

Registered no: 3838084

Defence Training Services Limited
Report and financial statements
for the year ended 31 March 2003



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for the year ended 31 March 2003

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Defence Training Services Limited

Directors and advisors

Directors

A E Birch
V H Dickinson
W R Doughty
P McCulloch

Secretary

Secretariat Services Limited

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered office

24 Britton Street
London
EC1M 5UA

Defence Training Services Limited

Directors' report

for the year ended 31 March 2003

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

Results, principal activities and review of business

The company was formed as a special purpose company ("SPC") to act as a vehicle for the development, funding and operation of a PFI Project to develop, fund and operate army training centres.

The construction phase of the project was completed on 29 November 2002. This phase was delayed from May 2002 due to a number of variations associated with the containment of asbestos, which required some facilities to be redesigned or relocated. This had no financial impact on the company as it was provided for in the contract and the client has reimbursed all costs to date.

The loss for the year attributable to shareholders which has been dealt with in the financial statements is £1,659,000 (2002: Profit £25,000).

Contributing factors to the loss incurred by the company for the year, include higher insurance premiums associated with movements in the insurance market, together with interest expense and third party income budgeted more favourably than has been achieved.

Until refinancing of the company's debt occurs, the shareholders are willing to allow the subordinated debt interest to accrue and/or provide additional funding to ensure payment of debts as and when they fall due. The shareholders have agreed to provide this support for a period of at least 12 months from the date of approval by the directors of these financial statements.

Notwithstanding these additional costs and the current net liabilities position, the directors consider that both the level of business and the year-end financial position were satisfactory. The Directors expect an improvement on the present level of activity in the foreseeable future.

Events since the balance sheet date

On 8 April 2004, Jarvis plc disposed of its ordinary and special shares in the company to PFI Investments Limited, a company beneficially owned and controlled by Secondary Market Infrastructure Fund UK LP (acting through its general partner SMIF UK Limited) collectively referred to as "SMIF".

On 2 March 2005, SMIF exercised its call option to purchase the legal ownership of PFI Investments (Holdings) Limited (PFI Investments Limited's immediate parent undertaking).

Dividends

The directors are unable to recommend the payment of a dividend (2002: £Nil).

Defence Training Services Limited

Directors' report

for the year ended 31 March 2003 (continued)

Directors and their interests

The directors holding office during the year ended 31 March 2003 and subsequent to that date are shown below:

A E Birch	(appointed 5 June 2003, alternate director to A J Sutton; resigned 11 February 2004; re-appointed 11 February 2004, alternate director to R N Johnson; resigned 7 June 2004; re-appointed director 7 June 2004; resigned 27 August 2004; re-appointed director 8 November 2004)
V H Dickinson	(appointed 29 January 2004)
W R Doughty	(appointed 26 August 2004)
P McCulloch	(appointed 8 November 2004, alternate director to A E Birch and W R Doughty)
P P Ashbrook	(resigned 19 November 2004)
A D Darling	(resigned 29 January 2004)
P H Gardiner	(resigned 7 June 2004)
P R Grant	(resigned 29 January 2004)
S P Hornby	(resigned 7 June 2004)
R N Johnson	(appointed 11 February 2004; resigned 15 June 2004)
A J Sutton	(resigned 11 February 2004)

At 31 March 2003, none of the directors had any beneficial interest in the shares of the company.

Employee involvement

The company operates through sub contracting services and does not directly employ any staff.

Creditor payment terms

When entering into commitments for the purchase of services and goods the company gives due consideration to quality, price and the terms of payment. Suppliers are made aware of these terms. The company abides by these terms where it is satisfied that suppliers have provided the services or goods in accordance with such agreed terms and conditions. In the event of disputes, every effort is made to resolve these quickly.

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 as at the end of the financial year and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required:

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

Defence Training Services Limited
Directors' report
for the year ended 31 March 2003 (continued)

Statement of directors' responsibilities (continued)

The directors confirm that the financial statements comply with these requirements.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Having passed elective resolutions of the shareholders at an extraordinary general meeting the company is exempt from the obligation to annually re-appoint auditors and to hold annual general meetings. Accordingly the board recommend that Ernst & Young LLP continue in office as auditors to the company.

By order of the board



Secretariat Services Limited
Secretary

15 APR 2005

Defence Training Services Limited

Independent auditors' report to the members of Defence Training Services Limited

We have audited the company's financial statements for the year ended 31 March 2003 which comprise the Profit and Loss Account, Balance Sheet, Statement of Cash Flows and the related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 auditors' 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Defence Training Services Limited
Independent auditors' report to the members of
Defence Training Services Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

15 April 2005

Defence Training Services Limited
Profit and loss account
for the year ended 31 March 2003

	Notes	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Turnover	2	10,259	8,546
Cost of sales		<u>(9,934)</u>	<u>(8,593)</u>
Gross profit/(loss)		325	(47)
Operating expenses		<u>(325)</u>	-
Operating loss		-	(47)
Interest receivable and similar income	6	4,070	83
Interest payable and similar charges	7	<u>(5,847)</u>	-
(Loss)/profit on ordinary activities before taxation		(1,777)	36
Tax credit/(charge) on (loss)/profit on ordinary activities	8	<u>118</u>	<u>(11)</u>
Retained (loss)/profit for the year		<u>(1,659)</u>	<u>25</u>

The results above reflect the continuing operations of the company.

The company has no recognised gains and losses other than the loss for the year ended 31 March 2003 and profit for the year ended 31 March 2002 and therefore no separate statement of total recognised gains and losses has been presented.

Defence Training Services Limited
Balance sheet
as at 31 March 2003

	Notes	31 March 2003 £'000	31 March 2002 £'000
Current assets			
Debtors: amounts falling due within one year	9	4,385	1,633
Debtors: amounts falling due after more than one year	10	82,387	80,016
Cash at bank and in hand		2,124	6,464
		<u>88,896</u>	<u>88,113</u>
Creditors: amounts falling due within one year	11	(8,412)	(5,878)
Net current assets		<u>80,484</u>	<u>82,235</u>
Creditors: amounts falling due after more than one year	12	(81,028)	(81,120)
		<u>(544)</u>	<u>1,115</u>
Capital and reserves			
Share capital	13	842	842
Profit and loss account	14	(1,386)	273
Equity shareholders' funds	14	<u>(544)</u>	<u>1,115</u>

The financial statements on pages 7 to 17 were approved by the board on 15 April 2005 and were signed on its behalf by:



V H Dickinson
Director



P McCulloch
Director

Defence Training Services Limited
Statement of cash flows
for the year ended 31 March 2003

	Notes	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Net cash outflow from operating activities	17a	(2,424)	(18,306)
<i>Returns on investments and servicing of finance</i>			
Interest paid		(5,899)	(6,130)
Interest received		<u>4,076</u>	<u>630</u>
Net cash outflow from returns on investments and servicing of finance		<u>(1,823)</u>	<u>(5,500)</u>
<i>Financing</i>			
(Repayment)/drawdown of loans		<u>(93)</u>	<u>7,545</u>
Net cash (outflow)/inflow from financing activities		<u>(93)</u>	<u>7,545</u>
Decrease in cash during year	17b	<u>(4,340)</u>	<u>(16,261)</u>

Defence Training Services Limited

Notes to the financial statements

for the year ended 31 March 2003

1. Principal accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985.

(b) Going Concern

The company's shareholders have confirmed their intention to provide continuing financial support to enable the company to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

(c) Finance receivable

The company has adopted the provisions of FRS 5 (Application note F) in determining the appropriate treatment of the principal asset of the company. After due consideration the company has accounted for its investment as a finance receivable asset. In accounting for costs as a finance receivable, all attributable expenditure during the construction phase of the project, including net finance costs, are included in the cost of the finance asset. On completion, the amortisation of the finance asset is calculated to write off the cost over the operational phase of the contract.

(d) Taxation

(i) Current tax

The charge for current taxation for the year is based on the result for the year, adjusted for disallowable items.

(ii) Deferred tax

Full provision has been made for deferred taxation in respect of timing differences that have originated, but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future by the balance sheet date except that:

- Provision is made for gains on disposal of 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.
- Deferred tax assets are recognised to the extent 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 a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on the tax rates enacted at the balance sheet date.

Defence Training Services Limited

Notes to the financial statements

for the year ended 31 March 2003 (continued)

1. Principal accounting policies (continued)

(e) Debt issue costs

The debt issue costs incurred have been offset against the debt and will be charged to the profit and loss account at a constant rate on the carrying value of the debt.

2. Turnover

Turnover represents the non property element, excluding VAT, of the unitary charges earned in the year.

3. Directors' remuneration

The remuneration of the directors is paid by the controlling parties and their services to this company are of a non-executive nature. Their remuneration is deemed to be wholly attributable to their services to the respective controlling parties.

4. Audit fees

The audit fees for the year ended 31 March 2003 were borne by a company within the Jarvis Group, with an appropriate amount being recharged to other parties.

5. Employee information

There were no persons employed by the company at any time during the year (2002: None).

6. Interest receivable and similar income

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Income from finance receivable	3,982	-
Interest receivable on bank deposits	88	83
	<u>4,070</u>	<u>83</u>

7. Interest payable and similar charges

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Amortisation of loan issue costs	37	-
Interest payable on debt	5,810	-
	<u>5,847</u>	<u>-</u>

Defence Training Services Limited

Notes to the financial statements

for the year ended 31 March 2003 (continued)

8. Tax (credit)/charge on (loss)/profit on ordinary activities

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
a) Analysis of (credit)/charge for the year		
<i>Current tax:</i>		
Current tax on income for the year	-	11
Adjustment in respect of previous years	(118)	
Total current tax (credit)/charge (note 8(b))	(118)	11
<i>Deferred tax:</i>		
Origination and reversal of timing differences	-	-
Total tax (credit)/charge on (loss)/profit on ordinary activities	(118)	11

b) Factors affecting tax (credit)/charge

The tax assessed for the year is higher than (2002: at) the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
(Loss)/profit on ordinary activities before taxation	(1,777)	36
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002: 30%)	(533)	11
<i>Effects of:</i>		
Expenses not deductible for tax purposes	216	-
Tax losses not utilised	317	-
Adjustment to tax charge in respect of previous years	(118)	-
Current tax (credit)/charge for the year (note 8(a))	(118)	11

c) Factors that may affect future tax charges

A deferred tax asset of £200,000 (2002: £nil) in respect of available tax losses has not been recognised at 31 March 2003. This is due to there being no persuasive and reliable evidence available at this time of suitable profits to offset these losses.

Defence Training Services Limited
Notes to the financial statements
for the year ended 31 March 2003 (continued)

9. Debtors: amounts falling due within one year

	31 March 2003 £'000	31 March 2002 £'000
Trade debtors	2,537	746
Prepayments and accrued income	1,848	883
Amount due from joint venture partners and their subsidiary undertakings	-	4
	<u>4,385</u>	<u>1,633</u>

10. Debtors: amounts falling due after more than one year

	31 March 2003 £'000	31 March 2002 £'000
Finance receivable	<u>82,387</u>	<u>80,016</u>

The finance receivable asset includes net finance costs of £9,058,000 (2002: £8,534,000).

11. Creditors: amounts falling due within one year

	31 March 2003 £'000	31 March 2002 £'000
Senior debt	657	419
Subordinated debt	88	290
Trade creditors	609	59
Corporation tax	-	118
Amounts due to joint venture partners and their subsidiary undertakings	3,297	2,326
Other creditors and accruals	1,431	1,113
VAT payable	468	531
Deferred income	1,862	1,022
	<u>8,412</u>	<u>5,878</u>

12. Creditors: amounts falling due after more than one year

	31 March 2003 £'000	31 March 2002 £'000
Senior debt	75,357	74,993
Subordinated debt	<u>7,288</u>	<u>7,745</u>
	82,645	82,738
Less: included in creditors falling due within one year	(745)	(709)
Less: unamortised issue costs	<u>(872)</u>	<u>(909)</u>
	<u>81,028</u>	<u>81,120</u>

Defence Training Services Limited

Notes to the financial statements

for the year ended 31 March 2003 (continued)

13. Creditors: amounts falling due after more than one year (continued)

	31 March 2003 £'000	31 March 2002 £'000
Maturity of debt		
In one year or less	745	709
In more than one year but less than two years	915	746
In more than two years but not more than five years	4,051	3,382
In more than five years	76,934	77,901
	<u>82,645</u>	<u>82,738</u>
Less: creditors falling due within one year	(745)	(709)
Less: unamortised issue costs	(872)	(909)
	<u>81,028</u>	<u>81,120</u>

The senior debt consists of two loans repayable by 31 December 2029 with principal repayments commencing on 31 July 2002. The first loan interest rate has been fixed through a fixed funding rate, plus a margin, at a rate of 7.45% per annum with the second fixed at 7.25% per annum.

The unsecured subordinated debt is repayable by 31 December 2029 with principal repayments commencing on 31 December 2002. The interest rate has been fixed through a fixed funding rate, plus a margin, at a rate of 10.88% per annum.

The senior debt is secured by way of a first fixed charge over the company's interest in the asset. Furthermore, the terms of the finance agreement provide that the lender will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the specific asset financed and it will not seek recourse to the company in any other form. The company is not obliged to support any losses, nor does it intend to do so.

13. Share capital

	31 March 2003 £'000	31 March 2002 £'000
Authorised		
490,000 A Ordinary shares of £1 each	490	490
510,000 B Ordinary shares of £1 each	510	510
	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid		
421,000 A Ordinary shares of £1 each	421	421
421,000 B Ordinary shares of £1 each	421	421
	<u>842</u>	<u>842</u>

A and B shares rank *pari passu* in all respects.

Defence Training Services Limited

Notes to the financial statements

for the year ended 31 March 2003 (continued)

14. Reconciliation of shareholders' funds and movement on reserves

	Share Capital	Profit & Loss account	Total Shareholders' funds
	£'000	£'000	£'000
At 1 April 2001	842	248	1,090
Profit for the year	-	25	25
At 31 March 2002	842	273	1,115
Loss for the year	-	(1,659)	(1,659)
At 31 March 2003	842	(1,386)	(544)

15. Related party transactions

The company has subcontracted construction work to Jarvis Construction (UK) Limited, which is a 100% owned subsidiary of Jarvis plc. The value of building work invoiced to date by Jarvis Construction (UK) Limited is £65,544,000 (2002: £62,191,000). An amount of £2,813,000 (2002: £1,436,000) remained outstanding at balance date and is included within creditors falling due within one year.

During the year, Jarvis Workspace FM, a 100% owned subsidiary of Jarvis plc, provided property management services to the company on normal commercial terms, for £4,727,400 (2002: £5,119,000). An amount of £215,000 (2002: £890,000) remained outstanding at the balance sheet date and is included within creditors falling due within one year.

During the year, the company paid fees, interest and other costs to Halifax plc, on normal commercial terms, to the value of £6,412,000 (2002: £5,625,000). An amount of £82,645,000 (2002: £82,738,000) remained outstanding at the balance sheet date and is included within creditors falling due after more than one year.

During the year, Jarvis Projects Limited, a 100% owned subsidiary of Jarvis plc, provided project management services to the company on normal commercial terms to the value of £476,000 (2002: £Nil). An amount of £48,000 (2002: £Nil) remained outstanding at the balance sheet date and is included within creditors falling due within one year.

During the year, Braddons Limited, a 51% owned subsidiary of Jarvis plc, provided insurance services to the company on normal commercial terms, for £346,000 (2002: £Nil). An amount of £221,000 (2002: £Nil) remains outstanding at the balance sheet date and is included within creditors falling due within one year.

During the year, the company paid fees to Jarvis plc, on normal commercial terms, to the value of £Nil (2002: £4,167). An amount of £Nil (2002: £4,167) remained outstanding at the balance sheet date.

Defence Training Services Limited

Notes to the financial statements

for the year ended 31 March 2003 (continued)

16. Controlling parties

At 31 March 2003, the share capital of the company was owned by Jarvis plc and Uberior Infrastructure Investments (No.2) Limited (formerly known as Halifax Projects Investments Limited). Both of these companies owned 50% of the issued capital of, and exercised joint control over, the company.

With effect from 8 April 2004, Jarvis plc disposed of its ordinary and special shares in the company to PFI Investments Limited, a company beneficially owned and controlled by Secondary Market Infrastructure Fund UK LP (acting through its general partner SMIF UK Limited) collectively referred to as "SMIF".

On 2 March 2005, SMIF exercised its call option to purchase the legal ownership of PFI Investments (Holdings) Limited (PFI Investments Limited's immediate parent undertaking).

Uberior Infrastructure Investments (No.2) Limited and PFI Investments Limited exercise joint control over Defence Training Services Ltd.

There is no ultimate controlling party.

17. Notes to the statement of cash flows

(a) Reconciliation of operating loss to net outflow from operating activities

	31 March 2003 £'000	31 March 2002 £'000
Operating loss	-	(47)
Increase in debtors	(4,425)	(18,292)
Increase in creditors	2,001	33
Net cash outflow from operating activities	(2,424)	(18,306)

(b) Analysis of changes in net debt

	At 1 April 2002 £'000	Cash Flow £'000	Other Changes £'000	At 31 March 2003 £'000
Cash at bank	6,464	(4,340)	-	2,124
Loans due within one year	(709)	709	(745)	(745)
Loans due after more than one year	(81,120)	(616)	708	(81,028)
	<u>(75,365)</u>	<u>(4,247)</u>	<u>(37)</u>	<u>(79,649)</u>

Defence Training Services Limited
Notes to the financial statements
for the year ended 31 March 2003 (continued)

17. Notes to the statement of cash flows (continued)

(c) Reconciliation of net cash flow to movement in net debt

	31 March 2003	31 March 2002
	£'000	£'000
Decrease in cash	(4,340)	(16,261)
Cash outflow/(inflow) from movement in loans	93	(7,545)
Other non-cash movement in loans	(37)	-
Movement in net debt	(4,284)	(23,806)
Net debt at 31 March 2002	(75,365)	(51,559)
Net debt at 31 March 2003	(79,649)	(75,365)