment is being made in our central support functions including IT and systems.
- Review of the IT strategy to ensure it is appropriate for the needs of the business over the medium term.
- Ensuring an adequate insurance programme is in place.

#### Acquisitions

The risk associated with business acquisitions not delivering the anticipated returns as a result of the initial investment decision, or inability to integrate the business into the existing operations. The Group mitigates this risk by:

- applying a rigorous, risk based due diligence process;
- ensuring the acquisition supports and fits with the strategy of the Group;
- ensuring investment decisions are reviewed and approved by the Board; and
- implementing a well developed integration process.



## Mission and Values

### **Our mission**

To deliver outstanding achievements for our learners, customers and stakeholders through high achieving teams.

### **Our people**

At Carter & Carter we have created an open and positive environment for our staff, making it a safe, friendly, dynamic and rewarding place to work. Within a clear financial framework, we believe in giving responsibility for the day to day running of our business to those managers and staff who are delivering our front line services.

### **Strategic Building Blocks**

People, Knowledge and Measurable Business Improvement (MBI).

The Strategic Building Blocks of Carter & Carter are the focal point as we strive for continued business growth and success. We maximise the contribution of our people who feel involved, enjoy what they do and are rewarded for their efforts. The business is based on knowledge and knowledge management champions exist throughout the organisation to share this invaluable resource.

MBI is our internal performance management tool and is at the very core of our business philosophy; it pervades each contract and every team member. MBI is seen as one of our competitive differentiators that focuses and drives an individual's activities, delivers quality results, demonstrates added value and measures the actual impact individuals and their teams have on a client's business.

### **Values**

Integrity & Trust, Result Focused, Influential, Building & Maintaining positive relationships, Knowledgeable & Informed, Visionary.

Shared values and behaviours are embedded in our business philosophy. Clear values provide accountability, identify and reward role models, align communication, training and development, and allow us to pro-actively recruit.

### **Our vision**

To create a learning environment where people will achieve.

### **Managing growth**

Carefully managing the continued growth of Carter & Carter is a key focus for managers across the Group. Since 2003, our staff numbers have increased from 530 to 1700. Even more challenging is the fact that three-quarters of our staff have transferred from other organisations with differing and diverse cultures and working practices. Managing this ongoing growth and integration is something in which Carter & Carter will continue to excel. We have realigned and rationalised our operations to approach each transition with an open and transparent communication style, helping to make all staff feel secure and motivated from day one to facilitate Best Business 'Fit'.

### **Developing our talent, encouraging innovation and celebrating success**

Recognising and rewarding staff, their enthusiasm, commitment, team spirit and innovative solutions, inspires others to think about how they can do their work differently. This creates a forward thinking workforce and a positive upbeat attitude. At Carter & Carter, encouraging and rewarding innovation and creativity is very important to us and allows us to learn together.

Whether it is personal recognition by a line manager or formal recognition of excellence through our Group wide STAR award scheme or participation in the Fast Track programme, we recognise and celebrate success as we continue to break new ground in learning and skills.

# Business Review

KPI's

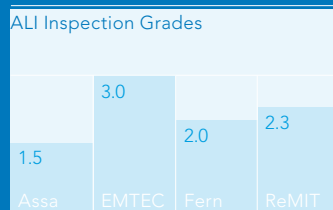


*Key Performance Indicators*

Seven key indicators to measure the performance of the Group.

# 1

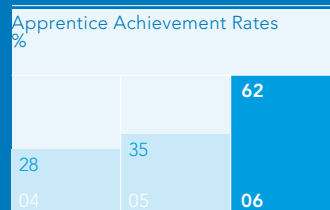
Quality Grades



Delivering consistent high quality training provision is fundamental to achieving ongoing growth in the business. The Adult Learning Inspectorate (ALI) is responsible for assessing the quality of work based learning providers. At inspection the ALI awards grades of 1 to 5 across a range of areas where 1 is excellent and 5 is poor. We aim to maintain high inspection grades and improve on prior grades as necessary such that we achieve an overall average grading of at least 2.5. The chart above shows the average grades attained by EMTEC, Fern, Assa and ReMIT at their last ALI inspections.

# 2

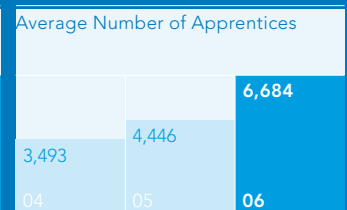
Achievement Rates



Improving learner achievement rates is aligned to meeting government priorities as well as directly improving our financial return because elements of public funding are generally linked to achievement. The chart above shows the achievement rate in our automotive retail apprenticeship operations, excluding ReMIT which was acquired close to the year end, over the last three years.

# 3

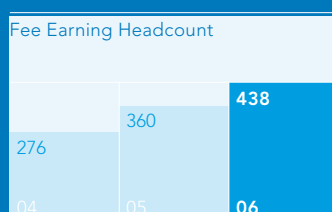
Learner Numbers



We aim to increase our average number of learners each year as this is a key measure of underlying growth in our Vocational Learning business and is also key to meeting employer demands. The chart above shows the increase in average apprentice numbers over the last three years.

# 4

Fee Earning Headcount



In our Outsourced Services business, the average number of fee earning heads we have placed with our clients is a key measure of the underlying growth of our business. The Group aims to increase the average number of fee earning heads over the medium term. The chart above shows the average number of fee earning heads over the last three years.

# 5

Operating Profit\*

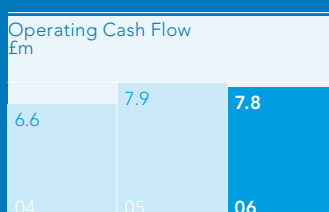


This is a key measure of the Group's ability to generate profits. The Group targets steady growth in operating profit before amortisation and exceptional items over the medium term. As shown in the chart above, the Group has increased underlying operating profit by £11.6m over the last two years.

\* Before amortisation and exceptional items.

# 6

Cash Flow

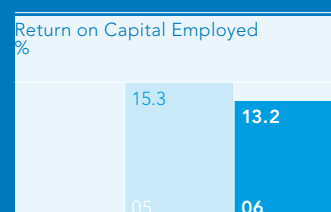


The Group aims to generate strong underlying cash flow with good conversion of operating profit into operating cash flow.

Cash flow in 2006 has been adversely affected by a number of specific items as explained on page 18.

# 7

Return on Capital Employed



Return on capital employed (ROCE) is defined as operating profit after tax (tax being applied at the Group's effective rate) before exceptional items divided by average capital employed (being the aggregate of shareholders' funds and net debt). Our aim is to achieve an improving ROCE which is in excess of our cost of capital, which is currently approximately 9%. This demonstrates our ability to generate shareholder value over the long term.

Since flotation our ROCE has been comfortably in excess of our cost of capital. In 2006 ROCE has reduced slightly from the level in 2005 because the full effect of the investment we have made in acquisitions is reflected in our capital employed but the full benefits from the acquisitions in profit terms are still to come through.



### Corporate & Social Responsibility

Corporate & Social Responsibility is important to the Group and an area where Carter & Carter invests time and resource both directly and indirectly.

Carter & Carter is working to improve its economic and social environment through effective contributions towards local communities, national charities, the environment and generally to improve the lives of disadvantaged people.

Carter & Carter support several charitable organisations each year through the raising of funds to support medical research, local nurses and other charitable initiatives.

#### Charity committee

Internal fund raising is administered and managed by an internal charity committee who organise national business events, the production and sale of books, auctions and voluntary payroll deductions. The money raised is distributed by the Charitable Aid Foundation (CAF), a registered organisation to several charities including Cancer Research, Motor & Allied Trades Benevolent Fund (BEN), and Peterborough Paediatric Nurses. In 2006 Carter & Carter has raised and distributed more than £50,000.

#### Green travel plan

Carter & Carter encourages students and staff to use public transportation or car sharing to travel to its premises by maintaining a voluntary database of commuters and facilitating bus transportation for all its students to and from the hotels. The Group encourages walking and cycling by providing secure sheltered cycle parking and showers and changing facilities.

#### Recycling

Carter & Carter promotes recycling to improve the usage of natural resources. We use recycling skips for cardboard and oil. Used printer cartridges are recycled by our stationery supplier and the revenues given to charity.

#### The Ambrose Project

Carter & Carter is strongly committed to improving the life and the economy in the local communities in which it operates. The Ambrose Project involves disadvantaged young people and adults who are disaffected or de-motivated by mainstream education. The project aims to engage them in the refurbishment of dilapidated properties.

#### Support to local businesses

The Group is committed to utilising local businesses wherever possible. This currently includes hotels, bus companies, stationery suppliers, electricians and plumbers. We will recruit locally wherever possible.

#### Employment policy

It is the policy of Carter & Carter that no person, whether a job applicant, employee or participant, shall be discriminated against. The Group oppose all forms of unlawful and unfair discrimination, either direct or indirect, or harassment, on the grounds of ethnicity, racial origin, national origin/nationality, gender, sexual orientation, marital status, religious beliefs, age, disability, trade union membership or non-membership, role as parent/guardian/carer and criminal record.

#### Health & Safety

Carter & Carter recognises its responsibilities and is committed to ensuring that appropriate steps are taken to ensure the health, safety and welfare of employees and learners, as well as any other persons who may be affected by the Group's activities. The Group's intention is to exceed the minimum expected standards under all current legislative requirements.

#### Callability

Callability is a programme that equips people on health related benefits with the skills and experience in the call handling industry by offering full-time or part-time employment with Carter & Carter. The project encourages, disadvantaged people into a gradual re-introduction into a working environment.

#### Duke of Edinburgh's award scheme

Carter & Carter is actively involved in encouraging apprentices to participate in the Duke of Edinburgh's award scheme.

Carter & Carter is a member of the Duke of Edinburgh's Charter for Business and is also an entrusted Operating Authority.

There are currently 20 apprentices working towards their bronze award with a further 50 apprentices set to join the scheme in the current year.

The Group is committed to its Equality & Diversity strategy. Group businesses have been awarded excellent grades for Equality & Diversity by the Adult Learning Inspectorate. The following are just a few examples of our success and actions so far:

#### Driving Equality & Diversity forward

- The Equality & Diversity strategy is set by the Board and the Executive Committee.
- There are regular forums to drive forward Equality & Diversity.

#### Embracing Diversity & Social Inclusion

- Staff regularly represent the Group at significant cultural events such as Diwali, Melas and Carnivals.

#### Meeting diverse needs

- The Group provides interpreter support, language translations and sign language support.
- We actively encourage family friendly employment policies.

#### Corporate objectives

- We aim to be viewed as leaders in Equality & Diversity.
- Our expert workforce reflects the diverse communities in which we work.



## Equality & Diversity



Case Study Calke Abbey  
A blossoming career for Peter

Peter Hatton (58) from Leicestershire successfully completed the Government's New Deal 50 Plus programme, which aims to give practical help to older people looking for work. During the programme Peter also won a garden design competition for The Ambrose Project.

After being made redundant from his job, Peter sought the help and guidance of Fern, who deliver the New Deal 50 Plus programme on behalf of Jobcentre Plus. Following an initial meeting with an advisor at Fern, Peter was enrolled

onto a programme at Calke Abbey, a stately home in Derbyshire. From Calke Abbey, Fern run the 'Intensive Activity Period' of the programme, which is designed to increase a learner's ability to gain meaningful and lasting employment.

At Calke Abbey, learners get involved in a number of activities over a 13 week period such as: clearing pathways and public areas, felling trees, removing weeds, learning how to use hand tools, planting new saplings and whips, and carrying out general maintenance of the grounds.

# Board of Directors



01

## **01 Rodney Westhead**

**Non-Executive Chairman, Age 62**

Rodney became a non-executive director on flotation of the company and was appointed chairman in October 2005. He is a member of the Nomination and Remuneration Committees. Rodney joined Ricardo Plc, the largest automotive engineering consultancy company in Europe, in 1992 as Finance Director and was CEO for nine years until his retirement in 2005. Before joining Ricardo, he was a partner of Grant Thornton for 14 years, holding a number of positions including managing partner of their London office. He is also a non-executive director of Mouchel Parkman Group plc, AEA Technology plc and Chairman of Clean Air Power plc.

## **02 Phillip Carter**

**Group Chief Executive, Age 44**

Phillip founded Carter & Carter in 1992, since which time he has driven the Group's substantial growth. He has primary responsibility for ensuring the Group is achieving its strategic objectives. Phillip has played a key role in the successful acquisitions of EMTEC, Assa, Fern and ReMIT. Prior to establishing Carter & Carter, he worked in a number of sales and marketing roles at ICI before becoming European Business Development Manager of the Paints Division of ICI.

02

03

## **03 John Green**

**Group Finance Director, Age 39**

John was appointed Group Finance Director in October 2005 having joined the Group as a result of the acquisition of Assa where he had been finance director since 2003. He is also Group Company Secretary. Prior to joining Assa, John spent two years with a specialist corporate finance advisory practice and, before this, was Finance Director of Wagon plc's UK automotive division. John is a chartered accountant and spent seven years with PricewaterhouseCoopers LLP.

## **04 Peter Marples**

**Group Business Development Director, Age 42**

Peter joined the Group with the acquisition of Assa, where he was Managing Director. He is responsible for new business development including acquisition activity. Prior to joining Assa, Peter was a partner at KPMG LLP, where he had national responsibility for the education practice, delivering audit and consultancy services to Government, universities, colleges, funders and other stakeholders. An accountant by profession, Peter trained in the public sector with Derbyshire County Council and also worked for the Audit Commission.

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## **05 David Galloway**

**Senior Non-Executive Director, Age 61**

David was appointed to the Board in February 2005. He chairs the Audit Committee and is a member of the Remuneration and Nomination Committees. David is a chartered accountant and has extensive experience of the support services and automotive sectors. He has held a number of positions at RAC plc and Lex Vehicle Leasing Limited and was Chairman of Hyundai Car (UK) Ltd. He is currently a non-executive director of Speedy Hire plc, May Gurney Integrated Services plc and is Chairman of Accident Exchange plc.

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## **06 Adrian Smith**

**Non-Executive Director, Age 61**

Adrian joined Carter & Carter in 2001 and was non-executive chairman until October 2005. He chairs the Remuneration and Nomination Committees and is a member of the Audit Committee. Adrian spent 13 years with Procter & Gamble and Ecolab Inc in a number of international roles. More recently Adrian has held senior positions at Arthur Andersen and Deloitte and was CEO of Grant Thornton LLP. He is also a director of the Harbour Branch Oceanographic Institution in Florida, Tutogen Medical Inc, Digital Interactive Broadcasting and Gaming VC Holdings SA.

# Executive Members



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The Executive Committee consists of the Group Board Executive Directors; Phillip Carter, John Green, Peter Marples, and the four Executive Directors.

#### **07 David Carter**

##### **Director, Outsource Services, Age 63**

David Carter (no relation to Phillip Carter) joined the Group in 2001. He has almost 40 years of UK and international experience within the automotive industry, having held senior roles in both the Volkswagen Group and the Ford Motor Company. David stepped down from the Group Board on 1 August 2006 to focus on his role as director of the Group's Outsource Services Division.

#### **08 Helen Richardson**

##### **Director, Employability & Skills, Age 40**

Helen was appointed to the Executive Committee in May 2006 with responsibility for Employability and Skills, part of the Group's Vocational Learning Division. Helen joined the Group following the acquisition of Fern in February 2006. She joined Fern as Regional Operations Director in 2002. Prior to this, Helen had an extensive career within the Health & Social Care sector holding a number of positions before progressing to Director of Employment and Education for National Mencap. Helen currently chairs the East Midlands Adult Learning Provider committee.

#### **09 Di McEvoy-Robinson**

##### **Director, Apprentice Learning, Age 44**

Di McEvoy-Robinson joined Carter & Carter in April 2006 and was appointed to the Executive Committee shortly afterwards. She has responsibility for Apprentice Learning, part of the Group's Vocational Learning Division. Prior to joining Carter & Carter, Di was the principal and chief executive of West Nottinghamshire College where she was responsible for over 25,000 students and 1,200 members of staff. Di has been involved with the Qualification and Curriculum Authority and the Learning and Skills Development Agency and is currently a board member of the National Research and Development Council for Skills for Life. She has represented further education principals internationally on the United Nations Education Social and Cultural Organisation Board.

#### **10 Des Hackman**

##### **Director, Support Services, Age 38**

Des joined Carter & Carter in November 1998 and was appointed to the Executive Committee in May 2006. He is responsible for Support Services which encompasses human resources, quality, IT and central services. Prior to this Des held a number of senior roles in the Outsource Services Division. He has over 20 years experience in the automotive industry and has held positions at Nissan Motor Manufacturing (UK) Limited, Direct Line Insurance and Volvo.

# Directors' Report

## for the year ended 31 July 2006

The directors present their Annual Report on the activities of the Group, together with the financial statements and auditors' report for the year ended 31 July 2006. These will be laid before shareholders at the Annual General Meeting to be held on 28 November 2006.

### Principal activities and business review

The principal activities of the Group during the period continue to be the operation of Outsource Services and Vocational Learning. The subsidiary and associated undertakings principally affecting the profits or net assets of the Group are listed on page 78. The Group operates from a number of facilities in the United Kingdom and has a number of overseas operations, including in the United States, Germany, Japan and Australia.

A full review of the Group's activities and a report on its business, strategy, likely future developments and financial risk management policies are included in the Business Review on pages 12 to 25 which is incorporated into this Director's Report by reference.

### Results and dividends

The Group's profit after taxation was £5.9m for the year ended 31 July 2006 (2005: £3.9m). The directors recommend a final dividend of 4.75p per share (2005: 3.2 p per share) to be paid on 6 December 2006 to ordinary shareholders on the Register of Members on 10 November 2006 subject to approval by shareholders at the forthcoming Annual General Meeting.

### Directors

The directors who served during the year ended 31 July 2006 were:

Rodney Westhead	Non-Executive Chairman
Phillip Carter	Group Chief Executive
Julie Pomeroy (resigned 3 October 2005)	Group Finance Director
John Green (appointed 3 October 2005)	Group Finance Director
Peter Marples (appointed 3 October 2005)	Group Business Development Director
David Carter	Group Managing Director
Adrian Smith	Independent Non-Executive Director
David Galloway	Senior Independent Non-Executive Director

David Carter resigned as a director on 1 August 2006 but continues as a member of the Group Executive Committee.

Details of Board Committee membership is set out on pages 31 to 40.

Details of the directors' interests are set out in the Directors' Remuneration Report.

Please refer to pages 26 to 27 for directors' biographies.

The Board are of the view that notwithstanding the three non-executive directors holding shares in the Company, they are independent, based on their wide ranging individual experience of other businesses in different sectors.

### Directors indemnities and insurance

Section 309A of the Companies Act 1985 (the 'Act') has, since 6 April 2005, allowed companies to expand the scope of indemnities offered to directors with regard to certain liability to third parties.

The Board has now decided that the Company should indemnify each of the directors and the Group Company Secretary to the fullest extent permitted. Such indemnities constitute qualifying third party indemnities as defined in section 309B(1) of the Act and disclosure of such a provision is required by the Act.

The Company's Articles of Association allow the Company to indemnify directors and other officers in certain situations but do not currently allow the Company to indemnify directors or the Group Company Secretary to the fullest extent possible. The Board will propose that a resolution is passed at the forthcoming Annual General Meeting in order to amend the Articles of Association to extend the scope for indemnification so as to correspond with that allowed by the Act. Subject to the passing of this resolution, the Board will approve the grant of deeds of indemnity to all directors and the Group Company Secretary and, once executed, these deeds of indemnity will be available for inspection by shareholders at the Company's registered office.

Appropriate directors and officers insurance cover is also in place in respect of legal action against the directors or the Group Company Secretary.

The Board believes that these arrangements are in the best interests of the Company, to enable it to attract and retain high quality directors and officers. Neither the indemnities, nor insurance, will provide cover in the event that a director or the Group Company Secretary has acted fraudulently or dishonestly.

#### Supplier payment policy

It is the Group's policy to comply with terms of payment negotiated with suppliers. Where payment terms are not negotiated, the Group endeavours to adhere to the suppliers' standard terms.

The Company does not trade and consequently cannot disclose an average creditors' payment period. Trade creditors of the Group at 31 July 2006 were equivalent to 68 days' purchases (2005: 45 days' purchases), based on the average daily amount invoiced by suppliers during the period.

#### Charitable and political contributions

During the period the Group made charitable donations of £14,000 (2005: £9,000) of which £7,500 was donated to the Carter & Carter Group Charity (2005: £7,500) and £5,000 to the BeN Charity (2005: £1,000).

It is the Group's policy not to make political donations, either in the UK or overseas. The Group has no intention of making any political donations or incurring such expenditure in the future. However, the Political Parties, Elections and Referendum Act 2000 (the 'PPER Act') defines 'EU Political Organisation' widely. There is still some uncertainty over which bodies are covered by the definition and what will be classified as a 'Donation'. The Board will therefore seek authority at the forthcoming Annual General Meeting for the Company to make such political expenditure up to £10,000 in order to prevent inadvertent breach of the PPER Act.

#### Substantial shareholdings

As at 16 October 2006 the Company had been notified, in accordance with sections 198 to 202 of the Companies Act 1985, of the interests in the ordinary share capital of the Company set out in the table below:

Name of holder	Number of shares	Shareholding %
Aegon	2,071,264	5.14
Legal & General	1,972,953	4.89
Fidelity International	1,555,395	3.86

Note: The information above is as extracted from relevant notifications under Section 198 to 202 of the Companies Act 1985.

#### Authority to make purchases of own shares

The Board recognises that, under certain circumstances, it may be in the best interests of the Company to make purchases of its own shares. Hence the Board received shareholder approval at the Annual General Meeting held on 29 November 2005 to make purchases of its own shares up to a maximum of 1,788,551 shares (being 5% of the Company's ordinary share capital on 12 October 2005) within a specified price range. This authority is due to expire at the conclusion of the forthcoming Annual General Meeting.

Shareholders will be asked to approve a special resolution at the forthcoming Annual General Meeting to extend the existing authority until the end of the Annual General Meeting to be held in 2007. This authority will relate to a maximum of 2,015,876 shares (being 5% of the Company's ordinary share capital at 16 October 2006) and will be subject to price restrictions as specified in the Notice of the next Annual General Meeting.

#### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitude and abilities of the applicant concerned. In the event that members of staff become disabled every effort is made to ensure that their employment within the Group continues and that appropriate training is arranged. It continues to be the policy of the Group that the training, career development and promotion of disabled persons should as far as is feasible be identical to that of other employees. Further details of the Group's equality and diversity policy is set out in the Business Review on page 25.

#### Employee involvement

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various financial and economic factors affecting the performance of the Group. Employees are consulted upon and are encouraged generally to be involved in the Group's overall performance.

Communication with staff is achieved in a number of ways, including formal and informal meetings, via the Group's intranet and internet, and through *The Achiever*, the Group's newsletter.

# Directors' Report

## Auditors

So far as each director is aware, there is no relevant audit information of which the Company's auditors, PricewaterhouseCoopers LLP are unaware and each director has taken all the steps that he ought to have taken 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. PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to re-appoint them as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

## John Green

Group Company Secretary  
16 October 2006

Registered Office:  
Mere Way  
Ruddington Fields Business Park  
Ruddington  
Nottingham  
NG11 6JZ

# Directors' Remuneration Report

for the year ended 31 July 2006

## Introduction

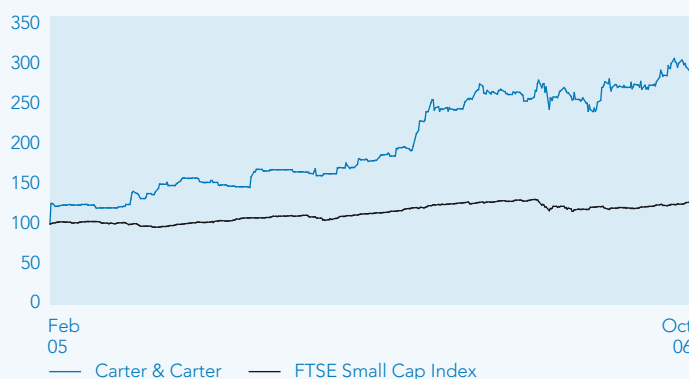
This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (as amended by the Directors' Remuneration Regulations 2002 (the 'Regulations')), relevant provisions of the Listing Rules and the Combined Code, and the guidance issued by the National Association of Pension Funds and the Association of British Insurers.

The Regulations require the auditors to report to the Company's shareholders on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

As required by the Regulations, a resolution to approve the report will be proposed at the forthcoming Annual General Meeting.

## Unaudited information

The performance graph below illustrates the total shareholder return delivered by the Group since its admission to the London Stock Exchange on 7 February 2005, by comparison with the FTSE Small Cap Index. The directors believe that this index is the most suitable benchmark for comparison purposes.



## Remuneration Committee

The Remuneration Committee was established in February 2005 on flotation of the Company. The Remuneration Committee is composed of the three independent non-executive directors and determines and agrees with the Board the Group's policy and framework for the remuneration of executive directors and senior management. The Remuneration Committee met seven times during the year. The Chairman of the Remuneration Committee is Adrian Smith who was appointed to the position on 1 October 2005, Rodney Westhead having been the Chairman until that time.

In determining the directors' and senior management's remuneration, the Remuneration Committee consulted Phillip Carter (Group Chief Executive) about its proposals relating to individuals other than himself. No member of the Remuneration Committee has any personal financial interest (other than as a shareholder), or conflict of interests arising from cross-directorship or day-to-day involvement in running the business. No director plays a part in any discussion concerning their own remuneration which might cause a conflict of interest.

## Remuneration policy

The remuneration policy is designed so as to continue to ensure that the Group has the ability to attract and retain directors and senior managers of a high calibre so as to align the interest of the senior management with that of the shareholders and be compliant with best practice. The policy also includes the benchmarking of relevant senior management positions in the Support Services and FTSE Small Cap sectors.

This report details the Company's policy on the remuneration of directors' and senior management for 2006 and, so far as is practical, for subsequent years. This policy will continue unless changed by the Remuneration Committee, and any changes in policy for years after 2006 will be described in future Directors' Remuneration Reports, which will continue to be subject to shareholder approval.

The Remuneration Committee continues to be of the view that a successful remuneration policy has to be sufficiently flexible to take account of future changes in the Group's business environment and remuneration practice.

# Directors' Remuneration Report

There are currently three main elements of the remuneration package for directors:

- Basic annual salary and benefits;
- Annual performance related bonus payments; and
- Participation in the Group's Long Term Incentive Plan (LTIP).

The performance measurement of directors and senior management and the determination of their annual remuneration packages is undertaken by the Remuneration Committee. The Group's policy is to position the basic salaries of directors and senior management at the median of the relevant competitive market, with a substantial proportion of their remuneration being performance related. The directors may earn annual incentive payments as a percentage of their basic salary, as defined and agreed by the Remuneration Committee. The remuneration of the non-executive directors is determined by the Board within limits detailed in the Articles of Association.

Executive directors are required to obtain the Board's prior written consent to accept external appointments. Details of external appointments are shown on page 83.

## Executive directors' remuneration and service contracts

It is the Company's policy that executive directors should have contracts with a rolling term providing for a maximum of one year's notice. Consequently no executive has a contractual notice period in excess of 12 months. In the event of early termination, the policy on executive directors' contracts provides for compensation up to a maximum of 12 months' basic salary, related benefits and pro-rated bonus. The Remuneration Committee will also consider mitigation to reduce compensation to a departing director where appropriate to do so.

The salaries of the directors are reviewed annually on 1 August. Individual pay levels are determined by reference to competitive market conditions, performance, experience and potential. As mentioned above, the Remuneration Committee benchmarks remuneration by reference to comparator groups and checks this information against a sample of companies of comparable size.

Phillip Carter, David Carter, Peter Marples and John Green are employed under service contracts with the Company dated 24 January 2001, 1 March 2001, 3 October 2005 and 3 October 2005 respectively. Each of these contracts provides an entitlement to a basic annual salary, a discretionary bonus, a company car (or cash allowance in lieu) and permanent health insurance cover. Each contract is terminable by 12 months' notice given by either party. In addition, John Green and Peter Marples are entitled to pension contributions equivalent to 10% of basic salary. David Carter resigned from the Board on 1 August 2006 but remains a key member of the executive management team.

The basic annual salaries of Phillip Carter, Peter Marples and John Green were increased by 15%, 7% and 25% to £287,500, £220,000 and £150,000 respectively, effective 1 August 2006. David Carter's salary was reduced to £130,000 effective 1 August 2006 to reflect his revised responsibilities as director of the Outsource Services Division.

## Bonus payments

Senior managers are eligible for annual bonus payments, at the discretion of the Remuneration Committee, upon the recommendation of the Group Chief Executive. The bonuses are based on achievement of Group and Divisional performance targets and personal objectives. The Remuneration Committee sets targets at the start of the year and at the end of the year reviews performance against those targets to determine bonus levels. In the year ended 31 July 2006 the executive directors' maximum bonus opportunity as a percentage of basic salary was as follows: Phillip Carter – 100%; David Carter – 50%; John Green – 30%; and Peter Marples – 60%.

For the year ending 31 July 2007 the executive directors' maximum bonus opportunity will vary from 50% of salary to 100% of salary.

## Long-term incentives

Long-term incentives are provided to drive performance, aid retention and align the interests of executives with those of shareholders. During the year the Group introduced a Long Term Incentive Plan (LTIP) whose purpose is to incentivise directors, senior and middle management and 'star performers'.

The LTIP is administered by the Remuneration Committee and provides for conditional awards of shares, dependent on Company performance. Vesting of the shares over which an award has been made will be dependent upon the Company's performance measured by reference to an Earnings Per Share (EPS) measure over a three-year period. Shares vest in proportion to the Company's EPS performance. No shares will vest unless the growth in EPS exceeds growth in the Retail Price Index (RPI) by 5%. If the growth in EPS over the measurement period exceeds the growth in RPI by 5%, then 20% of the shares covered by the awards will vest. This increases to 100% on a straight-line basis for growth of EPS to RPI plus 15%. The LTIP is structured so that awards are nil-cost options. The first awards were made in November 2005 and it is expected that subsequent awards will be made at the beginning of each financial year. The Remuneration Committee believes that a three-year performance period is appropriate and in line with market practice and that the level of award is competitive. The Remuneration Committee considers EPS to be the most appropriate performance target metric for long-term incentives.

Directors' interests in the LTIP are shown on page 34.

## Pension arrangements

The Group operates a number of defined contribution pension schemes.

## Non-executive directors' letter of appointment

All non-executive directors have specific letters of appointment and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar sized companies. Remuneration is set taking account of the commitment and responsibilities of the relevant role. The non-executive directors do not have service contracts.

On 1 October 2005, Rodney Westhead became non-executive Chairman subject to:

- an initial fixed term of three years from 1 October 2005, terminable upon three months' written notice by either party;
- an annual fee of £50,000 reviewed annually by the Remuneration Committee; and
- reimbursement of all reasonable out-of-pocket expenses which are properly incurred in the course of performing duties as Chairman of the Company.

Adrian Smith relinquished the role of non-executive Chairman on 30 September 2005, but remained on the Board as an independent non-executive director.

Adrian Smith and David Galloway each entered into letters of appointment as non-executive directors with the Company dated 18 January 2005, which provide for:

- an initial fixed term of three years from 18 January 2005, terminable upon three months' written notice by either party;
- a fee of £30,000 reviewed annually by the Remuneration Committee; and
- reimbursement of all reasonable out-of-pocket expenses which are properly incurred in the course of performing duties as a non-executive director of the Company.

Adrian Smith is a member of the Audit Committee and Chairman of the Remuneration and Nomination Committees. In accordance with the PIRC Shareholder Voting Guidelines 2005, following his appointment as Chairman of the Company, Rodney Westhead was replaced by Adrian Smith as a member of the Audit Committee and Chairman of the Remuneration Committee. Rodney Westhead is now a member of the Remuneration and Nomination Committees. David Galloway chairs the Audit Committee and is a member of the Remuneration and Nomination Committees. David Galloway is the Company's Senior Independent Non-Executive Director. Each of their fees are in respect of all the services each of them provides to the Company.

Non-executive directors are appointed for an initial term of three years and, in normal circumstances, and subject to performance and re-election at Annual General Meetings, they would be expected to serve for a second three-year term. Non-executive directors may be requested to serve for a further three-year term subject to rigorous review at the relevant time and agreement with the relevant director. Upon termination or resignation, non-executive directors are not entitled to compensation and no fee is payable in respect of the unexpired portion of the term of appointment. Non-executive directors cannot participate in any Company incentive scheme.

## Directors' interests in shares

Directors' interests in the share capital of the Company at 31 July 2006 are shown in the table below:

	Ordinary shares of 4p each
P J Carter <sup>(1)</sup>	8,881,505
D J Carter	227,688
P Marples <sup>(2)</sup>	153,280
J C Green <sup>(2)</sup>	24,202
A J R Smith	50,000
R J Westhead <sup>(3)</sup>	11,865
D A Galloway <sup>(4)</sup>	17,500

There have been no changes in the shareholdings of the directors shown above between 31 July 2006 and 16 October 2006.

### Notes

- (1) Of which 8,864 are held by Judith Carter, Phillip Carter's wife.
- (2) In addition to the above shareholdings, Peter Marples and John Green will each receive a proportion of the 725,900 ordinary shares the Company has agreed to issue in respect of the deferred consideration for the Company's acquisition of Assa Training & Learning group of companies.
- (3) Of which 4,365 are held by Judith Westhead, Rodney Westhead's wife.
- (4) Of which 10,000 are held by Janet Galloway, David Galloway's wife.

Details of director's interests in the LTIP are shown on page 34.

# Directors' Remuneration Report

## Audited information

Aggregate directors' remuneration:

	2006 £'000	2005 £'000
Emoluments	1,387	942
Gains on exercise of share options	–	188
Compensation for loss of office	100	–

## Directors' remuneration (audited)

The emoluments of the directors who held office during the year ended 31 July 2006 are detailed below:

Name of director	Salary and fees £'000	Benefits £'000	Pension contribution £'000	Annual bonus £'000	Compensation for loss of office £'000	2006 Total £'000	2005 Total £'000
<b>Executive directors</b>							
P J Carter	250	65	–	250	–	565	492
D J Carter	150	13	–	68	–	231	226
P Marples	172	13	17	103	–	305	–
J C Green	100	12	10	24	–	146	–
J P Pomeroy*	30	3	–	–	100	133	149
<b>Non-executive directors</b>							
D A Galloway	30	–	–	–	–	30	16
R J Westhead	47	–	–	–	–	47	16
A J R Smith	30	–	–	–	–	30	31
M Davy	–	–	–	–	–	–	12
<b>Aggregate emoluments</b>	<b>809</b>	<b>106</b>	<b>27</b>	<b>445</b>	<b>100</b>	<b>1,487</b>	<b>942</b>

\* The compensation for loss of office payment to J P Pomeroy who resigned on 3 October 2005 was approved by the Remuneration Committee and was paid in respect of past services to the Company.

## Directors' share options (audited)

Details of share options awarded under the LTIP scheme for directors who held office during the year ended 31 July 2006 are as follows:

Name of director	Number of options at 1 August 2005	Options granted during the year	Options exercised during the year	Options held at 31 July 2006
P J Carter	–	44,536	–	44,536
D J Carter	–	17,814	–	17,814
P Marples	–	300,000	–	300,000
J C Green	–	14,251	–	14,251

Further details of the LTIP Scheme are given in note 23 on page 63.

## Approval

This report was approved by the Board of directors on 16 October 2006 and signed on its behalf by:

### Adrian Smith

Chairman of the Remuneration Committee  
16 October 2006

# Statement of Corporate Governance

## for the year ended 31 July 2006

The Revised Combined Code on Corporate Governance ('the Code') applies to financial years commencing on or after 1 November 2003. The Company is reporting on compliance with the Code for the second time as a listed company.

The Code comprises a series of main principles that cover the general themes of the Board, directors' remuneration, financial reporting, internal control and communication with shareholders. Each main principle is further expanded by a set of supporting principles as detailed provisions.

Listed companies are required to include a statement in their annual report setting out how the main and supporting principles have been applied and whether the Company has complied with the Code's provisions during the year. Where a company is not compliant with any of the provisions, an explanation for such non-compliance is required.

### Compliance with the Code's provisions

During the year, save as otherwise provided in this statement, the Company has complied with the provisions of the Code.

A process of formal and rigorous annual evaluation of the Board, its Committees and directors has been established to be fully compliant with the Code. During the year ended 31 July 2006 the Board's effectiveness was evaluated. Next year this will be extended to individual directors and Board Committees.

A formal and tailored induction programme is being developed for new appointments to the Board.

### The Board

The directors, including those whom the Board considers to be independent are listed on pages 26 to 27. Details of Board and Committee attendance are detailed on page 36. Julie Pomeroy resigned as Group Finance Director on 3 October 2005 and John Green and Peter Marples were appointed as Group Finance Director and Group Business Development Director on the same day. David Carter resigned from the Board on 1 August 2006 and Adrian Smith intends to resign from his position as a non-executive director at the 2006 Annual General Meeting in order to pursue other business interests. A new non-executive director will be appointed to replace Mr Smith.

The Board has met eleven times during the year and operates within a formal schedule of matters reserved to it, including strategy, the approval of financial statements and shareholder circulars, treasury policy, major capital investments, risk management, strategy and acquisitions and disposals. Other powers are delegated to the Remuneration Committee, Audit Committee, Nomination Committee and senior management. Details of the roles and responsibilities of these Board Committees are set out on pages 31, 39 and 40. Papers for Board and Committee meetings are circulated in advance of the relevant meeting and where a director is unable to attend he is provided with a full copy of the papers and has the opportunity to comment on the matters to be discussed.

The Board considers that its primary role is to provide leadership to the Group, to set the Group's long-term strategic objectives and to develop robust corporate governance and risk management practices. The schedule of matters reserved to the Board and delegated authorities are reviewed and approved by the Board annually.

The authority delegated to senior management provides a practical framework for executive management, which seeks to achieve the objectives of maintaining effective financial and operational controls whilst providing sufficient flexibility to manage the business.

The Board comprises individuals with wide business experience of various sectors of industry and they have access to all information relating to the Group.

During the period, the Chairman met with the non-executive directors without the executive directors being present and, as part of the process to appraise the Chairman's performance, the two other independent non-executive directors met without the Chairman being present.

### Chairman and Group Chief Executive

There is a clear division of responsibilities between the Chairman and the Group Chief Executive whereby the Chairman is responsible for the running of the Board, and the Group Chief Executive has executive responsibility for the running of the business. This division of responsibilities is reviewed and approved annually. No one individual has unfettered powers of decision.

Rodney Westhead succeeded Adrian Smith as Chairman with effect from 1 October 2005. Rodney Westhead continues to satisfy the independence criteria detailed in provision A.3.1 of the Code on his appointment as Chairman and details of his other significant commitments are set out on page 83.

### Board balance, independence and appointments

The composition of the Board and its various Committees is regularly reviewed and evaluated so as to reflect the Board's and the Committees' balance of skills, expected time commitment, knowledge and experience.

# Statement of Corporate Governance

The directors' aim is to ensure that the balance of the Board reflects the changing needs of the Group's business. The Nomination Committee and the Board will continue to monitor the Board's balance and skills at least annually.

During the year the Board has comprised of three independent non-executive directors together with at least three (and at most four) executive directors. Following the resignation of David Carter it comprises three executive and three independent non-executive directors.

The Senior Independent Non-executive Director, David Galloway, is available to shareholders if they have concerns that have not, or cannot, be addressed through the Chairman, Group Chief Executive or Group Finance Director.

Appointments to the Board are the responsibility of the full Board, on the recommendation of the Nomination Committee. On joining the Board, directors receive a formal appointment letter, which identifies the time commitment expected of them. A potential director candidate is required to disclose all significant outside commitments prior to appointment. The terms and conditions of appointment of non-executive directors are available to shareholders for inspection at the Group's registered office during normal business hours and at the Annual General Meeting (for 15 minutes prior to the meeting and during the meeting). The non-executive directors have undertaken that they have sufficient time to meet commitments.

## 2006 Board and Committee meetings

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held	11	5	2	7
Meetings attended:				
A J R Smith	11	5**	2	7
R J Westhead	11	5**	2	7
D A Galloway	10	5	2	7
P J Carter	11	5*	2*	7*
P Marples	6	–	–	–
J C Green	7	5*	–	1*
D J Carter	11	–	–	–
J P Pomeroy	3	1*	–	1*

\* Attendance by invitation.

\*\* Adrian Smith was present at four meetings of the Audit Committee and attended one further meeting by invitation. Rodney Westhead was present at one meeting of the Audit Committee and attended four further meetings by invitation.

## Group Company Secretary

The appointment of the Group Company Secretary is a matter reserved for Board approval. Nigel Blythe-Tinker has left the Group to pursue other business interests. The Board appointed John Green as Group Company Secretary with effect from 12 September 2006.

## Information and professional development

The Board receives detailed reports from executive management on the performance of the Group at monthly Board meetings and other information as necessary and senior management regularly make presentations to the Board on their areas of responsibility. Regular updates are provided on relevant legal, corporate governance and financial reporting developments and directors are encouraged to attend external seminars on areas of relevance to their role.

A formal and tailored induction programme is being developed for new appointments to the Board and the Audit, Nomination and Remuneration Committees. Major shareholders are offered the opportunity to meet new non-executive directors.

All directors have access to the advice and services of the Group Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The Board also obtains advice from professional advisers.

An internal review of the status of the Group's general compliance with the Code's provisions was undertaken during the year and reported to the Board.

## Performance evaluation

A process of formal and rigorous annual evaluation of performance of the Board is currently in place and processes for the evaluation of the Board's Committees and individual directors are being instigated. The evaluation process is to be structured as follows:

- The Remuneration Committee, Audit Committee and Nomination Committee will conduct a review of their terms of reference and consider a detailed questionnaire to assess Committee performance;
- One-to-one meetings between the Chairman and each director will take place to assess individual director performance and to allow any other issues to be raised; and
- The performance evaluation will be concluded with an assessment by the Board of its own performance, feedback to the Board from the chairman of each Committee and the Board, and approval of action to address issues raised.

The Chairman has the primary responsibility for ensuring an effective evaluation process and for acting on the outcome of evaluations. David Galloway, the Senior Independent Non-executive Director, is responsible for leading the process for the evaluation of the Chairman's performance involving discussions with each of the other directors and subsequent feedback to the Chairman.

### **Re-election**

The Company's Articles of Association state that a director, appointed by the Board in accordance with the Articles of Association, shall hold office until the dissolution of the next Annual General Meeting, unless re-elected during that meeting. Each director shall retire at the Annual General Meeting held in the third calendar year following the year in which he was elected or last re-elected, but he shall be eligible for re-election. A director shall also retire at the Annual General Meeting if he has agreed to do so (whether in accordance with the terms of appointment or otherwise) and, unless the director has agreed otherwise, he shall not be eligible for re-election. Those directors who hold office during the relevant period are subject to formal performance evaluation in order to confirm they continue to be effective and to demonstrate commitment to their relevant role.

The Board explains in the Notice of Meeting for the next Annual General Meeting the reasons why it believes each director retiring should be re-elected. As indicated above, it is proposed that those directors who hold office during the relevant period will be subject to formal performance evaluation in order to confirm they continue to be effective and to demonstrate commitment to their relevant role. Their proposed re-election is consistent with the Board's evaluation of the size, structure and composition of the Board.

### **Remuneration**

The Directors' Remuneration Report is set out on pages 31 to 34.

### **Relations with shareholders**

The Board remains committed to maintaining good relationships with both institutional and private shareholders. A regular dialogue has been established with institutional shareholders, although care is exercised to ensure that any inside information is released at the same time to all shareholders in accordance with the requirements of the UK Listing Authority. Slide presentations provided to institutional shareholders and analysts following the publication of the Group's preliminary and future interim results are made available on the Group's website, [www.carter-and-carter.com](http://www.carter-and-carter.com).

The Chairman is available to discuss strategy and governance issues with shareholders and is available to shareholders if they have concerns that have not, or cannot, be addressed through the Group Chief Executive or Group Finance Director. The Group's largest shareholders have been offered meetings with the Chairman. The Senior Independent Non-Executive Director, David Galloway, is available to shareholders if they have concerns that have not, or cannot, be addressed through the Chairman, Group Chief Executive or Group Finance Director.

The Group continues to obtain feedback from its broker, Hoare Govett, on the views of institutional investors on a non-attributed basis and the Group Chief Executive and Group Finance Director communicate the issues and concerns of major shareholders to the Board. As a matter of routine, the Board receives a quarterly report from Hoare Govett on issues relating to share price, trading activity and institutional investor sentiment. The Board also receives copies of relevant analysts' reports on a regular basis.

The Board regards the Annual General Meeting as an important opportunity to communicate directly with all shareholders and to encourage their participation. All Board members, including the chairman of the Remuneration, Nomination and Audit Committees intend to attend the forthcoming meeting and will be available to answer questions. Details of proxy votes will be announced at the Annual General Meeting and are expected to be made available on the Group's website following the meeting. The website will also contain a copy of the Notice of Meeting and explanatory notes. A separate resolution will be proposed on each substantially separate issue. The Notice of the Annual General Meeting and related papers are posted to shareholders with the Annual Report twenty working days prior to the date of the meeting.

### **Board Committees**

The Remuneration Committee, the Nomination Committee and the Audit Committees are standing Committees of the Board.

The terms of reference of the Committees, including their objectives and the authority delegated to them by the Board, are available upon request and are to be made available on the Group's website ([www.carter-and-carter.com](http://www.carter-and-carter.com)) and will be reviewed at least annually by the relevant Committee and the Board. All Committees have access to independent professional advice and are provided with sufficient resources to undertake their duties. Appointments to Committees are for three-year terms extendable by no more than two additional three-year terms.

### **Audit Committee**

The composition, role and operation of the Audit Committee is detailed in its report on page 39.

### **Nomination Committee**

The composition, role and operation of the Nomination Committee is detailed in its report on page 40.

### **Remuneration Committee**

The composition, role and operation of the Remuneration Committee is detailed in the Directors' Remuneration Report on pages 31 to 34.

# Statement of Corporate Governance

## Internal control and risk management

The Board has overall responsibility for the Group's internal control systems and for monitoring their effectiveness in order to safeguard shareholders' investments and the Group's assets. Executive directors and senior management are responsible for the implementation and maintenance of the internal control systems, which are subject to periodic, and at least annual, review by the Board.

The Board monitors the ongoing process by which critical risks to the business are identified, evaluated and managed. This process is consistent with the Turnbull Guidance on Internal Control and has been in operation for the period under review and up to the date of approval of the Annual Report.

The Board assesses the effectiveness of the Group's system of internal controls, including financial, organisational and compliance controls and risk management systems.

The Group's internal control systems are designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board considers, in assessing what constitutes reasonable accuracy, the materiality of financial and non-financial risks and the relationship between the cost of, and benefit from, internal control systems.

The Group's key internal control procedures include the following:

- the Executive Committee has responsibility to set, communicate and monitor the application of policies, procedures and standards in areas including operations, finance, legal, regulatory compliance, human resources, and health and safety;
- authority to operate the businesses is delegated to the respective divisional directors within limits set by the Executive Committee under powers delegated by the Board;
- regular Executive Committee meetings of the Group's most senior managers and executive directors;
- the integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses (high-quality personnel are seen as an essential part of the control environment);
- detailed annual financial plans are prepared at the individual business unit level and summarised at the Divisional and Group level. Financial plans are approved by both the Executive Committee and the Board;
- results are monitored routinely by means of comprehensive management accounts and actual progress against budget and forecast is challenged by members of the Executive Committee at Divisional level each month;
- key financial risks are controlled through clearly laid down authorisation levels and proper segregation of accounting duties;
- capital expenditure is restricted to amounts approved in the annual budget and any significant over-spend requires prior approval by the Board;
- detailed written proposals are submitted to the Board before any decision is made to authorise investment in acquisitions. Due diligence reviews are always performed by the Group's own staff along with a combination of external advisers;
- a risk management framework is in place to identify, assess and mitigate the major business risks faced by the Group. Risk management is monitored routinely by the Executive Committee and is considered by the Audit Committee; and
- an internal audit function has been established which reports to the Group Finance Director and independently to the Audit Committee. In addition to independently facilitating the Group's risk management framework, it delivers a risk-based internal audit programme, to provide assurance on the effectiveness of the internal control structures operating across the business. The annual audit programme is focused on the areas of greatest risk to the Group as determined by the risk management framework.

The Board keeps under review the effectiveness of this system of internal control. The key mechanisms used by the Board include regular reports from the Executive Committee, updates from the Audit Committee based on its review of risk management and internal audit reports, and discussions with and reports from the external auditors. In addition, the Divisional directors and Divisional financial controllers provide annual confirmation that the Divisions' internal controls and systems have operated effectively during the period.

The Board has considered the means by which it monitors the effectiveness of internal controls and has concluded that it is satisfied with the process and its compliance with the requirements of the Code.

## Assessment of risk

The Group has developed a corporate risk matrix for annual approval by the Audit Committee. The purpose of the matrix is to record the key risks facing the business, the assessment of the likelihood of the risks crystallising and their potential materiality and the Group's response to each risk. Responsibility for management of the risks is attributed typically to senior management.

Further information on the principal risks facing the Group and the management of risk is set out in the Business Review on page 20.

## Going concern

The Board has reviewed the Group's budget for the financial year ending 31 July 2007 and projections for future years. After taking account of the cash flow projections, including proposed capital expenditure and considering the availability of borrowing facilities, the Board has concluded that it is appropriate to prepare the accounts of both the Group and the Company on the going concern basis.

# Audit Committee Report

## for the year ended 31 July 2006

Since flotation of the Company in February 2005 and until 1 October 2005, the Audit Committee comprised David Galloway (Chairman) and Rodney Westhead who were appointed on 7 February 2005. Adrian Smith was appointed to the Audit Committee on 1 October 2005. In accordance with the Code, Rodney Westhead resigned from the Audit Committee on 1 October 2005 upon being appointed Chairman of the Company. The Committee has met five times in the current year with the Chairman, Group Chief Executive, Group Finance Director and external auditors in attendance.

David Galloway is a Chartered Accountant and has experience of membership of other audit committees. Adrian Smith has broad business experience and spent eleven years working for major accountancy firms.

The Audit Committee's principal responsibilities are to:

- monitor the integrity of the financial statements and formal announcements relating to the Group's performance;
- monitor and review the effectiveness of the Group's internal controls in the context of the Group's overall risk management systems including approving the appointment and removal of the head of the internal audit function, reviewing and assessing the internal audit plan, reports and responses;
- oversee the relationship with the external auditors including approving fees and assessing their independence;
- review audit findings with the external auditors; and
- monitor the 'whistle-blowing' process.

During the last year the Audit Committee has:

- reviewed the Group's interim and final accounts and conversion to International Financial Reporting Standards together with the external auditors' detailed reports;
- reviewed a wide range of financial reporting matters including consideration of the appropriateness of the critical accounting policies adopted by the Group and any significant areas of judgement that materially impact on the reported results;
- reviewed and approved the policy for non-audit fees with the auditors;
- ensured non-audit work carried out by the auditors was appropriate;
- monitored the independence of the external auditor;
- considered the process by which the Board reviews and monitors risk;
- overseen the establishment of the internal audit function, approved the annual internal audit plan and considered results of internal audit projects; and
- reviewed and approved the statements on internal control in the Company's Statement of Corporate Governance set out on page 38.

### Independence of auditors

PricewaterhouseCoopers LLP is the Group's auditor. Both the Audit Committee and the auditors themselves have safeguards in place to ensure that the objectivity and independence of the auditors is maintained, including the periodic rotation of the audit partner. In addition to the annual appointment of the auditors by the shareholders, the Audit Committee regularly reviews their independence taking into consideration relevant UK professional and regulatory requirements. The Audit Committee also reviews their performance and fees charged to ensure that the Group continues to receive value for money.

The auditors also carry out non-audit work such as taxation and certain due diligence services where the Board believes that it is in the Group's best interests to make use of the auditors' extensive knowledge of the business. The Board monitors the quality and volume of this work and does use other accounting firms (or other appropriately qualified organisations) and will continue to do this when it is appropriate to do so.

Details of fees paid to the auditors for both audit and non-audit work are given in note 5 to the financial statements.

### David Galloway

Chairman of the Audit Committee  
16 October 2006

# Nomination Committee Report

## for the year ended 31 July 2006

The Nomination Committee is chaired by Adrian Smith and its membership comprises Adrian Smith, Rodney Westhead and David Galloway. All of the members were appointed on 7 February 2005. The Nomination Committee met twice during the year with all three members attending the meetings. The Nomination Committee continues to evaluate the balance of skills, knowledge and experience on the Board and, following any such evaluation, will prepare a description of the role and capabilities required for a particular appointment.

The Nomination Committee makes recommendations to the Board on the appointment of directors and the management of Board succession. The Nomination Committee's terms of reference include consideration of the size and structure of the Board, the appointment and duties of executive directors and their continuation (or not) in service, the appointment and re-appointment of non-executive directors and whether any director retiring in accordance with the Articles of Association should be put forward for election or re-election.

During the year the Committee considered and recommended the appointment of John Green and Peter Marples to the Board.

The Committee has instructed external search consultants to provide advice and support in relation to the appointment of an appropriate non-executive director to replace Adrian Smith when he leaves the Board later this year. A detailed role specification has been drawn up reflecting the Committee's and the Group Chief Executive's assessment of the mix of skills, knowledge and experience required.

### **Adrian Smith**

Chairman of the Nomination Committee  
16 October 2006

# Statement of Directors' Responsibilities

for the year ended 31 July 2006

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 the Group and of the profit or loss of the Group 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 Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Group's website. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

**John Green**

Group Company Secretary  
16 October 2006

# Independent Auditors' Report to the Members of Carter & Carter Group plc

We have audited the Group financial statements of Carter & Carter Group plc for the year ended 31 July 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Carter & Carter Group plc for the year ended 31 July 2006 and on the information in the Directors' Remuneration Report that is described as having been audited.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group 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 Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS regulation. We report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes the specific information presented in the Business Review. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' Report, the Statement of Directors' Responsibilities, the Business Review, the unaudited part of the Directors' Remuneration Report, the Report of the Audit Committee, the Corporate Governance Statement, the Report of the Nomination Committee, Directors' and Executive Members' biographies, financial highlights and the Divisional information contained within pages 2 to 11. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

## 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 Group 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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations that 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 IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 July 2006 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the Group financial statements.

## PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
East Midlands  
16 October 2006

# Group Income Statement

for the year ended 31 July 2006

	Note	Trading before restructuring and exceptional items 2006 £'000	Restructuring and exceptional items (note 3) 2006 £'000	Total 2006 £'000	Total 2005 £'000
<b>Revenue</b>	2	94,079	–	<b>94,079</b>	50,977
Employee related expenses		(47,425)	(1,509)	<b>(48,934)</b>	(27,106)
Infrastructure and other expenses		(26,510)	(1,826)	<b>(28,336)</b>	(12,853)
Share-based payments		(192)	(335)	<b>(527)</b>	(11)
Depreciation of property, plant and equipment	4/14	(1,387)	–	<b>(1,387)</b>	(731)
<b>Operating profit before amortisation and IPO costs</b>	4	18,565	(3,670)	<b>14,895</b>	10,276
Amortisation and impairment of intangibles	13	(1,659)	(1,372)	<b>(3,031)</b>	(102)
IPO costs		–	–	–	(994)
<b>Operating profit</b>		16,906	(5,042)	<b>11,864</b>	9,180
Interest receivable		346	–	<b>346</b>	54
Interest payable and similar charges	8	(3,666)	–	<b>(3,666)</b>	(3,109)
<b>Profit before taxation</b>		13,586	(5,042)	<b>8,544</b>	6,125
Taxation	9	(4,027)	1,336	<b>(2,691)</b>	(2,136)
<b>Profit for the year attributable to equity shareholders</b>	26	9,559	(3,706)	<b>5,853</b>	3,989
<b>Earnings per share</b>					
Basic	11			<b>15.6p</b>	13.3p
Diluted	11			<b>15.4p</b>	13.1p
<b>Dividends per share</b>					
Interim	10			<b>2.0p</b>	–
Final	10			<b>4.75p</b>	3.2p

# Group Statement of Changes in Equity

for the year ended 31 July 2006

	Note	2006 £'000	2005 £'000
Retained profit for the year		5,853	3,989
Net exchange adjustments	26	(179)	60
<b>Total recognised income for the year</b>		<b>5,674</b>	<b>4,049</b>
Dividends	26	(1,962)	(114)
Share-based payments	26	434	11
Tax credit on share-based payments	26	70	635
Shares issued in period	23	35,650	19,702
Shares to be issued	23	2,500	–
Expenses of share issue	24	(937)	(3,279)
Purchase of deferred shares		–	(46)
Purchase of preference shares		–	(6,285)
Movement in respect of Employee Benefit Trust	26	–	24
<b>Transactions with equity holders</b>		<b>35,755</b>	<b>10,648</b>
Total movement in equity		41,429	14,697
<b>Opening shareholders' funds</b>		<b>16,983</b>	<b>2,286</b>
<b>Closing shareholders' funds</b>		<b>58,412</b>	<b>16,983</b>

# Group Balance Sheet

at 31 July 2006

	Note	2006 £'000	2005 £'000
<b>Non-current assets</b>			
Goodwill	12	105,642	34,407
Intangible assets	13	3,534	614
Property, plant and equipment	14	16,062	11,343
Deferred tax asset	20	1,751	–
		<b>126,989</b>	<b>46,364</b>
<b>Current assets</b>			
Trade and other receivables	15	27,992	14,180
Cash and cash equivalents	16	1,661	398
		<b>29,653</b>	<b>14,578</b>
<b>Current liabilities</b>			
Financial liabilities	18	7,256	8,649
Trade and other payables	17	29,359	11,328
Current tax liabilities		1,289	525
		<b>37,904</b>	<b>20,502</b>
<b>Non-current liabilities</b>			
Financial liabilities	18	53,917	20,816
Deferred tax liabilities	20	946	1,093
Provisions	21	2,055	1,264
Other non-current liabilities	22	3,408	284
		<b>60,326</b>	<b>23,457</b>
<b>Shareholders' equity</b>			
Ordinary shares	23	1,642	1,335
Share premium	24	52,992	16,086
Capital redemption reserve	25	4,425	4,425
Retained earnings	26	(647)	(4,863)
		<b>58,412</b>	<b>16,983</b>

The financial statements on pages 43 to 73 were approved by the Board of directors on 16 October 2006 and signed on its behalf by:

**P J Carter**  
Chief Executive

**J C Green**  
Group Finance Director

# Group Statement of Cash Flows

for the year ended 31 July 2006

	Note	2006 £'000	2005 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	7,815	7,868
Interest received		346	54
Interest paid		(3,598)	(3,358)
Tax paid		(3,059)	(1,773)
Net cash flow from operating activities		1,504	2,791
<b>Cash flows from investing activities</b>			
Proceeds of sale of property, plant and equipment		3,585	4,557
Purchases of property, plant and equipment		(7,916)	(8,541)
Acquisitions	32	(55,953)	(5,239)
Net cash used in investing activities		(60,284)	(9,223)
<b>Cash flows from financing activities</b>			
Issue of ordinary share capital		31,387	19,702
Expenses in connection with share issue		(937)	(3,279)
Dividends		(1,962)	(780)
Own shares redeemed		–	(6,331)
Proceeds from issue of new loans		36,243	24,250
Issue costs on new bank loan		(667)	(561)
Repayment of borrowings		(1,161)	(28,023)
Drawdown of finance lease		3,148	4,425
Finance lease principal payments		(3,885)	(4,544)
Net cash generated in financing activities		62,166	4,859
Effects of exchange rate changes		(19)	17
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,367</b>	<b>(1,556)</b>
Cash and cash equivalents at 1 August		(1,706)	(150)
Cash and cash equivalents at 31 July	28	1,661	(1,706)

# Notes to the Financial Statements

for the year ended 31 July 2006

## 1 Accounting policies

### Basis of preparation

These financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 1985, applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. A summary of the more important Group accounting policies is set out below.

The parent company has not adopted International Financial Reporting Standards. Its results, reported under UK GAAP, are detailed on pages 75 to 81.

### First time adoption of IFRS

The date of transition to IFRS was 1 August 2004, which is the beginning of the comparative period for the year ended 31 July 2006. The Group has applied IFRS 1 for first time adoption of IFRS, and has elected to use the following exemptions:

- IFRS 3 has not been applied retrospectively to business combinations that occurred before 1 August 2004.
- Cumulative translation differences for foreign operations have been deemed to be nil at 1 August 2004. Any gain or loss on a subsequent disposal of foreign operations will exclude translation differences that arose before 1 August 2004.
- Comparative information has not been restated for IAS 32 or IAS 39 in the first year of transition.
- Under IFRS 2, the recognition of the expense of share-based payments has been restricted to those awards granted after 7 November 2002 which have not vested by 1 January 2005.

As identified above, the Group has elected to take the optional exemption from applying IAS 32 and IAS 39 in the comparative year (and to first apply them at 1 August 2005 for the year ended 31 July 2006). The only significant adjustment that would have been required to make the comparative information at 31 July 2005 comply with IAS 32 and IAS 39 would be to re-present the preference shares as debt rather than equity. These preference shares were repaid as part of the Initial Public Offering (IPO) and were not outstanding at 31 July 2005.

### Basis of consolidation

The financial information consolidates the financial statements of Carter & Carter Group plc and all of its subsidiary undertakings drawn up to 31 July.

Joint ventures are accounted for using proportional consolidation.

Intra-group sales and unrealised profits are eliminated on consolidation.

Acquisitions are consolidated under the acquisition accounting methodology and the results of subsidiaries are included from their date of acquisition. The purchase consideration of acquisitions is allocated to assets and liabilities on the basis of their fair values at the date of acquisition.

### Estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reported period.

In the preparation of these consolidated financial statements, estimates and assumptions have been made by management concerning the selection of useful lives of fixed assets, provisions necessary for certain liabilities, the carrying value of investments and other similar evaluations. Actual amounts could differ from those estimates.

### Revenue recognition

Revenue, which is stated net of value added tax, represents revenues and fees earned in respect of services provided during the period. Where amounts have been earned but not invoiced during the period, the amount included in revenue is the proportion of the anticipated net sales value earned to date. A corresponding balance is recognised in debtors as amounts recoverable on contracts or accrued income as appropriate. To the extent that fees invoiced exceed the value of work performed, they are included in creditors as payments on account. Revenue includes expenses recharged at cost.

Where revenue is determined by reference to performance criteria which are achieved over a period of time, it is only recognised once it is probable that the performance criteria will be met for the entire period and thereafter such revenue is recognised as it is earned.

Where revenue is directly linked to specific achievements, such as the payments payable in respect of student qualifications, this revenue is only recognised when the specific achievement is met.

### Goodwill

Goodwill arising on acquisitions, representing the excess of consideration paid over the fair value of individual assets and liabilities, is capitalised and classified as an asset on the balance sheet. It is reviewed for impairment annually at segment level. Goodwill arising on the initial acquisition of a foreign operation is treated as an asset of the foreign operation and re-translated at the closing exchange rate at each balance sheet date. The difference arising on re-translation is taken to exchange differences in reserves.

### Intangibles

Intangible assets acquired as part of an acquisition are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably. For example, customer contracts which are acquired through a business combination are stated at fair value at the date of acquisition which is determined by discounting the expected future cash flows to be generated from that asset at the risk adjusted weighted average cost of capital for the Group. The amount is included in intangible assets and amortised over the estimated useful life on a straight-line basis.

Intangible assets acquired separately from a business acquisition are capitalised at cost and amortised over their useful life.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that carrying values may not be recoverable. Any impairment in the carrying value of intangible fixed assets is charged to the income statement as it arises.

### Property, plant and equipment

Property, plant and equipment assets are stated at purchased historical cost less accumulated depreciation and/or any provisions for impairment.

# Notes to the Financial Statements

## Depreciation

Depreciation is provided on all property, plant and equipment, at rates calculated to write off the cost less estimated residual value, based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life. The annual rates of depreciation used vary according to the type of asset and are as follows:

Freehold land	Not depreciated
Freehold buildings	2.5% straight-line
Leasehold property	Lower of 40 years or term of lease
Plant and machinery	20% reducing balance
Computer equipment	33% straight-line
Fixtures and fittings	25% straight-line
Motor vehicles	25% straight-line

The carrying values of property, plant and equipment are reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment in the carrying value of tangible fixed assets is charged to the income statement as it arises. Residual values are subject to annual review.

The Group has arrangements with certain motor vehicle manufacturers whereby vehicles are purchased direct from the motor vehicle manufacturer for certain employees. Under these arrangements, the Group has the right to dispose of such vehicles at their original purchase cost, and does so. The directors therefore consider that the residual value of these vehicles is the same as their purchase cost, and that in applying the depreciation policies above no depreciation charge is required.

## Impairment of fixed assets and goodwill

Impairment provisions are calculated by comparing the net book value of fixed assets or goodwill with the higher of the post-tax net realisable value and the value-in-use of those assets. The value-in-use is calculated using forecast discounted cash flows over the economic life of the related fixed asset or goodwill.

## Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group may not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement. The cost of unrecoverable trade receivables is recognised in the income statement immediately.

## Taxation

Current tax, including corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted at the balance sheet date.

## Deferred taxation

Deferred taxation is the tax expected to be repayable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised on all taxable temporary differences. Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not

recognised if the temporary difference arises from goodwill, or from initial recognition (except in a business combination), of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, or from differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. The carrying value of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which taxable temporary differences can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with in reserves.

## Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All translation differences are taken to the income statement.

The trading results of overseas subsidiaries are translated at the average exchange rate in the year, with an adjustment between average rates and year end rates being taken to reserves. The exchange difference arising on the re-translation of opening net assets are taken directly to reserves. All other translation differences are taken to the income statement.

## Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised as tangible fixed assets on the balance sheet and are depreciated over the shorter of their primary lease period and their useful lives. The capital element of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term.

## Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

## Trade receivables and other receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

## Financial liability

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

### **Borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### **Trade payables**

Trade payables on normal terms are not interest bearing and are stated at their nominal value.

### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### **Derivative financial instruments**

The principal derivative financial instruments used by the Group to manage its interest rate risk are interest rate swaps. These instruments are used for hedging purposes only and no trading of financial instruments is undertaken. Interest payments or receipts arising from derivative instruments are recognised within net interest payable over the period of the contract. Any premium or discounts arising are amortised over the life of the instruments. Termination payments made or received in respect of derivatives are spread over the life of the underlying exposure.

### **Holiday pay**

Holiday pay accrues over a holiday year. A holiday pay accrual is recognised where accrued holiday pay exceeds holidays taken. A holiday pay prepayment is recognised where holidays taken exceed accrued holiday pay.

### **Pensions**

The Group operates a number of defined contribution pension schemes. Contributions are charged in the income statement as they become payable in accordance with the rules of the scheme.

### **Share-based payments**

The Group operates an equity-settled, share-based compensation plan for senior management and certain employees. The fair value of the employee services received under the plan is recognised as an expense in the income statement. Fair value is determined by use of the Black-Scholes Option Pricing Model. The amount to be expensed over the vesting period is determined by reference to the fair value of share incentives, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are considered as part of the assumptions about the number of share incentives that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity, over the remaining vesting period.

### **Expenditure under contracts**

In the Vocational Learning division, certain customer contracts require amounts to be set aside for the benefit of the learning programmes to which they relate.

In these cases, provisions are recognised for contractual liabilities accrued but not yet settled. The provisions are charged in accordance with contractual terms and utilised in agreement with the customer. Any differences between the provision utilised and the actual expenditure incurred are charged or credited to the income statement as appropriate.

### **Employee Benefit Trust**

The shares in the Company held by the Employee Benefit Trust are recorded in the balance sheet and are deducted from shareholders' funds.

### **Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### **Exceptional items**

Items which are both significant in size and nature and likely to be non-recurring are presented as exceptional items within their relevant consolidated income statement category. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of properties, restructuring of businesses and asset impairments.

### **Segmental reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Business segments have been designated as the primary segment as these segments reflect the dominant source and nature of the Group's returns and is consistent with the internal reporting structure of the Group. These segments are Vocational Learning and Outsource Services.

Group costs are allocated directly to segments wherever possible. Costs relating to more than one segment that cannot be directly attributed are apportioned according to revenue.

# Notes to the Financial Statements

## 2 Segmental analysis

Primary reporting format – business segments

	2006 £'000	2005 £'000
<b>Revenue</b>		
Vocational Learning	66,101	26,682
Outsource Services	27,978	24,295
	<b>94,079</b>	<b>50,977</b>
<b>Operating profit before exceptional costs, amortisation and impairment</b>		
Vocational Learning	14,270	7,240
Outsource Services	4,295	3,036
	<b>18,565</b>	<b>10,276</b>
<b>Operating profit before IPO costs</b>		
Vocational Learning	9,112	7,215
Outsource Services	2,752	2,959
	<b>11,864</b>	<b>10,174</b>
Exceptional IPO costs <sup>(1)</sup>	–	(994)
<b>Operating profit</b>	<b>11,864</b>	<b>9,180</b>

(1) Exceptional costs related to the IPO during the prior year and are not therefore directly associated with either segment (note 3).

### Analysis of net assets by segment

	2006 £'000	2005 £'000
<b>Operating assets</b>		
Vocational Learning	127,938	32,419
Outsource Services	25,966	28,247
	<b>153,904</b>	<b>60,666</b>
<b>Operating liabilities</b>		
Vocational Learning	26,682	8,446
Outsource Services	6,000	5,960
	<b>32,682</b>	<b>14,406</b>
<b>Net operating assets</b>		
Vocational Learning	101,256	23,973
Outsource Services	19,966	22,287
	<b>121,222</b>	<b>46,260</b>
Less bank borrowings (note 18)	<b>(59,947)</b>	<b>(25,477)</b>
Less central net liabilities	<b>(2,863)</b>	<b>(3,800)</b>
<b>Net assets at 31 July</b>	<b>58,412</b>	<b>16,983</b>

Central net liabilities comprise assets, offset by liabilities, that cannot practically be allocated between the segments. These liabilities include accrued tax, deferred consideration payable and bank overdraft.

## Other segment items

	2006 £'000	2005 £'000
<b>Capital expenditure</b>		
Vocational Learning	3,655	4,475
Outsource Services	3,751	4,830
	<b>7,406</b>	<b>9,305</b>
<b>Depreciation</b>		
Vocational Learning	917	260
Outsource Services	470	471
	<b>1,387</b>	<b>731</b>
<b>Amortisation and impairment of intangible assets</b>		
Vocational Learning	2,917	6
Outsource Services	114	96
	<b>3,031</b>	<b>102</b>
<b>Share-based payments</b>		
Vocational Learning	370	–
Outsource Services	157	–
	<b>527</b>	<b>–</b>

## Secondary format – geographical segments

The Group derives the majority of its income from the United Kingdom. The Group manages a number of contracts in North America, Australia, Japan and Germany. The overseas activities when aggregated together account for less than 3% of Group revenue, operational net assets and capital expenditure. Accordingly an analysis of operations by geographical segment is not presented.

## 3 Restructuring and exceptional items

The exceptional charges in the period are detailed below:

	Restructuring £'000	Impairment £'000	Share-based payments £'000	2006 Total £'000	2005 Total £'000
Employee related expenses	(1,509)	–	–	<b>(1,509)</b>	–
Infrastructure and other expenses	(1,826)	–	–	<b>(1,826)</b>	–
Share-based payments	–	–	(335)	<b>(335)</b>	–
Amortisation and impairment	–	(1,372)	–	<b>(1,372)</b>	–
IPO costs	–	–	–	–	(994)
Operating profit	(3,335)	(1,372)	(335)	<b>(5,042)</b>	(994)
Interest payable and similar charges	–	–	–	–	(331)
Profit before tax	(3,335)	(1,372)	(335)	<b>(5,042)</b>	(1,325)
Taxation	824	412	100	<b>1,336</b>	160
Retained profit	(2,511)	(960)	(235)	<b>(3,706)</b>	(1,165)

### Restructuring

The charge comprises non-recurring costs for integrating the acquired operations and restructuring to suit the enlarged business. The charges primarily relate to exiting surplus properties and the associated staff restructuring costs. Infrastructure costs include a charge of £588,000 relating to the write-down of current assets following the decision to downsize operations in the US.

### Impairment

As part of the acquisition of Assa Training & Learning group of companies, the Group recognised intangible assets relating to the management of the Learndirect programme, the delivery of Learndirect training and an associated royalty income. Subsequent to the acquisition, Ufi, the body responsible for Learndirect, has made a strategic decision to in-source funding management and to re-direct funding away from courses where Assa received royalty income. As a result the Group have impaired £1,372,000 of intangible assets.

# Notes to the Financial Statements

## Share-based payments

Following the acquisition of Assa Training & Learning group of companies, Peter Marples, chief executive and principal shareholder, received a conditional award of shares under the Group's LTIP scheme. The purpose of the award, over three years, was to attract Peter Marples to the Group and to secure his services in the post-acquisition period.

## Prior year – IPO

The charge in the year ended 31 July 2005 represents fees and other costs arising as a result of the IPO which have not been treated as deductions against the share premium account. The exceptional interest payable represents a charge in respect of previous finance costs that were written off as the existing banking loans were repaid and replaced by new loan facilities prior to the IPO.

## 4 Operating profit

	2006 £'000	2005 £'000
<b>Operating profit is stated after charging:</b>		
Depreciation of property, plant and equipment (note 14)		
– Owned assets	1,350	601
– Leased assets	37	130
Loss on disposal of property, plant and equipment	1	3
Operating lease rentals		
– Plant and machinery	–	103
– Other	1,600	1,534
Auditors' remuneration (note 5)	492	197

## 5 Fees paid to auditors

	2006 £'000	2005 £'000
<b>Audit services</b>		
Statutory audit <sup>(1)</sup>	222	85
Related regulatory reporting <sup>(2)</sup>	42	–
<b>Taxation services</b>		
Compliance	16	16
Advisory	141	14
<b>Other services</b>		
IPO reporting accountant (charged against share premium account)	–	752
Acquisition due diligence (charged against cost of investment and goodwill)	405	7
Interim review	25	25
IFRS review	46	–
Other <sup>(3)</sup>	–	57
	<b>897</b>	<b>956</b>

(1) Auditors' remuneration as auditors to the Company during the year amounted to £37,500 (2005: £26,000).

(2) Relates to financial assistance reporting in connection with the acquisitions during the year.

(3) Other services includes general advisory and fees relating to the refinancing of bank facilities in the prior year.

## 6 Staff costs

Employee costs (including directors) during the year amounted to:

	2006 £'000	2005 £'000
Wages and salaries	34,350	20,418
Social security costs	3,608	2,182
Other pension costs	965	410
	<b>38,923</b>	<b>23,010</b>

	Number	Number
Monthly average number of employees:		
Operations	1,011	592
Administration	189	104
	1,200	696

#### Key management compensation

	2006 £'000	2005 £'000
Salaries and short-term employee benefits	1,673	1,040
Post-employment benefits	27	–
Share-based payments	467	188
Compensation for loss of office	100	–
	2,267	1,228

The key management figures given above include directors and those members of the executive detailed on pages 26 and 27.

#### 7 Directors' emoluments

Details of directors' emoluments and interest in shares are included in the Remuneration Report on pages 31 to 34.

#### 8 Interest payable and similar charges

	2006 £'000	2005 £'000
Bank loans and overdrafts	3,407	2,064
Other loans	4	312
Finance lease and hire purchase contracts	119	170
Amortisation of deferred issue costs	136	416
Discounting of deferred consideration	–	147
	3,666	3,109

Amortisation of deferred issue costs in the prior year includes £331,000 in respect of previous finance costs written off as the existing banking loans were repaid and replaced by new facilities prior to the IPO (note 3).

#### 9 Taxation

	2006 £'000	2005 £'000
<b>Current tax</b>		
UK corporation tax on profits for the year	3,352	2,145
Adjustments in respect of previous periods	(30)	(49)
Overseas tax	10	62
Total current tax	3,332	2,158
<b>Deferred tax</b>		
Origination and reversal of timing differences	(410)	(22)
Adjustments in respect of previous periods	(231)	–
Total deferred tax (note 20)	(641)	(22)
Taxation	2,691	2,136

In addition to the amount charged to the income statement, deferred tax of £70,000 (2005: £nil) in respect of share-based payments was credited directly to reserves. This represents the recognition of a deferred tax asset which is in excess of the charge to the income statement for share-based payments.

# Notes to the Financial Statements

No provision has been made in the financial statements for any tax liability which may arise upon future distribution of profit to the United Kingdom from the overseas subsidiaries.

The tax assessed on the profit on ordinary activities for each period is higher than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	2006 £'000	2005 £'000
Profit before tax	8,544	6,125
Profit multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	2,563	1,837
<b>Effects of:</b>		
Expenses not deductible for tax purposes	172	260
Difference in tax rates on overseas earnings	5	15
Adjustment for prior year non-trading losses	(242)	–
Adjustments in respect of previous periods	(20)	(49)
Overseas tax losses not recognised	213	73
	<b>2,691</b>	<b>2,136</b>

All deferred tax balances have arisen in the United Kingdom.

## 10 Dividends

	2006 £'000	2005 £'000
<b>Equity – Ordinary</b>		
Final dividend paid for 2005: 3.2p per share (2004: nil)	1,156	–
Interim dividend paid for 2006: 2.0p per share (2005: nil)	806	–
<b>Non-equity – Preference</b>		
Paid: 4.2% irredeemable cumulative preference shares	–	114
	<b>1,962</b>	<b>114</b>

The directors are proposing a final dividend in respect of the financial year ended 31 July 2006 of 4.75p per share which will absorb an estimated £1,950,000 of shareholders' funds. It will be paid on 6 December 2006 to shareholders on the register of members on 10 November 2006.

## 11 Earnings per share

	2006 '000	2005 '000
Basic weighted average number of shares	37,635	29,232
Dilutive potential ordinary shares from share options	284	403
	<b>37,919</b>	29,635
	£'000	£'000
<b>Earnings</b>		
Profit after tax	5,853	3,989
Preference dividends	–	(114)
Profit after tax and appropriations	5,853	3,875
Amortisation	1,659	102
Tax effect of amortisation	(498)	–
Exceptional costs (note 3)	3,706	1,165
Underlying earnings	10,720	5,142
<b>Earnings per share</b>		
Basic	15.6p	13.3p
Diluted	15.4p	13.1p
Basic – excluding amortisation and exceptional costs	28.5p	17.6p
Diluted – excluding amortisation and exceptional costs	28.3p	17.4p

The calculation of the basic earnings per share has been based on the earnings attributable to ordinary shareholders and on 37,635,000 ordinary shares (2005: 29,232,000 ordinary shares) being the weighted average number of ordinary shares. For the year ended 31 July 2005, the weighted average number of shares is calculated after taking account of the restructuring of the existing share capital that occurred on Admission. The weighted average number of shares has been adjusted to exclude those shares held by the Employee Benefit Trust.

The underlying earnings per share is based on profit adjusted for amortisation and exceptional operating costs, net of tax, and on the same weighted average number of shares used in the basic earnings per share calculation above. The directors consider that this measure provides an additional indicator of underlying performance of the Group.

# Notes to the Financial Statements

## 12 Goodwill

	£'000
<b>Cost</b>	
At 1 August 2004	37,623
Movements on re-translation	116
Additions	835
At 31 July 2005	38,574
Movements on re-translation	(201)
Acquisition of the Assa Training & Learning group of companies (note 32)	24,778
Acquisition of the Fern Training & Development group of companies (note 32)	16,260
Acquisition of Retail Motor Industry Training Limited (note 32)	29,972
Acquisition of Craig Phillips Building Skills (note 32)	391
<b>At 31 July 2006</b>	<b>109,774</b>
<b>Aggregate impairments (amortisation prior to 1 August 2004)</b>	
At 1 August 2004	4,146
Movements on re-translation	21
At 31 July 2005	4,167
Movements on re-translation	(35)
<b>At 31 July 2006</b>	<b>4,132</b>
<b>Net book value</b>	
<b>At 31 July 2006</b>	<b>105,642</b>
At 31 July 2005	34,407
At 1 August 2004	33,477

During the year, the acquired goodwill was tested for impairment in accordance with IAS 36. No adjustment to the carrying value of goodwill was necessary.

The allocation of goodwill to cash generating units on the acquisitions has been completed during the year. The carrying amount of goodwill for Vocational Learning is £88,730,000 and for Outsource Services is £16,912,000.

### Impairment of goodwill

In assessing whether a write down of goodwill is required in the carrying value of the related asset, the carrying value of the cash generating unit (CGU) is compared with its recoverable amount. The recoverable amount for each CGU has been measured based on value-in-use. The Group estimates the value-in-use of its CGUs using a discounted cash flow model (DCF), which adjusts the cash flows for risks associated with the assets, and are discounted using a pre-tax rate of 13% (2005: 13%). The discount rate is consistent across all segments.

The value-in-use calculations have not included the benefits arising from any future asset enhancement, as this is not permitted by IAS 36. The growth rates included within the assumptions supporting the value-in-use calculations do not therefore represent the Group's anticipated total forecast growth, but rather the growth deriving from asset enhancements completed by the balance sheet date.

The Group has only used formally approved budgets for the first year of its value-in-use calculation. The use of longer-term budgets and forecasts within the value-in-use would include both the outflows and benefits relating to future capital expenditure, which is not permitted by IAS 36. As a result, the value-in-use for years two to five have been based on forecast sales and EBITDA growth which the Group anticipates will arise as a result of the exclusion of future capital expenditure from the value-in-use, rather than formally approved budgets. The growth rates assumed for EBITDA growth in years two to five range between 0% and 5%. A terminal value, assuming a 0% growth rate has been calculated from estimated year five cash flows.

The assumptions used in the calculation of the value-in-use have been derived from past experience. It is estimated that if EBITDA were to decline by 5% annually, this would not be sufficient to reduce the excess of the recoverable amount over the carrying amounts of the CGU to zero. As a result, management believe that no reasonably possible change in assumptions would cause the carrying amount of goodwill to exceed its recoverable amount.

### Goodwill allocated to Vocational Learning

Goodwill allocated to the Vocational Learning segment is significant in comparison to the total carrying value of the Group's goodwill. The key assumptions required for the value-in-use calculation for Vocational Learning are sales growth, EBITDA, student numbers and achievement rates.

### Goodwill allocated to Outsource Services

The key assumptions required for the value-in-use calculation for Outsource Services are sales growth, EBITDA and fee earning headcount.

## 13 Intangible assets

	Software £'000	Customer contracts £'000	Royalty £'000	Total £'000
<b>Cost</b>				
At 31 July 2004	154	–	–	154
Acquisitions	–	102	–	102
Additions	58	462	–	520
At 31 July 2005	212	564	–	776
Acquisitions (note 32)	353	4,508	566	5,427
Additions	524	–	–	524
<b>At 31 July 2006</b>	<b>1,089</b>	<b>5,072</b>	<b>566</b>	<b>6,727</b>
<b>Amortisation</b>				
At 31 July 2004	60	–	–	60
Charge for year	64	38	–	102
At 31 July 2005	124	38	–	162
Charge for year	276	1,195	188	1,659
Impairment	–	994	378	1,372
<b>At 31 July 2006</b>	<b>400</b>	<b>2,227</b>	<b>566</b>	<b>3,193</b>
<b>Net book value</b>				
<b>At 31 July 2006</b>	<b>689</b>	<b>2,845</b>	<b>–</b>	<b>3,534</b>
At 31 July 2005	88	526	–	614
At 1 August 2004	94	–	–	94

During the year, the acquired intangible assets were tested for impairment in accordance with IAS 36. Following the impairment test, an impairment charge of £1,372,000 has been recognised in respect of the acquisition of Assa Training & Learning group of companies. Further details are provided in note 3.

Computer software costs are amortised on a straight-line basis over 3 to 5 years. Customer contracts are amortised on a straight-line basis over 2 to 8 years.

# Notes to the Financial Statements

## 14 Property, plant and equipment

	Land and buildings, freehold and long leasehold £'000	Short leasehold premises £'000	Fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 August 2005	7,454	1,296	2,758	1,597	13,105
Movements on re-translation	–	–	(8)	–	(8)
Acquisitions (note 32)	–	1,568	1,086	156	2,810
Additions	1,509	92	2,088	3,193	6,882
Disposals	–	–	(77)	(3,582)	(3,659)
<b>At 31 July 2006</b>	<b>8,963</b>	<b>2,956</b>	<b>5,847</b>	<b>1,364</b>	<b>19,130</b>
<b>Depreciation</b>					
At 1 August 2005	253	84	1,402	23	1,762
Movements on re-translation	–	–	(8)	–	(8)
Charge for year	200	128	973	86	1,387
Disposals	–	–	(32)	(41)	(73)
<b>At 31 July 2006</b>	<b>453</b>	<b>212</b>	<b>2,335</b>	<b>68</b>	<b>3,068</b>
<b>Net book value</b>					
<b>At 31 July 2006</b>	<b>8,510</b>	<b>2,744</b>	<b>3,512</b>	<b>1,296</b>	<b>16,062</b>

Included within property, plant and equipment are assets with a net book value of £1,191,000 (2005: £1,499,000) held under finance leases and hire purchase agreements.

Included within land and buildings, freehold and long leasehold, is freehold land with a net book value of £426,000 (2005: £426,000) and freehold buildings with a net book value of £3,336,000 (2005: £2,515,000).

	Land and buildings, freehold and long leasehold £'000	Short leasehold premises £'000	Fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 August 2004	4,887	55	1,741	1,712	8,395
Movements on re-translation	–	–	(15)	–	(15)
Acquisition	–	–	82	–	82
Additions	2,586	1,222	950	4,489	9,247
Disposals	–	–	–	(4,604)	(4,604)
Transfers	(19)	19	–	–	–
<b>At 31 July 2005</b>	<b>7,454</b>	<b>1,296</b>	<b>2,758</b>	<b>1,597</b>	<b>13,105</b>
<b>Depreciation</b>					
At 1 August 2004	130	15	912	28	1,085
Movements on re-translation	–	–	(10)	–	(10)
Charge for year	130	62	500	39	731
Disposals	–	–	–	(44)	(44)
Transfers	(7)	7	–	–	–
<b>At 31 July 2005</b>	<b>253</b>	<b>84</b>	<b>1,402</b>	<b>23</b>	<b>1,762</b>
<b>Net book value</b>					
<b>At 31 July 2005</b>	<b>7,201</b>	<b>1,212</b>	<b>1,356</b>	<b>1,574</b>	<b>11,343</b>

## 15 Trade and other receivables

	2006 £'000	2005 £'000
Trade debtors	22,970	11,516
Less: provision for impairment of receivables	(554)	(345)
Trade debtors – net	22,416	11,171
Amounts recoverable on contracts	776	1,020
Other debtors	1,312	320
Prepayments and accrued income	3,488	1,669
	27,992	14,180

Amounts recoverable on contracts represent accrued revenue on normal trading contracts with customers.

## 16 Cash and cash equivalents

	2006 £'000	2005 £'000
Cash at bank and in hand	1,661	398
Bank overdrafts	–	(2,104)
	1,661	(1,706)

## 17 Trade and other payables

	2006 £'000	2005 £'000
Trade payables	8,618	3,614
Taxation and social security	1,790	776
Other creditors	4,580	1,019
Accruals and deferred income	14,371	5,919
	29,359	11,328

## 18 Financial liabilities – borrowings

	2006 £'000	2005 £'000
<b>Current</b>		
Bank overdraft	–	2,104
Bank loans <sup>(1)</sup>	6,030	4,673
Finance lease and hire purchase obligations	1,226	1,872
	7,256	8,649
<b>Non-current</b>		
Bank loans <sup>(1)</sup>	53,917	20,804
Finance lease and hire purchase obligations	–	12
	53,917	20,816

(1) Bank loans are stated net of prepaid issue costs of £1,203,000 (2005: £523,000).

The bank overdraft and loan is secured by a fixed and floating charge over the assets of the Company and all subsidiary undertakings. Hire purchase agreements are secured on the assets to which the agreements relate.

Bank loans of £61,150,000 (2005: £26,000,000) comprise term and revolving loans. The loans are secured by a fixed and floating charge over the assets of the Company and all subsidiary undertakings. The annual interest rate approximates to LIBOR +1.06%.

# Notes to the Financial Statements

## 19 Financial instruments

### Fair values of financial assets and financial liabilities

	2006		2005	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Short-term borrowings <sup>(1)</sup>	(7,256)	(7,256)	(8,649)	(8,649)
Long-term borrowings <sup>(2)</sup>	(53,917)	(53,917)	(20,804)	(20,804)
Trade and other receivables <sup>(1)</sup>	27,992	27,992	14,180	14,180
Trade and other payables <sup>(1)</sup>	(29,359)	(29,359)	(11,328)	(11,328)
Other non-current liabilities <sup>(3)</sup>	(3,408)	(3,408)	(284)	(284)
Cash at bank and in hand <sup>(1)</sup>	1,661	1,661	398	398

(1) Due to the short term nature of these assets and liabilities, it is considered that there is no material difference between the book value and fair value.

(2) The fair value of the Group's long-term borrowings approximates to book value as all debt is at floating rate.

(3) The book value of other non-current liabilities approximates to fair value as the book value already reflects discounting to present value as required by the respective IAS.

The Group maintains £19,662,500 of notional principal UK interest rate collars as at 31 July 2006, which matures on 31 October 2008. These collars have a floor of 3.88% and a cap of 5.50%. Based on current and forecast LIBOR rates it is unlikely that these collars will be invoked and their fair value is assumed to be nil at 31 July 2006.

### Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities was as follows:

	Debt £'000	2006 Other £'000	Total £'000	Debt £'000	2005 Other £'000	Total £'000
Within one year, or on demand	6,200	1,226	7,426	4,750	3,976	8,726
Between one and two years	7,000	–	7,000	2,250	12	2,262
Between two and five years	26,200	–	26,200	12,750	–	12,750
Over five years	21,750	–	21,750	6,250	–	6,250
	61,150	1,226	62,376	26,000	3,988	29,988
Less: prepaid issue costs	(1,203)	–	(1,203)	(523)	–	(523)
	59,947	1,226	61,173	25,477	3,988	29,465

### Borrowing facilities

The Group has the following un-drawn committed borrowing facilities at 31 July 2006 in respect of which all conditions precedent had been met at that date:

	Floating £'000	2006 Fixed £'000	Total £'000	Floating £'000	2005 Fixed £'000	Total £'000
Expiring within one year	5,000	–	5,000	–	–	–
Expiring between one and two years	–	–	–	896	–	896
Expiring in more than two years	26,850	–	26,850	4,000	–	4,000
	31,850	–	31,850	4,896	–	4,896

The facilities expiring within one year were annual working capital facilities subject to review at various dates.

The Group has total banking facilities of £93,000,000 comprising term loans of £73,000,000, revolving loans of £15,000,000 and a working capital facility of £5,000,000. The un-drawn term loan of £14,350,000 is specifically available to fund future acquisitions.

## Finance leases

The minimum lease payments under finance leases and hire purchase contracts fall due as follows:

	2006 £'000	2005 £'000
Not later than one year	1,226	1,872
Later than one year but not more than five	–	12
	<b>1,226</b>	1,884
Future finance charges on finance leases	51	98
Finance lease and hire purchase liabilities	<b>1,277</b>	1,982

## 20 Deferred tax

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 30% (2005: 30%). The movement on the deferred tax account is as shown below:

	2006 £'000	2005 £'000
<b>Deferred tax liability</b>		
At 1 August	1,093	1,150
Acquisitions (note 32)	121	–
Credit for the year	(268)	(57)
<b>At 31 July</b>	<b>946</b>	1,093
<b>Deferred tax asset</b>		
At 1 August	–	–
Acquisitions (note 32)	1,308	–
Credit to income statement	131	–
Credit to reserves for share-based payments	70	–
Credit to income statement for prior period losses	242	–
<b>At 31 July</b>	<b>1,751</b>	–

During the year the Group has recognised deferred tax assets relating to prior years non-trading losses of £242,000 as it is now considered probable that these assets will be recovered. At 31 July 2006, the Group had trading losses, relating to acquired operations, of £380,000 (2005: nil). No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. Further unrecognised tax assets relating to trading losses in overseas operations exist but remain unquantified. These amounts have not been quantified or recognised as the directors do not expect them to be utilised in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

## Deferred tax liabilities

	Accelerated tax depreciation £'000	Short-term timing differences £'000	Total £'000
At 1 August 2005	1,131	(38)	1,093
Acquisitions (note 32)	1,215	(1,094)	121
Credit/(charge) to income statement	(397)	129	(268)
<b>At 31 July 2006</b>	<b>1,949</b>	<b>(1,003)</b>	<b>946</b>

# Notes to the Financial Statements

## Deferred tax assets

	Share options £'000	Tax losses £'000	Total £'000
At 1 August 2005	–	–	–
Acquisitions (note 32)	–	1,308	1,308
Credit to income statement	131	242	373
Credit to reserves for share-based payments	70	–	70
<b>At 31 July 2006</b>	<b>201</b>	<b>1,550</b>	<b>1,751</b>

## 21 Provisions for liabilities and charges

	Share options NIC £'000	Expenditure under contracts £'000	Dilapidations £'000	Total £'000
At 1 August 2005	–	1,091	173	1,264
Acquisitions (note 32)	–	–	913	913
Charge for the year	82	812	–	894
Satisfied in the year	–	(290)	–	(290)
Utilised during year	–	(694)	(32)	(726)
<b>At 31 July 2006</b>	<b>82</b>	<b>919</b>	<b>1,054</b>	<b>2,055</b>

### Share options – NIC

A national insurance charge will become payable on any gains arising as a result of the exercise of share options. IFRS 2 requires that an estimate of the charge is calculated at each reporting date and spread over the vesting period.

### Expenditure under contracts

In the Vocational Learning division, certain contracts require amounts to be set aside for the benefit of the learning programmes to which they relate. The utilisation of the provision is generally within 1 to 3 years.

### Dilapidations

The dilapidations provision reflects the work that will be required to maintain or reinstate leasehold properties in accordance with the contractual terms of the leases. The remaining terms of the leases range from 1 to 15 years.

## 22 Other non-current liabilities

	2006 £'000	2005 £'000
Accruals and deferred income	3,408	284

## 23 Share capital

	2006 £'000	2005 £'000
<b>Authorised:</b>		
250,000,000 ordinary shares of 4p each	10,000	10,000
<b>Allotted, called up and fully paid:</b>		
40,317,527 ordinary shares of 4p each (2005: 33,382,978)	1,613	1,335
<b>Deferred shares – to be issued:</b>		
725,900 ordinary shares of 4p each	29	–
<b>Ordinary share capital</b>	<b>1,642</b>	<b>1,335</b>

## Reconciliation of movement in ordinary shares

	2006 Number	2006 £'000
At 1 August 2005	33,382,978	1,335
Placing of shares in August 2005	2,388,060	95
Allotted on the acquisition of Assa Training & Learning group of companies	367,298	15
Allotted on the acquisition of Fern Training & Development group of companies	513,962	21
Placing of shares in May 2006	3,665,229	147
At 31 July 2006	40,317,527	1,613

### Acquisition of Assa Training & Learning group of companies

In order to help fund the acquisition of Assa Training & Learning group of companies on 1 September 2005, the Group's brokers placed 2,388,060 ordinary shares with institutional investors at a price of £3.55 per share raising gross proceeds of £8,478,000. In addition to the placing shares, 367,298 consideration shares and 725,900 deferred shares were also issued to certain of the vendors. Both the consideration and deferred shares were valued at £3.444 per share which was based on the average of the middle market quotations of the ordinary shares for the five days prior to the date of the acquisition agreement.

### Acquisition of Fern Training & Development group of companies

In order to partially fund the acquisition of the Fern Training & Development group of companies, the Company allotted 513,962 ordinary shares at a market price of £5.837 per share.

### Acquisition of Retail Motor Industry Training Limited

In order to help fund the acquisition of Retail Motor Industry Training Limited on 17 May 2006, the Group's brokers placed 3,665,229 ordinary shares with institutional investors at a price of £6.25 per share raising gross proceeds of £22,908,000.

### Potential issue of ordinary shares

Certain senior executives and employees hold options to subscribe for shares in the company at 4p per share under the share option scheme approved by shareholders in November 2005. The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Year of grant	Exercise price Pence	Exercise Date	Share options Number
2005	4.00	2008	423,884
<b>Options at 31 July 2006</b>			<b>423,884</b>

The Long-Term Incentive Plan (LTIP) was introduced in November 2005. Under the LTIP, the Remuneration Committee can grant options over shares in the Company to employees of the Company. Options are granted with an exercise price equal to the nominal value of shares. The contractual life of an option is three years. Awards under the LTIP are generally reserved for employees at senior management level and above. Options granted under the LTIP will become exercisable on 31 July 2008, subject to the growth in Earnings Per Share (EPS) over that period exceeding the Retail Price Index (RPI) plus 5%. If the growth in EPS over the measurement period exceeds the growth in RPI by 5%, 20% of the shares covered by the award will vest. This increases to 100% on a straight-line basis if growth exceeds RPI plus 15%. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	29/11/05
Share price at date of grant	£4.21
Exercise price	4.0p
Shares under option	452,349
Vesting period	2.7 years
Expected volatility	21%
Option life	2.7 years
Risk-free rate	4.5%
Dividend yield	1.2%
Possibility of ceasing employment before vesting	0%
Expectations of meeting performance criteria	100%
Fair value per option	£4.09

The expected volatility is based on historical volatility over the period since flotation. The risk-free rate is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

# Notes to the Financial Statements

A reconciliation of option movements over the year to 31 July 2006 is shown below:

	2006 Number
At 1 August	–
Granted – November 2005	452,349
Forfeited	(28,465)
<b>At 31 July</b>	<b>423,884</b>

## 24 Share premium account

	2006 £'000	2005 £'000
At 1 August	16,086	–
Shares issued at flotation	–	19,365
Placing of shares in August 2005	8,382	–
Allotted on the acquisition of Assa Training & Learning group of companies	1,250	–
Deferred shares on the acquisition of Assa Training & Learning group of companies	2,471	–
Allotted on the acquisition of Fern Training & Development group of companies	2,979	–
Placing of shares in May 2006	22,761	–
Expenses of share issues	(937)	(3,279)
<b>At 31 July</b>	<b>52,992</b>	<b>16,086</b>

Details of the share issues are listed in note 23.

## 25 Capital redemption reserve

	2006 £'000	2005 £'000
At 1 August	4,425	–
Transfer from retained earnings reserve (note 26)	–	4,500
Bonus issue of shares	–	(75)
<b>At 31 July</b>	<b>4,425</b>	<b>4,425</b>

On 22 December 2004 the Company redeemed £4,500,000 of 4.2% cumulative preference shares resulting in the corresponding transfer from the retained earnings account (note 26). This was reduced by the bonus issue of shares on 1 February 2005.

## 26 Retained earnings

	2006 £'000	2005 £'000
At 1 August	(4,863)	(4,968)
Profit for the year	5,853	3,989
Dividends	(1,962)	(114)
Share-based payments	434	11
Tax credit on share-based payments	70	635
Transfer to capital redemption reserve (note 24)	–	(4,500)
Currency translation differences	(179)	60
Movement in respect of Employee Benefit Trust	–	24
<b>At 31 July</b>	<b>(647)</b>	<b>(4,863)</b>

At 31 July 2006 the Employee Benefit Trust holds 24,645 ordinary 4p shares with a cost of £1,000 (2005: 24,645 ordinary 4p shares with a cost of £1,000). Share options are granted to employees at the discretion of the directors and shares are awarded by the trust in accordance with the wishes of the Group.

## 27 Reconciliation of operating profit to cash generated from operations

	2006 £'000	2005 £'000
Operating profit	11,864	9,180
Depreciation	1,387	731
Amortisation and impairment	3,031	102
Loss on disposal of fixed assets	1	3
Increase in current assets	(5,678)	(5,044)
(Decrease)/increase in current liabilities	(4,208)	3,163
Increase/(decrease) in provisions and non-current liabilities	1,418	(267)
Cash generated from operations	7,815	7,868

## 28 Analysis of changes in net debt

	At 1 August 2005 £'000	Cash flow £'000	Non-cash changes £'000	At 31 July 2006 £'000
Cash at bank	398	1,282	(19)	1,661
Bank overdraft	(2,104)	2,104	–	–
	(1,706)	3,386	(19)	1,661
Debt due within one year	(6,545)	(575)	(136)	(7,256)
Debt due after more than one year	(20,816)	(33,101)	–	(53,917)
	(29,067)	(30,290)	(155)	(59,512)

Non-cash changes comprise exchange differences on overseas cash balances of £19,000 and amortisation of debt issue costs of £136,000.

## 29 Leasing commitments – minimum lease payments

At 31 July 2006 there were total commitments under non-cancellable operating leases as set out below:

	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	226	91	–	148
In two to five years	1,114	1,625	175	1,040
In over five years	12,656	–	10,603	–
	13,996	1,716	10,778	1,188

## 30 Capital commitments

	2006 £'000	2005 £'000
Capital expenditure that has been contracted for by the Group but has not yet been provided for in the financial statements at 31 July	–	1,187

# Notes to the Financial Statements

## 31 Contingent liabilities

Prior to its acquisition by Carter & Carter Group plc, Retail Motor Industry Training Limited (ReMIT), participated in the Motor Industry Pension Plan, an industry wide defined benefit scheme, that was administered by the Retail Motor Industry Federation, the former owner of ReMIT. The most recent updated actuarial valuation of the scheme was performed at 31 December 2005. At this time the deficit in the scheme was £6,083,000 of which £507,000 related to ReMIT employees. Under the scheme rules the trustees have the right to seek to recover from ReMIT any amounts required to settle the deficit of the scheme for a period of 12 months from the date of acquisition. The acquisition agreement required that £10,800,000 of the purchase consideration paid, be held in escrow to settle any liability that may crystallise on the company in the 12 month period.

The directors, having taken appropriate advice, are satisfied that the amount held in escrow will cover any potential liability arising on the company. As the valuation of the current deficit and the intent of the trustees and former owners to seek payment from ReMIT has yet to be communicated to Carter & Carter Group plc, there exists a high level of uncertainty as to the amount that may be payable and therefore a provision has not been established in respect of this item until further information can be obtained.

## 32 Acquisitions

The Group acquired four trading operations during the year for a total consideration, excluding acquisition costs, of £64,979,000, of which £24,199,000 was in respect of the acquisition on 1 September 2005 of the Assa Training & Learning group of companies, £15,500,000 was in respect of the acquisition on 9 February 2006 of the Fern Training & Development group of companies and £25,280,000 was in respect of the acquisition on 17 May 2006 of Retail Motor Industry Training Limited. On 18 June 2006 the Group acquired the trade and assets of Craig Phillips Building Skills. No consideration was paid, however the Group assumed all outstanding liabilities which amounted to £240,000. All of these purchases have been accounted for as acquisitions.

In the case of the purchases of the Assa Training & Learning group of companies, the Fern Training & Development group of companies and Retail Motor Industry Training Limited, 100% of the voting shares were acquired. All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

### Acquisition of the Assa Training & Learning group of companies

	Carrying value pre-acquisition £'000	Adjustments £'000	Fair value £'000
Intangible assets	147	3,057	3,204
Property, plant and equipment	352	–	352
Trade and other receivables	3,890	(651)	3,239
Cash and cash equivalents	(103)	–	(103)
Trade and other payables	(4,888)	(556)	(5,444)
Current tax asset	140	402	542
Deferred tax liability	(8)	(964)	(972)
Provisions	(40)	(71)	(111)
Other non-current liabilities	(68)	(63)	(131)
Net assets acquired	(578)	1,154	576
Goodwill (note 12)			24,778
Consideration			25,354
Consideration satisfied by:			
Shares issued			1,265
Cash			20,434
Deferred consideration			2,500
Acquisition costs			1,155
			25,354

The consideration and deferred shares were valued at market price at the date of acquisition. The deferred consideration of £2,500,000 will be satisfied by the issue of 725,900 ordinary shares 21 days following the date on which Carter & Carter Group plc announces its preliminary result for the year ended 31 July 2006.

The intangible assets acquired as part of the acquisition of Assa Training & Learning group of companies comprise £2,491,000 of customer contracts and £566,000 of Royalty contracts. The resulting goodwill of £24,778,000 represents the value of synergies from combining the operations, the removal of a competitor and the value associated with the assembled workforce.

The outflow of cash and cash equivalents on the acquisition of the Assa Training & Learning group of companies is as follows:

	£'000
Cash consideration	20,434
Bank overdraft acquired	103
	20,537

From the date of acquisition to 31 July 2006, the Assa Training & Learning group of companies contributed £18,112,000 to revenue and £2,100,000 to underlying operating profit (before intangibles amortisation and exceptional items).

#### Acquisition of the Fern Training & Development group of companies

	Carrying value pre-acquisition £'000	Adjustments £'000	Fair value £'000
Intangible assets	9	1,298	1,307
Property, plant and equipment	689	(63)	626
Trade and other receivables	2,827	(16)	2,811
Cash and cash equivalents	1,588	–	1,588
Financial liabilities	(95)	–	(95)
Trade and other payables	(4,694)	(530)	(5,224)
Current tax liabilities	(518)	395	(123)
Deferred tax asset/(liability)	199	(467)	(268)
Provisions	(139)	(337)	(476)
Other non-current liabilities	(156)	(371)	(527)
Net assets acquired	(290)	(91)	(381)
Goodwill (note 12)			16,260
Consideration			15,879
Consideration satisfied by:			
Shares issued			3,000
Cash			12,500
Acquisition costs			379
			15,879

Shares issued were valued at market price at the date of acquisition. The intangible assets acquired as part of the acquisition of the Fern Training & Development group of companies comprise £1,298,000 of customer contracts. The resulting goodwill of £16,260,000 represents the value of synergies from combining the operations and the value associated with the assembled workforce.

The outflow of cash and cash equivalents on the acquisition of the Fern Training & Development group of companies is as follows:

	£'000
Cash consideration	12,500
Cash acquired	(1,588)
	10,912

From the date of acquisition to 31 July 2006, the Fern Training & Development group of companies contributed £9,602,000 to revenue and £2,600,000 to underlying operating profit (before intangibles amortisation and exceptional items).

# Notes to the Financial Statements

## Acquisition of Retail Motor Industry Training Limited

	Carrying value pre-acquisition £'000	Adjustments £'000	Provisional fair value £'000
Intangible assets	584	332	916
Property, plant and equipment	1,995	(163)	1,832
Trade and other receivables	2,310	(40)	2,270
Cash and cash equivalents	1,225	–	1,225
Financial liabilities	(25)	–	(25)
Trade and other payables	(8,431)	(3,270)	(11,701)
Deferred tax asset	1,810	617	2,427
Provisions	–	(206)	(206)
Other non-current liabilities	–	(374)	(374)
Net assets acquired	(532)	(3,104)	(3,636)
Goodwill (note 12)			29,972
Consideration			26,336
Consideration satisfied by:			
Cash			22,500
Deferred consideration			2,780
Acquisition costs			1,056
			26,336

Due to the proximity of the acquisition to the year end, the fair value adjustments contain some provisional amounts which will be finalised in the following year's accounts.

Deferred consideration of £3,000,000 has been discounted to its current value using a discount rate of 6.4%. £2,000,000 of the deferred consideration is payable on 1 August 2007 and the remaining £1,000,000 is payable in five equal annual instalments of £200,000 commencing on 1 July 2006.

The intangible assets acquired as part of the acquisition of Retail Motor Industry Training Limited comprise £719,000 of customer contracts. The resulting goodwill of £29,972,000 represents the value of synergies from combining the operations and the removal of a competitor.

The outflow of cash and cash equivalents on the acquisition of Retail Motor Industry Training Limited is as follows:

	£'000
Cash consideration	22,500
Cash acquired	(1,225)
	21,275

From the date of acquisition to 31 July 2006, Retail Motor Industry Training Limited contributed £5,784,000 to revenue and £600,000 to underlying operating profit (before intangibles amortisation and exceptional items).

### Group

It is impracticable for the Group to provide useful information concerning the revenue and results of the acquired businesses, as if they had been acquired from the start of the year, due to the varying acquisition dates.

### 33 Pensions

The Group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost charge of £965,000 for the year ended 31 July 2006 (2005: £410,000) represents contributions payable by the Group to the fund. There were no amounts outstanding at the balance sheet date.

### 34 Related party transactions

Transactions with related parties were as follows:

	2006 £'000	2005 £'000
<b>Transactions with Complete IT Ltd<sup>(a)</sup></b>		
Purchases	1,403	699
Sales	6	8
Net amounts owing at period end	189	30
<b>Transactions with Haycock Hotel<sup>(b)</sup></b>		
Purchases	72	257
Net amounts owing at period end	16	3
<b>Transactions with Anchor House<sup>(c)</sup></b>		
Purchases	60	73
Net amounts owing at period end	–	17
<b>Transactions with Autoexel Limited<sup>(d)</sup></b>		
Sales	105	n/a
Net amounts receivable at period end	19	n/a

(a) Much of the Group's IT services are provided by Complete IT Limited, a company in which Phillip Carter owns 28.8% of the issued share capital. These arrangements were entered into on arm's length commercial terms.

(b) The Group purchases services from the Haycock Hotel, a business owned by Status Input Limited. Phillip Carter is a director and shareholder of Status Input Limited. These arrangements were entered into on arm's length commercial terms. The Group does not receive preferential financial treatment as a result of its relationship with Phillip Carter, over and above a normal corporate discount, for its use of the Haycock Hotel.

(c) The Group purchased services from Anchor House, a property owned by Phillip Carter. These services represent rental income due and payable in respect of the Group's occupation of Anchor House. This arrangement is on arm's length commercial terms and the Group's occupation of that property is not dependent upon the relationship with Phillip Carter.

(d) Autoexel Limited is a 50/50 joint venture company acquired as part of the acquisition of Assa Training & Learning Limited. The sales made represent recharges for management and accounting services.

Key management compensation is disclosed in note 6.

# Notes to the Financial Statements

## 35 Reconciliation of net assets and profit under UK GAAP to IFRS

The Group reported under United Kingdom Generally Accepted Accounting Practice (UK GAAP) in its previously published financial statements for the year ended 31 July 2005. The analysis below shows a reconciliation of net assets and profits as reported under UK GAAP as at 31 July 2005 to the revised net assets and profits under International Financial Reporting Standards (IFRS) as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for the Group, being 1 August 2004.

### Reconciliation of consolidated income statement for the year ended 31 July 2005

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Revenue</b>		50,977	–	50,977
Employee related expenses		(27,106)	–	(27,106)
Infrastructure and other expenses	(i)	(12,794)	(59)	(12,853)
Share-based payments	(e)	–	(11)	(11)
Depreciation of property, plant and equipment	(c)	(795)	64	(731)
<b>Operating profit before amortisation and IPO costs</b>		10,282	(6)	10,276
Amortisation	(a),(b),(c)	(1,973)	1,871	(102)
IPO costs		(994)	–	(994)
<b>Operating profit</b>		7,315	1,865	9,180
Interest receivable		54	–	54
Interest payable and similar charges		(3,109)	–	(3,109)
<b>Profit before taxation</b>		4,260	1,865	6,125
Taxation	(a)-(e),(g)-(i)	(1,563)	(573)	(2,136)
<b>Profit for the year attributable to equity shareholders</b>		2,697	1,292	3,989

Reconciliation of Group balance sheet as at 31 July 2005

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Non-current assets</b>				
Goodwill	(a),(b),(c),(d)	33,171	1,236	34,407
Intangible assets	(b),(c)	443	171	614
Property, plant and equipment	(c)	11,430	(87)	11,343
		45,044	1,320	46,364
<b>Current assets</b>				
Trade and other receivables		14,180	–	14,180
Cash and cash equivalents		398	–	398
		14,578	–	14,578
<b>Current liabilities</b>				
Financial liabilities		8,649	–	8,649
Trade and other payables	(f),(i)	12,312	(984)	11,328
Current tax liabilities		525	–	525
		21,486	(984)	20,502
<b>Non-current liabilities</b>				
Financial liabilities		20,816	–	20,816
Deferred tax liabilities	(c),(g),(i)	45	1,048	1,093
Provisions		1,264	–	1,264
Other non-current liabilities		284	–	284
		22,409	1,048	23,457
<b>Shareholders' equity</b>				
Ordinary shares		1,335	–	1,335
Share premium		16,086	–	16,086
Capital redemption reserve		4,425	–	4,425
Retained earnings		(6,119)	1,256	(4,863)
		15,727	1,256	16,983

# Notes to the Financial Statements

## Reconciliation of Group balance sheet as at 1 August 2004

	Note	UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
<b>Non-current assets</b>				
Goodwill	(d)	34,187	(710)	33,477
Intangible assets	(c)	–	93	93
Property, plant and equipment	(c)	7,404	(93)	7,311
		41,591	(710)	40,881
<b>Current assets</b>				
Trade and other receivables		9,032	–	9,032
Cash and cash equivalents		892	–	892
		9,924	–	9,924
<b>Current liabilities</b>				
Financial liabilities		5,373	–	5,373
Trade and other payables	(i)	10,732	25	10,757
Current tax liabilities		740	–	740
		16,845	25	16,870
<b>Non-current liabilities</b>				
Financial liabilities		27,037	–	27,037
Deferred tax liabilities	(g)	40	1,110	1,150
Provisions		1,531	–	1,531
Other non-current liabilities		1,931	–	1,931
		30,539	1,110	31,649
<b>Shareholders' equity</b>				
Ordinary shares		7,254	–	7,254
Retained earnings		(3,123)	(1,845)	(4,968)
		4,131	(1,845)	2,286

#### Explanation of reconciling items between UK GAAP and IFRS

- (a) Goodwill is no longer amortised under IFRS, but instead is reviewed annually for impairment. Goodwill amortisation of £1,954,000 charged in the year to 31 July 2005 has therefore been reversed for IFRS reporting.
- (b) Under IFRS 3 there is a requirement to separately identify other intangible assets acquired in accordance with the criteria of IAS 38 'Intangible assets' rather than include these as part of goodwill. The acquisition, in February 2005, of the technical training services business of the Automobile Association Developments Limited resulted in the recognition of a value for customer contracts of £102,000. The amortisation charge in relation to these customer contracts for the year ended 31 July 2005 was £19,000.
- (c) Under IAS 38, software not integral to the operation of the related hardware is classified as an intangible asset rather than as property, plant and equipment as under UK GAAP. A balance sheet reclassification of £93,000 at 1 August 2004 and £87,000 at 31 July 2005 has therefore been recorded on transition to IFRS. The associated depreciation charge of £64,000 for the year ended 31 July 2005 has been transferred to amortisation.
- (d) IAS 21 requires that goodwill and fair value adjustments arising on the initial acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation and re-translated at the closing exchange rate at each balance sheet date. As a result the carrying value of the goodwill has been reduced by £710,000 at 1 August 2004, and £615,000 at 31 July 2005 representing the movement in exchange rates between the date of acquisition and the respective reporting dates.
- (e) On adoption of IFRS 2, the Group has recognised a charge of £11,000 for the year ended 31 July 2005 in respect of share-based payment arrangements granted subsequent to 7 November 2002. Under UK GAAP, the intrinsic value of these awards was nil, as the market value of the shares equated to the option prices at the date of grant, therefore no charge was previously recognised within the Group's UK GAAP financial statements for the year ended 31 July 2005.
- (f) IAS 10 requires that dividends approved after the balance sheet date should not be recognised as a liability at that balance sheet date since the liability did not represent a present obligation at that date. The final dividend of £1,068,000 approved in respect of the financial year ended 31 July 2005 has been reversed in the closing balance sheet at 31 July 2005 and will be charged in the year ended 31 July 2006.
- (g) As a result of the implementation of IAS 12, deferred tax has been recognised on all temporary differences between the tax base cost and the carrying value of assets and liabilities in the financial statements. Under FRS 19, deferred tax was recognised on all timing differences expected to reverse in the future. The Group has a number of assets that do not qualify for capital allowances and which were acquired by way of a business combination. Accordingly a deferred tax provision of £1,110,000 was created as at 1 August 2004. This provision was reduced by £38,000 in the year ended 31 July 2005 representing the annual depreciation charge on the assets not qualifying for capital allowances.
- (h) Deferred tax on share-based payments is calculated at each reporting date based on an estimate of the future tax deduction. The tax benefit up to the amount of the tax effect of the cumulative expense is recorded in the income statement, and the excess benefit above this amount is recorded in equity. UK GAAP required the tax credit arising on the exercise of share options to be recognised as a current year tax item in the year of exercise. Accordingly £635,000 of the tax credit arising on the exercise of the share options has been transferred to equity.
- (i) Under the Standing Interpretation Committee of the IASC (SIC) pronouncement number 15, the cost of rent free periods and other incentives given to tenants under operating leases must be spread over the term of the lease rather than, as under UK GAAP, to the first review to market rents. Accordingly deferred income of £25,000 was established at 1 August 2004. This resulted in an increased charge in the income statement of £59,000 for the year ended 31 July 2005.

# Parent Company – Independent Auditors’ Report to the Members of Carter & Carter Group plc

We have audited the parent company financial statements of Carter & Carter Group plc for the year ended 31 July 2006 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors’ Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Carter & Carter Group plc for the year ended 31 July 2006.

## Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the Annual Report, the Directors’ Remuneration Report and the parent company 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 parent company financial statements and the part of the Directors’ Remuneration Report to be audited 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the auditable part of the Directors’ Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors’ Report includes that specific information presented in the Business Review. 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 transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors’ Report, the unaudited part of the Directors’ Remuneration Report and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

## 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 parent company financial statements and part of the Directors’ Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company 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 parent company financial statements and the part of the Directors’ Remuneration Report to be audited 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 parent company financial statements and the part of the Directors’ Remuneration Report to be audited.

## Opinion

In our opinion:

- 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 Company’s affairs as at 31 July 2006;
- the parent company financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors’ Report is consistent with the parent company financial statements.

## PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
East Midlands  
16 October 2006

# Company Balance Sheet (prepared in accordance with UK GAAP)

at 31 July 2006

	Note	2006 £'000	2005 Restated £'000
<b>Fixed assets</b>			
Tangible assets	3	594	–
Investments	4	111,910	42,339
		<b>112,504</b>	42,339
<b>Current assets</b>			
Debtors	5	36,406	18,188
Cash at bank and in hand		–	11
		<b>36,406</b>	18,199
<b>Creditors:</b> amounts falling due within one year	6	<b>(25,239)</b>	(12,167)
<b>Net current assets</b>		<b>11,167</b>	6,032
<b>Total assets less current liabilities</b>		<b>123,671</b>	48,371
<b>Creditors:</b> amounts falling due after more than one year	7	<b>(56,497)</b>	(20,804)
<b>Net assets</b>		<b>67,174</b>	27,567
<b>Capital and reserves</b>			
Ordinary share capital	9	1,642	1,335
Share premium account	10	52,993	16,086
Capital redemption reserve	10	4,425	4,425
Profit and loss account	10	8,114	5,721
<b>Total shareholders' funds</b>		<b>67,174</b>	27,567

The financial statements on pages 75 to 81 were approved by the Board of directors on 16 October 2006 and were signed on its behalf by:

**P J Carter**  
Chief Executive

**J C Green**  
Group Finance Director

# Notes to the Company's Financial Statements

## for the year ended 31 July 2006

### 1 Accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. The principal accounting policies and estimation techniques have been applied consistently and are set out below.

#### Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

#### Adoption of new accounting standards

The Company has adopted the following Financial Reporting Standards (FRS) during the year:

FRS 20 – Share-based payments

FRS 21 – Events after the balance sheet date

FRS 25 – Financial instruments 'Presentation & disclosure'

The impact of adopting FRS 20 on prior year results was not significant and as such no comparatives have been restated.

The impact of adopting FRS 21 on prior year comparatives is that the final dividend for the year to 31 July 2005 can no longer be provided in that period as it had not been formally approved by the balance sheet date. As such the profit taken to reserves for the Company, and the net assets of the Company as at 31 July 2005 have increased by £1,068,000.

The Company has taken the exemption not to apply FRS 25 to the prior year comparatives, although no reclassification in the balance sheet would have been required as at 31 July 2005.

#### Tangible fixed assets

Tangible fixed assets are stated at purchased historical cost less accumulated depreciation and/or any provisions for impairment.

#### Depreciation

Depreciation is provided at rates calculated to write off the cost less estimated residual value, based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life. The annual rates of depreciation used vary according to the type of asset and are as follows:

Freehold land	Not depreciated
Freehold buildings	2.5% straight-line
Plant and machinery	20% reducing balance
Computer equipment	33% straight-line
Fixtures and fittings	25% straight-line
Motor vehicles	25% straight-line

#### Impairment of fixed assets and goodwill

Impairment provisions are calculated by comparing the net book value of fixed assets or goodwill with the higher of the post-tax net realisable value and the value-in-use of those assets. The value-in-use is calculated using forecast discounted cash flows over the economic life of the related fixed asset or goodwill.

#### Fixed asset investments

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

#### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. No provision is made where it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All translation differences are taken to the profit and loss account.

#### Capital instruments

Debt is recognised on the balance sheet as the cash proceeds retained less costs incurred directly in connection with the issue of the instrument. Finance costs in respect of the instruments, including discounts on issue, are charged to the profit and loss account over the term of the instruments.

#### Financial instruments

The principal derivative financial instruments used by the Company to manage its interest rate risk are interest rate swaps and swap options. These instruments are used for hedging purposes only and no trading of financial instruments is undertaken. Interest payments or receipts arising from derivative instruments are recognised within net interest payable over the period of the contract. Any premium or discounts arising are amortised over the life of the instruments. Termination payments made or received in respect of derivatives are spread over the life of the underlying exposure.

### Holiday pay

Holiday pay accrues over a holiday year. A holiday pay accrual is recognised where accrued holiday pay exceeds holidays taken. A holiday pay prepayment is recognised where holidays taken exceed accrued holiday pay.

### Pensions

The Company operates a number of defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

### Employee Benefit Trust

The shares in the Company held by the Employee Benefit Trust are recorded in the balance sheet and are deducted from shareholders' funds.

### Share-based payments

The Company operates an equity-settled, share-based compensation plan for senior management and certain employees. The fair value of the employee services received under the plan is recognised as an expense in the profit and loss account. Fair value is determined by use of the Black-Scholes Option Pricing Model. The amount to be expensed over the vesting period is determined by reference to the fair value of share incentives, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are considered as part of the assumptions about the number of share incentives that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the profit and loss account, with a corresponding adjustment to equity, over the remaining vesting period.

## 2 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been presented in these financial statements. The parent company's profit after tax for the financial year was £3,921,000 (2005: £5,387,000).

## 3 Tangible fixed assets

	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
<b>Cost</b>				
At 1 August 2005	–	–	–	–
Additions	31	64	526	621
<b>At 31 July 2006</b>	<b>31</b>	<b>64</b>	<b>526</b>	<b>621</b>
<b>Depreciation</b>				
At 1 August 2005	–	–	–	–
Charge for year	2	1	24	27
<b>At 31 July 2006</b>	<b>2</b>	<b>1</b>	<b>24</b>	<b>27</b>
<b>Net book value</b>				
<b>At 31 July 2006</b>	<b>29</b>	<b>63</b>	<b>502</b>	<b>594</b>
At 31 July 2005	–	–	–	–

## 4 Fixed asset investments

	£'000
<b>Cost and net book value</b>	
At 1 August 2005	42,339
Acquisition of the Assa Training & Learning group of companies	25,354
Acquisition of the Fern Training & Development group of companies	15,879
Capital contribution to the Fern Training & Development group of companies	2,000
Acquisition of Retail Motor Industry Training Limited	26,336
Other	2
<b>At 31 July 2006</b>	<b>111,910</b>

Further details of the acquisitions are provided on pages 66 to 68.

# Notes to the Company's Financial Statements

## Interests in subsidiary undertakings

Details of investments have only been provided for trading entities or those dormant entities held directly by the Company.

Subsidiary undertakings	Country of incorporation	Proportion of voting rights and ordinary shares held	Nature of business
Carter & Carter Limited	United Kingdom	100%	Business and management consultancy
Emtec (Specialised Services) Limited	United Kingdom	100%*	Business and management consultancy
Inhoco Corporation Inc.	USA	100%	Holding company
Carter & Carter International Inc.	USA	100%*	Business and management consultancy
Carter & Carter GmbH	Germany	100%	Business and management consultancy
Carter & Carter International (S)PTE Limited	Singapore	100%	Dormant
Carter & Carter KK	Japan	100%*	Business and management consultancy
Emtec Holdings Limited	United Kingdom	100%	Vocational training
Carter & Carter Australia Pty Limited	Australia	100%	Business and management consultancy
Retail Motor Industry Training Limited	United Kingdom	100%	Vocational training
Autoexel Limited	United Kingdom	49.5%*	Vocational training
Fern Training & Development Limited	United Kingdom	100%	Vocational training
Stancliffe Ed Limited	United Kingdom	100%*	Vocational training
Stancliffe Holdings Limited	United Kingdom	100%	Holding company
Goolecom Limited	United Kingdom	100%*	Vocational training
Future Builders (Leicester) Limited	United Kingdom	100%	Vocational training
Assa Training & Learning Limited	United Kingdom	100%	Vocational training
Assa T & D Limited (by guarantee)	United Kingdom	100%	Dormant

\* Held by a subsidiary undertaking.

All of the above subsidiaries are included in the consolidated financial statements of the Group.

## 5 Debtors

	2006 £'000	2005 £'000
Amounts owed by group undertakings	32,134	17,278
Deferred tax (note 8)	372	3
Prepayments and accrued income	140	907
Other debtors	414	–
Corporation tax	3,346	–
	<b>36,406</b>	<b>18,188</b>

## 6 Creditors: amounts falling due within one year

	2006 £'000	2005 Restated £'000
Bank overdrafts	9,035	3,468
Bank loans	6,030	4,673
Trade creditors	485	211
Amounts owed to group undertakings	7,966	2,053
Taxation and social security	–	12
Accruals and deferred income	1,524	1,750
Other creditors	199	–
	<b>25,239</b>	<b>12,167</b>

The bank overdraft and loan is secured by a fixed and floating charge over the assets of the Company and all subsidiary undertakings.

## 7 Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Bank loans	53,917	20,804
Accruals and deferred income	2,580	–
	<b>56,497</b>	<b>20,804</b>

Bank loans are repayable as follows:

	2006 £'000	2005 £'000
In one year or less	6,200	4,750
Between one and two years	7,000	2,250
Between two and five years	26,200	12,750
In more than five years	21,750	6,250
	<b>61,150</b>	<b>26,000</b>
Less: prepaid issue costs	(1,203)	(523)
	<b>59,947</b>	<b>25,477</b>

Bank loans of £61,150,000 (2005: £26,000,000) comprise term and revolving loans. The loans are secured by a fixed and floating charge over the assets of the Company and all subsidiary undertakings. The annual interest rate approximates to LIBOR +1.06%.

# Notes to the Company's Financial Statements

## 8 Provisions for liabilities and charges

The Company had no deferred tax liability at 31 July 2006 (2005: nil).

During the year the Company has recognised deferred tax assets relating to prior years non-trading losses of £242,000 as it is now considered probable that these assets will be recovered.

The movements in deferred tax assets during the period are shown below:

### Deferred tax assets

	Other £'000	Share options £'000	Tax losses £'000	Total £'000
At 1 August 2005	3	–	–	3
(Charge)/credit to profit and loss	(3)	130	242	369
<b>At 31 July 2006</b>	<b>–</b>	<b>130</b>	<b>242</b>	<b>372</b>

## 9 Share capital

	2006 £'000	2005 £'000
<b>Authorised:</b>		
250,000,000 ordinary shares of 4p each	10,000	10,000
<b>Allotted, called up and fully paid:</b>		
40,317,527 (2005: 33,382,978) ordinary shares of 4p each	1,613	1,335
<b>Deferred shares – to be issued:</b>		
725,900 ordinary shares of 4p each	29	–
<b>Ordinary share capital</b>	<b>1,642</b>	<b>1,335</b>

Details of movements in share capital are given in note 23 to the Group financial statements on page 62.

The Company operates an LTIP plan for directors and senior managers. Details of the scheme including number of options outstanding are given in note 23 to the Group financial statements on page 63.

## 10 Reserves

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 August 2005	16,086	4,425	5,721
Profit retained for the year	–	–	3,921
Dividends paid	–	–	(1,962)
Share-based payments	–	–	434
Share issues	35,373	–	–
Shares to be issued	2,471	–	–
Expenses of share issue	(937)	–	–
<b>At 31 July 2006</b>	<b>52,993</b>	<b>4,425</b>	<b>8,114</b>

Further details of the share issues are given in note 23 to the Group financial statements on page 62.

## 11 Reconciliation of movement in shareholders' funds

	2006 £'000	2005 Restated £'000
Profit for the year	3,921	5,387
Dividends	(1,962)	(114)
Share-based payments	434	–
Shares issued in period	35,651	19,702
Expenses of share issue	(937)	(3,279)
Deferred shares to be issued	2,500	–
Purchase of deferred shares	–	(46)
Purchase of preference shares	–	(6,285)
Movement in respect of Employee Benefit Trust	–	24
	<b>39,607</b>	15,389
Opening equity shareholders' funds (as originally stated)	<b>26,499</b>	12,178
Closing equity shareholders' funds	<b>66,106</b>	27,567
Prior year adjustment (note 1)	<b>1,068</b>	–
<b>Closing equity shareholders' funds</b>	<b>67,174</b>	27,567

## 12 Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8, 'Related party disclosures' from disclosing related party transactions with entities that are part of the Group or investees of the Group.

Transactions with related parties are detailed on page 69.

## 13 Capital commitments

The Company has no capital commitments at 31 July 2006 (2005: nil).

## 14 Cash flow statement

The Company is exempt from the requirement to publish a cash flow statement because a cash flow statement for the Group has been presented on page 46.

## 15 Contingent liabilities

The Company is party to an unlimited cross guarantee to secure the bank facilities of all UK subsidiary undertakings. The total indebtedness of the Group is shown on page 59.

# Shareholder Information

## Directors

Rodney Westhead  
Non-Executive Chairman

Phillip J Carter  
Chief Executive

John Green  
Group Finance Director

Peter Marples  
Group Business Development Director

David Galloway  
Senior Independent Non-Executive Director

Adrian Smith  
Independent Non-Executive Director  
(Retirement from the Board – 28 November 2006)

## Group Company Secretary

John Green

## Registered and Head Office

Carter & Carter Group plc  
Mere Way  
Ruddington Fields Business Park  
Ruddington  
Nottinghamshire  
NG11 6JZ

## Company Registered Number

4057795

## Stockbroker

Hoare Govett Limited  
250 Bishopsgate  
London  
EC2M 4AA

## Financial Adviser

NM Rothschild & Sons Limited  
1 Park Row  
Leeds  
LS1 5NR

## Solicitors

DLA Piper Rudnick Gray Cary UK LLP  
3 Noble Street  
London  
EC2V 7EE

## Registered Auditors

PricewaterhouseCoopers LLP  
Donington Court  
Pegasus Business Park  
East Midlands  
DE74 2UZ

## Registrars

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

## Financial Calendar and Website

AGM 28 November 2006

Dividend payment dates:

Final 6 December 2006

Interim April 2007 (provisional)

Website: [www.carter-and-carter.com](http://www.carter-and-carter.com)

# Supplementary Directors' Information

Name	Age	Directorships	Former Directorships
Phillip Carter	44	PJC Peterborough Ltd	Complete IT Ltd
		Statusinput Ltd	Rayfield Ltd
		Biofutures International plc	DW Norris Ltd
		Anchor Properties Inc	Enterstand Ltd
		<b>Partnership</b> Carter & Carter Partnership Q Capital LLP	
Adrian Smith	61	Harbour Branch	
		Oceanographic Institution Inc	
		Tutogen Medical Inc	
		Education Foundation of Indian River County	
		Gaming VC Holding SA Digital Interactive Broadcasting	
Rodney Westhead	62	Forgehour Ltd	Ricardo Group Plc
		Bilton Grange Trust Plc	SAC International Plc
		AEA Technology Plc	Plazabay Ltd
		Mouchel Parkman Plc	Society of Motor Manufacturers & Traders Ltd
		Clean Air Power plc	Sussex Chamber of Commerce and Enterprise
			Sussex Enterprise Services Ltd
			SRH Systems Ltd The Quoted Companies Alliance Parkman Group plc
David Galloway	61	Speedy Hire Plc	Eight Sevens Ltd
		May Gurney Integrated Services PLC	Williams Motor Co (Holdings) Ltd
		Accident Exchange Plc	Defence Aviation Repair Agency
Peter Marples	42	CWWSC Ltd	
		Autoexel Ltd	
		Assa Training & Learning Ltd	
		<b>Partnership</b> PJM Helicopters LLP	
John Green	39	Autoexel Ltd	
		Assa Training & Learning Ltd	

# Notes



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