



*Education Development  
International*



Education Development International plc  
Interim Report 2007

# Highlights

## ■ Financial overview:

	<b>Half Year Ended 31 March 2007 Unaudited</b>	<b>Half Year Ended 31 March 2006 Unaudited</b>	<b>Change %</b>
Revenue (£m)	6.97	6.25	11.5
Adjusted operating profit (£000s)*	355	243	46.1
Operating profit (£000s)	355	422	(15.9)
Adjusted earnings per share (p)*	0.66	0.46	43.5
Earnings per share (p)	0.66	0.74	(10.8)

\* Before release of the onerous lease provision in 2006.

- Maiden interim dividend of 0.1p per share declared.
- Roll-out of bespoke *Campus* administration system into UK market completed.
- Integration of *Jetset* range of English language examinations acquired in October 2006.
- Growth in all business areas — Support Services sales up 31%.
- Approved by the Qualifications and Curriculum Authority to award the new Diploma qualifications for 14–19 year olds.

# Chairman's Statement

## Results Overview

The first half of 2006/07 has seen EDI make further progress, maintaining growth in both revenue and adjusted profitability, and completing the complex task of introducing our bespoke *Campus* operating system into the UK market.

Revenue has increased by 11.5% with unaudited results for the six month period to 31 March 2007 showing a turnover of £6.97m (2006: £6.25m).

Adjusted operating profit for the period was £355,000, an increase of 46.1% (2006: £243,000), before the release of the onerous lease provision in 2006. The weakness of the US Dollar has had a negative impact on profitability estimated at £40,000.

Adjusted earnings per share amounted to 0.66p (2006: 0.46p).

## Cash Flow

For the half year ended 31 March 2007 the Group had an operating cash inflow of £482,000 (2006: £433,000). This positive performance reflects both the growth in revenues and improved margins as a result of the benefits of our organisation and systems development programme. Underlying operating cash flow conversion, measured as a percentage of EBITDA (before onerous lease provisions) was 93%. We expect this conversion rate to be maintained during the second half of the year.

In December 2006, 1,080,000 shares were purchased by the Employee Benefit Trust at a cost of £227,000. In total, the Trust now holds 2,955,000 shares, approximately 5.5% of the issued share capital, which provide full cover for all current share option contracts.

At 31 March 2007 net cash stood at £2.4m (2006: £1.9m).

## Operating Review

### UK Qualifications and Assessment Services

Sales of UK qualifications and assessment services increased by 7.2% to £3.57m compared with the same period last year.

Vocational qualifications sales, which account for over 85% of UK qualifications and assessment services, grew by almost 9%. Customer numbers grew by 5% to 1,400 during the period and a number of existing customers have extended the range of qualifications they source from EDI. This growth is mainly driven by our wide range of online tests and the level of individual service and support we provide to our customers. We continue to expand our range of services into new sectors, most recently financial services and archaeology and we are engaged in a number of development projects working with both the Qualifications and Curriculum Authority and the National Assessment Agency.

Revenue for six months to March 2007	2007	2006
	£m	£m
UK Qualifications and Assessment Services	<b>3.57</b>	3.33
International Qualifications	<b>2.03</b>	1.89
Support Services	<b>1.31</b>	1.00
Other	<b>0.06</b>	0.03
<b>Total</b>	<b>6.97</b>	6.25

# Chairman's Statement

In March, EDI became one of a small number of organisations approved by the Qualifications and Curriculum Authority to award the government's new Diploma qualifications. Diplomas represent a major new educational option for 14–19 year olds and will be a key feature of the government's vocational skills agenda. Although Diploma awarding body status will not have any impact on results in the short-term, it does reinforce EDI's status as a leading awarding body in the UK and provides a powerful link between our customers in secondary schools and the wider post-16 vocational education sector.

The recent publication of the Leitch Review of Skills, the Freud Review into the Welfare to Work Sector and the Green Paper *Raising Expectations*, which proposes that young people remain either at school or undertake a vocational training programme until aged 18, all point to increased government focus on, and investment in, skills development. This is likely to lead to increased numbers of young people seeking formal qualifications and demand for newer more flexible qualification models to meet the specific needs of industry and commerce.

At the same time, developments in the government's policy in relation to testing in schools is placing greater emphasis on personalised learning, geared to the requirements of individual pupils. This in turn places greater importance on teachers being able to adopt more flexible approaches to classroom assessments such as those which can be supported by EDI's range of online tests and reports.

Although we have signed up 81 new schools to our online national curriculum assessment service during the period, total numbers of customers remain static at around 700 due to the renewal rates being somewhat lower than anticipated. In

response to this we are introducing a number of important modifications to both the range and format of these assessments and the pricing model. These developments will be introduced progressively throughout the 2007/08 academic year and take account of the changing requirements of schools.

Progress in extending our range of services when taken with the opportunities presented by wider market developments points to the prospect of consistent growth in our UK market.

### *International Qualifications*

Sales of international qualifications increased by 7.4% to £2.03m compared with the same period last year. The like-for-like increase in sales, excluding the negative impact of the movement in the US Dollar exchange rate, amounting to £123,000, would have been 14%. The greatest impact of the exchange rate movement was in Asia where sales value is up by 10% on a local currency basis, but down 3% on a Sterling basis.

Outside of Asia, sales are up by 24% mostly due to significant growth in Germany after three challenging years and positive trends are also in evidence in our wide range of smaller markets.

This turn-around in international sales reflects the impact of a more focused management of key markets, especially in Asia since EDI assumed management control of Educational Resources, in Cyprus and the Middle East where we now have a direct managed operation and an overall tightening up of the management of our agents.

Our product range has also been refreshed, extended, and strengthened, in particular through the acquisition of the *Jetset* range of English language examinations aimed at junior and senior

school pupils. Our Accredited International Qualifications service has led to two agreements in South Africa and after an initial one year contract the Kuwait Petroleum Corporation has indicated its intention to enter into a rolling agreement for an extended range of EDI services.

Looking ahead, the positive benefits of the focused management of our international markets and the more effective promotion of our full range of international qualifications will, we expect, lead to further progress in this area of the business. The full operation of the new *Campus* system which enables administration to be delegated to local offices and agencies has made a significant contribution to improving the administrative efficiency and service levels in our international markets.

#### *Support Services*

The year-on-year value of support service sales in the first six months was up 31% at £1.31m. This reflects particularly strong growth in the use of the *i-assess* system which provides our customers in professional bodies, other awarding bodies and universities with a secure platform over which to deliver online their own tests and examinations. In total, 130,000 online tests were administered over the *i-assess* platform over the past six months, 200% up on the same period last year.

Our fulfilment partner for global printing, storage and distribution services, Astron, has been acquired by RR Donnelly, the US based market leader in this sector. Early indications are that this development will enable us to strengthen the partnership and benefit from RR Donnelly's scale of operation and wider range of services.

The completion and full implementation of our *Campus* platform together with general work to consolidate our IT infrastructure

and extend its capabilities is freeing up capacity to enable us to extend the marketing of our assessment administration services.

### **Organisation and Systems Development**

#### *Organisation Development Programme*

Following the major acquisition of the London Chamber of Commerce and Industry Examinations Board (LCCIEB) in December 2002 the Board agreed in July 2004 to a fundamental organisation development programme with the aim of moving to a single site, introducing a new management and staff structure and developing a comprehensive, IT based, administration system.

The move into our head office at International House in Coventry took place in July 2005 with the new organisation structure completed some six months later, early in 2006. In October 2005 we began using the *Campus* system in our international markets and in October 2006 we commenced its introduction to the UK market which is now completed.

We are now entering into a period of operational consolidation including the staged delegation of examinations administration to key local offices around the world. With this our organisation development programme is now complete. The total cost has been in the order of £1.75m – of which around £700,000 represented a capital investment – and annual cost savings and efficiency gains are already running at over £500,000 per annum.

#### *Surplus Leases*

The lease of the former head office building in Leamington Spa was assigned in December 2005 and we have now served notice to surrender the lease of the former LCCIEB office in Sidcup in December 2007

# Chairman's Statement

– currently this is about 75% sub-let. We are actively marketing a second office in Sidcup which was recently vacated and the lease for which runs until March 2011. Our balance sheet carries a full provision of £930,000 in respect of all anticipated future costs in relation to surplus properties.

## *Agents and Associates*

While continuing to extend the management of, and support we provide to, our network of international agents, an important priority for the next six to 12 months is the strengthening of the management and support arrangements for our network of over 250 associates. These are individuals who act as examiners, verifiers for vocational qualifications and trainers for users of our school assessment services. The aim is for our agents and associates to feel fully engaged and active advocates for EDI.

To support this process we hope to make a number of key appointments in the UK and abroad over the next six months.

## *Quality Assurance*

To underpin our extensive work on organisation and systems development, the Board and senior management team have committed to the achievement of ISO 9001/2000 accreditation by March 2008. This will form the centre piece of a quality management programme to embrace all aspects of the statutory and regulatory requirements placed on the Group. We also plan to incorporate the Investor In People standard into this important work.

## **People**

Staff numbers have increased by 5 to 142 over the period (including those employed by Educational Resources in Asia). We have continued to adapt our organisation structure to reflect efficiencies as a result of the implementation of new systems and

localisation of administration to international markets. This in turn supports our shift of emphasis from administration and systems development work to strengthening our sales and marketing capability.

I would like to take this opportunity to thank all of the members of our staff team for their contribution to the significant progress which has been achieved over the past six months. To give staff an opportunity to participate more fully in the company we are launching a new round of our Sharesave scheme in June 2007. This will run for three years and provide a pool of up to one million shares for employee ownership.

## **Dividend**

Following the payment of a maiden dividend in January 2007, the Board continues to adopt a progressive dividend policy which takes account of the investment demands of the market and opportunities available to the Group while maintaining a prudent level of dividend cover. An interim dividend of 0.1p per ordinary share has therefore been declared by the Board. This dividend will be payable on 10 July 2007 to shareholders on the register of members at the close of business on 15 June 2007.

## **Outlook**

The Board is confident that the full benefits of its investment in organisation and product development and the general strengthening of the UK and international vocational education markets provide a strong base for profitable growth. We expect that the Group will trade in line with our expectations for the remainder of the financial year.

## **Richard Price**

Chairman  
31 May 2007

# Consolidated Income Statement

For the period ended 31 March 2007

	Note	31 March 2007 (6 months) £'000	31 March 2006 (6 months) £'000	30 Sept 2006 (12 months) £'000
<b>Revenue</b>	2	<b>6,974</b>	<b>6,250</b>	<b>14,175</b>
Cost of sales		(2,000)	(1,883)	(4,252)
<b>Gross profit</b>		<b>4,974</b>	<b>4,367</b>	<b>9,923</b>
Administrative expenses		(4,619)	(4,124)	(8,759)
Operating profit before onerous lease provisions		355	243	1,164
Onerous lease provisions		–	179	198
<b>Operating profit</b>	2	<b>355</b>	<b>422</b>	<b>1,362</b>
Finance income		20	11	31
Finance costs		(22)	(54)	(63)
Net finance costs		(2)	(43)	(32)
<b>Profit on ordinary activities before taxation</b>			<b>353</b>	<b>379</b>
<b>1,330</b>				
Tax on profit on ordinary activities		(23)	(5)	(57)
<b>Profit for the period</b>		<b>330</b>	<b>374</b>	<b>1,273</b>
Attributable to:				
— Equity holders of the parent		352	391	1,225
— Minority interest		(22)	(17)	48
		330	374	1,273
<b>Earnings per share</b>	4			
Basic		0.66p	0.74p	2.33p
Diluted		0.64p	0.73p	2.30p

# Consolidated Statement of Recognised Income and Expense

For the period ended 31 March 2007

	<b>31 March 2007 (6 months) £'000</b>	<b>31 March 2006 (6 months) £'000</b>	<b>30 Sept 2006 (12 months) £'000</b>
Net foreign exchange adjustments offset in reserves	(9)	(6)	–
Actuarial gains on defined benefit scheme	187	458	341
Deferred tax attributable to the actuarial gains	(56)	(151)	(102)
<b>Net income recognised directly in equity</b>		122	301
239			
<b>Profit for the period</b>	<u>330</u>	<u>374</u>	<u>1,273</u>
<b>Total recognised income and expense for the period</b>	<u><b>452</b></u>	<u><b>675</b></u>	<u><b>1,512</b></u>
Attributable to:			
— Equity holders of the parent	474	692	1,464
— Minority interest	(22)	(17)	48
	<u>452</u>	<u>675</u>	<u>1,512</u>

# Consolidated Balance Sheet

At 31 March 2007

	<b>31 March 2007 £'000</b>	<b>31 March 2006 £'000</b>	<b>30 Sept 2006 £'000</b>
<b>Non-current assets</b>			
Goodwill	4,473	4,037	4,390
Other intangible assets	543	589	616
Property, plant and equipment	286	259	305
Deferred tax assets	542	595	615
	<u>5,844</u>	<u>5,480</u>	<u>5,926</u>
<b>Current assets</b>			
Inventories	58	63	64
Trade and other receivables	2,746	2,651	2,387
Current tax assets	–	–	3
Cash and cash equivalents	2,416	1,904	2,320
	<u>5,220</u>	<u>4,618</u>	<u>4,774</u>
<b>Total assets</b>	<b><u>11,064</u></b>	<b><u>10,098</u></b>	<b><u>10,700</u></b>
<b>Current liabilities</b>			
Trade and other payables	(4,046)	(3,638)	(3,632)
Current tax liabilities	(1)	(6)	–
Provisions for liabilities and charges	(302)	(446)	(308)
	<u>(4,349)</u>	<u>(4,090)</u>	<u>(3,940)</u>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges	(628)	(664)	(663)
Retirement benefit obligations	(1,129)	(1,310)	(1,381)
Other non-current liabilities	–	–	(4)
	<u>(1,757)</u>	<u>(1,974)</u>	<u>(2,048)</u>
<b>Total liabilities</b>	<b><u>(6,106)</u></b>	<b><u>(6,064)</u></b>	<b><u>(5,988)</u></b>
<b>Net assets</b>	<b><u>4,958</u></b>	<b><u>4,034</u></b>	<b><u>4,712</u></b>
<b>Equity</b>			
Share capital	539	526	526
Share premium account	2,921	2,812	2,815
Own shares held	(440)	(45)	(213)
Other reserves	212	212	212
Retained earnings	1,479	325	1,103
	<u>4,711</u>	<u>3,830</u>	<u>4,443</u>
<b>Total shareholders' equity</b>	<b>5</b>	<b>3,830</b>	<b>4,443</b>
Minority interest in equity	247	204	269
	<u>4,958</u>	<u>4,034</u>	<u>4,712</u>
<b>Total equity</b>	<b><u>4,958</u></b>	<b><u>4,034</u></b>	<b><u>4,712</u></b>

# Consolidated Cash Flow Statement

For the period ended 31 March 2007

	<b>31 March 2007 (6 months) £'000</b>	<b>31 March 2006 (6 months) £'000</b>	<b>30 Sept 2006 (12 months) £'000</b>
Profit on ordinary activities before taxation	353	379	1,330
Adjustments for:			
Depreciation of property, plant and equipment	78	50	119
Amortisation of intangible assets	83	22	99
Profit on the sale of property, plant and equipment	(2)	–	–
Share options — Employee share scheme charges	7	21	27
Net finance costs	2	43	32
	<u>521</u>	<u>515</u>	<u>1,607</u>
Decrease in inventories	7	11	9
Increase in trade and other receivables	(360)	(364)	(101)
Increase in trade and other payables	295	279	24
	<u>463</u>	<u>441</u>	<u>1,539</u>
<b>Cash flows from operating activities</b>	<b>463</b>	<b>441</b>	<b>1,539</b>
Interest received	20	4	31
Tax paid — net	(1)	(12)	(45)
	<u>482</u>	<u>433</u>	<u>1,525</u>
<b>Net cash generated from operating activities</b>	<b>482</b>	<b>433</b>	<b>1,525</b>
<b>Cash flows from investing activities</b>			
Acquisitions of businesses:			
— Consideration	(55)	–	(436)
— Cash acquired	–	–	178
Payment of deferred consideration	(41)	(55)	(55)
Purchase of property, plant and equipment	(59)	(125)	(242)
Proceeds from sale of property, plant and equipment	2	–	3
Purchase of intangible assets	(10)	(115)	(219)
	<u>(163)</u>	<u>(295)</u>	<u>(771)</u>
<b>Net cash used in investing activities</b>	<b>(163)</b>	<b>(295)</b>	<b>(771)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuing ordinary share capital	120	15	18
Repurchase of own shares	(227)	(32)	(200)
Dividend paid	(105)	–	–
	<u>(212)</u>	<u>(17)</u>	<u>(182)</u>
<b>Net cash used in financing activities</b>	<b>(212)</b>	<b>(17)</b>	<b>(182)</b>
<b>Net increase in cash &amp; cash equivalents</b>	<b>107</b>	<b>121</b>	<b>572</b>
<b>Cash &amp; cash equivalents at beginning of period</b>	<b>2,320</b>	<b>1,806</b>	<b>1,806</b>
Exchange losses on cash & cash equivalents	(11)	(23)	(58)
	<u>2,320</u>	<u>2,416</u>	<u>1,904</u>
<b>Cash &amp; cash equivalents at end of period</b>		<b>2,416</b>	<b>1,904</b>

# Notes to the Interim Report

31 March 2007

## 1. Basis of preparation

This interim financial information has been prepared in accordance with International Accounting Standard (IAS 34) 'Interim Financial Reporting'. The accounting policies applied in the preparation of this financial information are consistent with those adopted in the statutory accounts for the year ended 30 September 2006.

The financial information shown is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The figures for the period ended 30 September 2006 were derived from the statutory accounts for that period. The statutory accounts for the period ended 30 September 2006 have been delivered to the Registrar of Companies and received an audit report which was unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

This interim report was approved by the Board on 31 May 2007.

## 2. Segmental analysis

### Analysis by business segment

	31 March 2007 (6 months)		Periods ended 31 March 2006 (6 months)		30 Sept 2006 (12 months)	
	Operating		Operating		Operating	
	Revenue £'000	Profit £'000	Revenue £'000	Profit £'000	Revenue £'000	Profit £'000
UK qualifications and assessment services	3,571	361	3,326	273	6,731	822
International qualifications	2,034	(59)	1,894	(33)	5,280	326
Support services	1,307	129	1,001	75	2,112	216
Unallocated	62	(76)	29	(72)	52	(200)
	<b>6,974</b>	<b>355</b>	<b>6,250</b>	<b>243</b>	<b>14,175</b>	<b>1,164</b>
Onerous lease provisions		–		179		198
<b>Operating profit</b>		<b>355</b>		<b>422</b>		<b>1,362</b>
Finance income		20		11		31
Finance costs		(22)		(54)		(63)
<b>Profit on ordinary activities before taxation</b>		<b>353</b>		<b>379</b>		<b>1,330</b>
Tax on profit on ordinary activities		(23)		(5)		(57)
<b>Profit for the period</b>		<b>330</b>		<b>374</b>		<b>1,273</b>

# Notes to the Interim Report

31 March 2007

## 3. Dividends

	<b>31 March 2007 (6 months) £'000</b>	<b>31 March 2006 (6 months) £'000</b>	<b>30 Sept 2006 (12 months) £'000</b>
Final dividend declared and paid for the year ended 30 September 2006 of 0.2p per share	105	—	—
<b>Amounts recognised as distributions to equity holders in the period</b>	<b>105</b>	<b>—</b>	<b>—</b>

In addition, the directors have declared an interim dividend of 0.1 pence (totalling £54,000) for the period ended 31 March 2007. The dividend will be paid on 10 July 2007 to shareholders who are on the register of members on 15 June 2007. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 30 September 2007.

## 4. Earnings per share

	<b>31 March 2007 (6 months)</b>	<b>31 March 2006 (6 months)</b>	<b>30 Sept 2006 (12 months)</b>
<b>Number of shares (million)</b>			
Weighted average number of shares used in basic EPS	53.4	52.5	52.5
Effect of dilutive securities:			
— Share options	1.6	0.8	0.7
Weighted average number of shares used in diluted EPS	55.0	53.3	53.2
<b>Earnings (£'000)</b>			
Profit for the period attributable to ordinary shareholders	352	391	1,225
Onerous lease provision credit	—	(179)	(198)
Net finance costs	2	43	32
Tax on profit on ordinary activities	23	5	57
Minority interest	(22)	(17)	48
Adjusted earnings	355	243	1,164
<b>Earnings per share (pence)</b>			
Basic	0.66p	0.74p	2.33p
Diluted	0.64p	0.73p	2.30p
Adjusted EPS	0.66p	0.46p	2.22p
Adjusted EPS — Diluted	0.65p	0.46p	2.19p

## 5. Statement of changes in shareholders' equity

	Share capital £'000	Share premium £'000	Own shares held £'000	Other reserves £'000	Retained earnings £'000	Total share- holders' equity £'000
<b>At 1 October 2006</b>	<b>526</b>	<b>2,815</b>	<b>(213)</b>	<b>212</b>	<b>1,103</b>	<b>4,443</b>
Profit for the period	–	–	–	–	352	352
Actuarial gain (net of deferred tax)	–	–	–	–	131	131
Share based payments	–	–	–	–	7	7
New shares issued	13	106	–	–	–	119
Purchase of own shares	–	–	(227)	–	–	(227)
Dividend paid	–	–	–	–	(105)	(105)
Net differences on exchange	–	–	–	–	(9)	(9)
<b>At 31 March 2007</b>	<b>539</b>	<b>2,921</b>	<b>(440)</b>	<b>212</b>	<b>1,479</b>	<b>4,711</b>

	Share capital £'000	Share premium £'000	Own shares held £'000	Other reserves £'000	Retained earnings £'000	Total share- holders' equity £'000
<b>At 1 October 2005</b>	<b>524</b>	<b>2,799</b>	<b>(13)</b>	<b>212</b>	<b>(388)</b>	<b>3,134</b>
Profit for the period	–	–	–	–	391	391
Actuarial gain (net of deferred tax)	–	–	–	–	307	307
Share based payments	–	–	–	–	21	21
New shares issued	2	13	–	–	–	15
Purchase of own shares	–	–	(32)	–	–	(32)
Net differences on exchange	–	–	–	–	(6)	(6)
<b>At 31 March 2006</b>	<b>526</b>	<b>2,812</b>	<b>(45)</b>	<b>212</b>	<b>325</b>	<b>3,830</b>

# Independent Review Report to Education Development International plc

## Introduction

We have been instructed by the company to review the financial information set out on pages 5 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. This report is made solely to the company having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable to such accounts.

## Review work performed

We conducted our review having regard to guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2007.

## RSM Robson Rhodes LLP

*Chartered Accountants*  
Birmingham, England  
31 May 2007





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