

WATES PFI INVESTMENTS LIMITED

Directors' report and financial statements

for the year ended

31 st December 2003



WATES PFI INVESTMENTS LIMITED

DIRECTORS AND ADVISORS

Directors

J. C. B. Houlton
M. J. E. Tidd

Secretary

J. C. B. Houlton

Registered Office

Wates House
Station Approach
Leatherhead
Surrey
KT22 7SW

Auditors

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Bankers

HSBC Bank plc
8 Canada Square
London
E14 5HQ

WATES PFI INVESTMENTS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31st December 2003.

Principal activities and business review

The principal activity is the investment in companies contracting to provide services under private finance initiatives.

The company has PFI investments in three schools, which have been constructed and are now in operation. A further investment will be made in another school PFI project in 2004.

Results and dividend

	£
Profit on ordinary activities before taxation	141,220
Taxation	<u>(42,366)</u>
Profit on ordinary activities after taxation	<u>98,854</u>

The directors do not propose the payment of a dividend for the year (2002: £Nil).

Directors and their interests

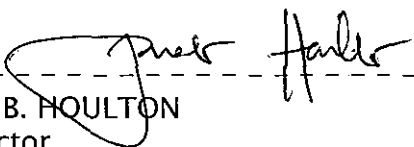
The directors throughout the year were:

D. D. S. Robertson (Resigned 16th January 2004)
R. J. Bennion (Retired 30th June 2003)
J. C. B. Houlton
M. J. E. Tidd

The directors have no shareholding interests required to be reported under Section 234 (3) of the Companies Act 1985.

The former auditors Slater Maidment resigned under Section 392 of the Companies Act 1985 on 4th July 2003. KPMG LLP were appointed to fill the casual vacancy. In accordance with Section 348 of the Companies Act 1985 a resolution for the reappointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 25th June 2004 and signed on their behalf by:



J. C. B. HOULTON
Director

WATES PFI INVESTMENTS LIMITED

STATEMENT OF DIRECTORS RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements the directors are required to:

- i) select suitable accounting policies and then apply them consistently;
- ii) make judgments and estimates that are reasonable and prudent;
- iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
WATES PFI INVESTMENTS LIMITED**

We have audited the financial statements on pages 4 to 8.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Directors Report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31st December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

LONDON
Dated: 25th June 2004

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditor

WATES PFI INVESTMENTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2003

	Notes	2003 £	2002 £
Turnover		31,459	33,999
Administrative expenses		(85,577)	(15,735)
OPERATING (LOSS)/PROFIT	2	(54,118)	18,264
Other Operating Income		66,500	-
Loan interest receivable		<u>128,838</u>	<u>77,888</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		141,220	96,152
Taxation	3	(42,366)	(28,095)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>98,854</u>	<u>68,057</u>

The historical profit is the same as the reported profit. A statement of movements on reserves is set out in note 7.

CONTINUING OPERATIONS

None of the Company's activities were acquired or discontinued during the above two financial years.

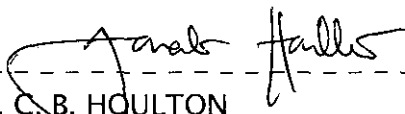
TOTAL RECOGNISED GAINS AND LOSSES

The Company has no recognised gains or losses other than the profit for the above two financial years.

WATES PFI INVESTMENTS LIMITED
BALANCE SHEET AS AT 31ST DECEMBER 2003

	Notes	£	2003 £	£	2002 £
FIXED ASSETS					
Investments	4		1,051,683		1,057,700
CURRENT ASSETS					
Debtors – prepayments and accrued income		64,068		23,884	
Cash at bank and in hand		<u>256,149</u>		<u>89,439</u>	
		320,217		113,323	
CREDITORS: amounts falling due within one year	5	<u>(1,198,618)</u>		<u>(1,096,595)</u>	
NET CURRENT LIABILITIES			<u>(878,401)</u>		<u>(983,272)</u>
NET ASSETS			<u>173,282</u>		<u>74,428</u>
CAPITAL AND RESERVES					
Called up share capital	6		6		6
Profit and loss account	7		<u>173,276</u>		<u>74,422</u>
EQUITY SHAREHOLDERS' FUNDS	8		<u>173,282</u>		<u>74,428</u>

Approved by the Board of Directors on 25th June 2004 and signed on its behalf by:



 J. C. B. HOULTON
 DIRECTOR

WATES PFI INVESTMENTS LIMITED

31ST DECEMBER 2003

NOTES TO THE ACCOUNTS

1. Accounting Policies

(i) Basis of accounting

These accounts have been prepared in accordance with applicable accounting standards and under the historical accounting rules and in accordance with reporting requirements of the Companies Act 1985.

(ii) Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off down to net realisable value. Equity loans and unquoted investments are stated at cost less amounts written off down to net realisable value. Income from investments is included in the profit and loss account as declared.

(iii) Turnover

Turnover comprises finance arrangement and management fees invoiced during the year.

(iv) Taxation

The charge for taxation is based on the result for the year and takes into account deferred taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. In accordance with FRS 19 'Deferred Tax', deferred taxation is provided fully and on a non discounted basis at future corporation tax rates in respect of timing differences between profits computed for taxation and accounts purposes.

2. Operating (loss)/profit

This is arrived at after charging auditors' remuneration of £2,500 (2002-£1,500). There are no employees other than the directors, who do not receive remuneration from the Company.

3. Taxation

The charge for taxation shown in the profit and loss account comprises group relief payable on the profit for the year at 30%.

	2003 £	2002 £
Current tax		
UK corporation tax on the profits for the year at 30%	42,366	28,846
Adjustment in respect of previous year	<u>—</u>	<u>(751)</u>
Total current tax	<u>42,366</u>	<u>28,095</u>

WATES PFI INVESTMENTS LIMITED

31ST DECEMBER 2003

NOTES TO THE ACCOUNTS

4. Investments

	Investment In JV's	Unquoted Investments £	JV Loans £	Investment Loans £	2003 Total £
Participating interests Balance at 1 st January 2003	350	450	630,000	426,900	1,057,700
Repayments	—	—	(4,851)	(1,166)	(6,017)
Balance at 31 st December 2003 at cost	<u>350</u>	<u>450</u>	<u>625,149</u>	<u>425,734</u>	<u>1,051,683</u>

The Company owns 150 ordinary shares of £1 each in each of New Schools (Penweddig) Holdings Limited and New Schools (Leyton) Holdings Limited, being 15% of the issued share capitals, and 350 ordinary shares of £1 each in New Schools (Swanscombe) Holdings Limited, being 35% of the issued share capital, and 150 ordinary shares of £1 each in New Schools (Merton) Limited being 15% of the issued share capital. At 31st December 2003 and 2002 these four companies had no significant reserves.

5. Creditors: amounts falling due within one year

	2003 £	2002 £
Amounts owed to group undertaking	1,117,012	1,067,000
Group taxation relief	28,095	28,095
Corporation tax	42,366	—
Accruals and deferred income	<u>11,145</u>	<u>1,500</u>
	<u>1,198,618</u>	<u>1,096,595</u>

6. Share capital

	2003 and 2002 £
Authorised:	
1 Controlling redeemable preference share of £1	1
100 Ordinary shares of £1 each	<u>100</u>
	<u>101</u>

	2003 and 2002 £
Issued and fully paid:	
1 Controlling redeemable preference share of £1	1
5 Ordinary shares of £1 each	<u>5</u>
	<u>6</u>

The controlling redeemable preference share carries no voting rights or rights to participate in the profits of the company and is redeemable by the company at par upon seven days' notice.

WATES PFI INVESTMENTS LIMITED

31ST DECEMBER 2003

NOTES TO THE ACCOUNTS

7. Profit and loss account	£
Retained profit at 1st January 2003	74,422
Profit for the financial year	<u>98,854</u>
Retained profit at 31st December 2003	<u>173,276</u>

8. Shareholders' funds	2003	2002
	£	£
At 1st January	74,428	6,371
Retained profit for the financial year	<u>98,854</u>	<u>68,057</u>
At 31st December	<u>173,282</u>	<u>74,428</u>

9. Contingencies

The Company has entered into indemnities, with other group undertakings, to third parties in respect of performance bonds granted on behalf of its immediate parent company.

10. Related party transactions

The Company is not required to report details of group transactions because it is a subsidiary undertaking included in the consolidated accounts of Wates Group Limited.

11. Ultimate parent company

The Company's immediate parent company and ultimate parent company are Wates Construction Limited and Wates Group Limited.