NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Report and Financial Statements

Year Ended 31 March 2006

Company Registration No 03885037

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Report and Financial Statements

Contents | **Page**

Officers and Professional Advisers	1
Report of Directors	2
Independent Auditors' Report to the Members of NewSchools (Leyton) Limited	4
Profit and Loss Account	5
Statement of Movement in Reserves	6
Reconciliation of Movement in Equity Shareholders' Funds	6
Balance Sheet	7
Cash Flow Statement	8
Notes to the Accounts	9

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Reports and Financial Statements
For the year ended 31 March 2006

Officers and Professional Advisers

Directors

A Finegan
I Hudson

Company Secretary

P G Lamstaes

Registered Office

First Floor, Tricon House
Old Coffee House Yard,
London Road
Sevenoaks
Kent TN13 1AH

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Principle Bankers

National Westminster Bank Plc
135 Bishopsgate
London
EC2M 3UR

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Report of Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 March 2006.

Principal trading activities, business review and future prospects

The principal activity of the Company is to design, build, finance and operate a new secondary school in Leyton in accordance with a 25 year contract with the Mayor & Burgesses of the London Borough of Waltham Forest.

Contract negotiations were successfully completed in November 1999 and construction commenced immediately. The school was completed in August 2001 and became operational with effect from 01 September 2001.

The directors do not foresee any changes to the activities of the Company in the future.

The company's results compare favourably against the key performance indicators included in the financial model and budget; profit before tax was 40% over budget (£463,000 against a forecast £329,000) continuing the trend from 2005 (107%), and 15% up on 2005 operations (2005: 10% increase); liquid cash resources of £1,609,000 exceeded the forecast £1,275,000 by 26% (2005: 48%). The directors are confident that the financial controls currently in place, namely overhead and cash controls, will continue to generate positive results in the future.

Results and dividends

The profit for the year after tax was £164,000 (2005: £280,000). Interim dividends of £224 per share (2005: £300) were paid in the year. The directors do not recommend the payment of a final dividend (2005: £nil).

Directors and their interests

The following directors served throughout the year under review (except as noted) and to date:

A Finegan	
I Hudson	(appointed 1 July 2005)
E Clarke	(resigned 08 February 2006)
C Best	(appointed 01 April 2005: resigned 30 November 2005)
S Yazdabadi	(appointed 20 September 2005; resigned 30 November 2005)
S Potter	(appointed 1 June 2005; resigned 28 September 2005)
L Esau	(resigned 1 June 2005)
M Campion	(resigned 1 April 2005)

None of the directors has or had held at any time during the year any interest in the share capital of the Company or any other group company.

No director has a service contract or receives any remuneration from the Company. No director has or had held during the year any personal interest in any significant or material contract with the Company.

Directors' responsibilities

The Board of directors is responsible to the shareholders for all aspects of the Company's performance and meets on a regular basis to review the strategic direction of the Company and monitor performance against an approved business plan and budget.

The directors are required by United Kingdom Company law to prepare financial statements for each financial year that 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 the year.

Report of Directors (continued)

Directors' responsibilities (continued)

The directors are also required to select suitable accounting policies and apply them consistently, to make reasonable and prudent judgements and estimates and to prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy the financial position of the Company at any time and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have responsibility for the system of internal control, for safeguarding the assets of the Company and for taking reasonable steps to prevent and detect fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information of which the auditors are unaware. All necessary steps have been taken by the directors to ascertain the nature and location of relevant audit information and to establish that the auditors are aware of that information.

The directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed.

Contributions for charitable and political purposes

The Company made no political or charitable donations during the current or preceding year.

Derivative instruments

The company's use of derivative instruments is disclosed in note 15 to the financial statements.

Audit information

Each of the persons who is a director at the date of the approval of this report confirms that:

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps he ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of S234ZA of the Companies Act 1985.

Auditors

A resolution to re-appoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

P G Lamstaes

Company Secretary

22nd September 2006

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Independent Auditors' Report to the Members of NewSchools (Leyton) Limited

We have audited the financial statements of NewSchools (Leyton) Limited for the year ended 31 March 2006 which comprise the profit and loss account, the statement of movement on reserves, the reconciliation of movement in equity shareholders' funds, the balance sheet, the cash flow statement and the related notes 1 to 19. These financial statements have been prepared under 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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report 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 other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and 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 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 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.

Opinion

In our opinion:

- the 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 March 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

22 September 2006

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Profit and Loss Account

For the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Turnover	1,2	2,515	2,535
Cost of sales		(804)	(868)
Gross profit		1,711	1,667
Administrative expenses		(191)	(191)
Operating profit	3	1,520	1,476
Interest payable	6	(1,131)	(1,128)
Interest receivable	7	74	53
Profit on ordinary activities before taxation		463	401
Tax on profit on ordinary activities	8	(299)	(121)
Profit on ordinary activities after taxation		164	280
Dividends	16	(224)	(300)
Retained loss for the financial year		(60)	(20)

All gains and losses are recognised in the profit and loss account for both the current and prior year, accordingly no statement of total recognised gains and losses is required.

All items in the profit and loss account relate to continuing operations.

Statement of Movement in Reserves

For the year ended 31 March 2006

	2006 £'000	2005 £'000
Profit and loss account brought forward	165	185
Retained loss for the year	(60)	(20)
Profit and loss account carried forward at 31 March	105	165

Reconciliation of Movement in Equity Shareholders' Funds

Year ended 31 March 2006

	2006 £'000	2005 £'000
Retained loss for the year	(60)	(20)
Opening equity shareholders' funds	166	186
Closing equity shareholders' funds as at 31 March	106	166

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Balance Sheet

As at 31 March 2006

	Note	2006 £'000	2005 £'000
Current assets			
Debtors			
amounts due within one year	9	784	702
amounts due after more than one year	9	12,683	12,968
Investments in short term deposits		1,060	885
Cash at bank and in hand		549	1,030
		15,076	15,585
Creditors: amounts falling due within one year	10	(1,479)	(1,530)
Total assets less current liabilities		13,597	14,055
Creditors: amounts falling due after more than one year	10	(12,970)	(13,492)
Provision for liabilities	11	(521)	(397)
Net assets		106	166
Capital and reserves			
Called up share capital	17	1	1
Profit and loss account		105	165
Equity shareholders' funds		106	166

The financial statements were approved by the Board of Directors on 22nd September 2006 and were signed on its behalf by:

A Finegan
Director

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Cash Flow Statement

Year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities	12	1,789	2,017
Returns on investments and servicing of finance:			
Interest received		60	47
Interest paid		(1,144)	(1,142)
		(1,084)	(1,095)
Taxation		(278)	(34)
Dividends paid		(224)	(300)
Net cash inflow before use of liquid resources and financing		203	588
Management of liquid resources			
Cash (invested in) /transferred from short term deposits		(175)	840
Financing			
Loans			
Repayments of secured loans		(508)	(402)
Repayments of unsecured loans		-	(14)
(Decrease)/increase in cash in the year	14	(480)	1,012

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Notes to the Accounts

For the year ended 31 March 2006

1. ***Principal and accounting policies***

These financial statements have been prepared in accordance with applicable United Kingdom law and Accounting Standards and the Companies Act 1985. A summary of the principal accounting policies which have been consistently applied throughout the current and prior years are shown below.

Basis of accounting

These financial statements have been prepared under the historical cost convention.

Accounting for PFI Contracts

Under the terms of the contract substantially all the risks and rewards of ownership of the property remain with the London Borough of Waltham Forest. The underlying asset is therefore not an asset of the Company under FRS5: Reporting the Substance of Transactions, Application Note F.

During the period of construction, all costs incurred as a direct consequence of financing, designing and constructing the school, including finance costs are shown as work in progress.

At the end of the construction period credit is taken for the sale which is recorded within turnover as "construction revenue" and a finance debtor equivalent to the amount recoverable within work in progress is created. The construction expenditure and associated costs are reallocated to cost of sales.

During the operating phase, revenues received from the Council are apportioned between:

- Capital repayment;
- Finance income; and
- Operating revenue.

As part of its obligations to London Borough of Waltham Forest, the company has a programme of "life cycle" expenditure for the maintenance of the school. In recognition of this obligation the company has created a lifecycle expenditure provision, to record the difference between the annual anticipated charge for maintenance and that actually incurred.

Taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those which are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities and are not discounted.

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

Derivative financial instruments

The Company holds derivative financial instruments which have the effect of fixing the interest rate payable on bank borrowings. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest over the period of the contract.

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Notes to the accounts

For the year ended 31 March 2006 (continued)

1. Principal and accounting policies (continued)

Current Investments

Current asset investments are stated at the lower of cost and net realisable value.

Finance costs

Under FRS4 the company capitalises issue costs against the loans and amortises them over the term of the loan.

2. Turnover

	2006 £'000	2005 £'000
Turnover in the year is analysed as follows:		
Interest receivable on PFI Debtor	967	986
Operating revenue	1,524	1,422
Third party revenue	24	27
Construction revenue	-	100
Total	2,515	2,535

All turnover relates to operating activities carried out in the United Kingdom.

3. Operating Profit

	2006 £'000	2005 £'000
Operating profit is stated after charging:		
Auditors remuneration:-		
Audit fees	11	9
Other Services	5	5

4. Emoluments of directors

The directors did not receive any remuneration for their services to the Company during either the current or previous year.

	2006 £'000	2005 £'000
Amounts payable to third parties in respect of the services of directors	21	21

5. Staff numbers and costs

The Company had no employees (excluding directors) during the year to 31 March 2006 or in the year to 31 March 2005.

Notes to the accounts

For the year ended 31 March 2006 (continued)

6. Interest payable

	2006 £'000	2005 £'000
Amounts payable on bank loans	913	944
Amounts payable on subordinated loan interest	182	184
Other Interest	36	-
	1,131	1,128

Interest payable on bank loan includes bank loan interest, interest rate swap interest and commitment fees. Interest on subordinated loan interest includes interest on loan and arrangement fees.

7. Interest receivable

	2006 £'000	2005 £'000
Receivable on swaps and bank deposits	74	53

8. Tax on profit on ordinary activities

	2006 £'000	2005 £'000
Corporation Tax charge at 30% (2005:30%)	140	120
Adjustment in respect of prior year	159	1
	299	121

Notes to the accounts

For the year ended 31 March 2006 (continued)

8. Tax on profit on ordinary activities (continued)

The tax assessed for the previous year is lower than the standard rate of corporation tax in the United Kingdom of 30%. The difference is explained in the tax reconciliation below:

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	462	401
Tax charge on the profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005: 30%)	139	120
Effects of:		
Non-allowable expenses	1	-
Adjustment in respect of prior year	159	1
Current tax charge for the year	299	121

9. Debtors

	2006 £'000	2005 £'000
(a) Due within one year:		
Trade debtors	299	285
PFI Debtor	286	264
Prepayments and accrued income	199	153
	784	702
(b) Due after more than one year:		
PFI Debtor	12,683	12,968
	13,467	13,670

NewSchools
Enabling Educational Excellence

NewSchools (Leyton) Limited

Notes to the accounts

For the year ended 31 March 2006 (continued)

10. Creditors

	2006	2005
	£'000	£'000
(a) Amounts falling due within one year		
Bank loans (Note 15a)	495	483
Trade creditors	328	222
Subordinated loan due to parent company (Note 15b)	19	17
Corporation tax creditor	140	120
Other creditors	475	632
Accruals and deferred income	22	56
	1,479	1,530

(b) Amounts falling due after one year	2006	2005
	£'000	£'000
Bank loans (Note 15a)	11,580	12,085
Subordinated loan due to parent company (Note 15b)	1,390	1,407
	12,970	13,492

11. Provision for liabilities

	2006	2005
	£'000	£'000
At 1 April	397	283
Charge for the year	124	114
At 31 March	521	397

As part of its contractual obligations the Company has a programme of "life cycle" expenditure for the maintenance of the school. Accordingly a life cycle expenditure provision has been created to reflect the difference between the annual anticipated charge for maintenance and that actually incurred. The provision will be utilised over the life of the project.

Notes to the accounts

For the year ended 31 March 2006 (continued)

12. Net cash inflow from operating activities

	2006 £'000	2005 £'000
Operating profit	1,520	1,476
Decrease in debtors	217	295
(Decrease)/increase in creditors	(72)	132
Increase in life cycle provision	124	114
Net cash inflow from operating activities	1,789	2,017

13. Analysis of changes in net debt

	2005 £'000	Cash Flow £'000	Other movements £'000	2006 £'000
Cash at bank	1,030	(480)	-	550
Bank loans due within one year	(483)	508	(520)	(495)
Bank loans due after more than one year	(12,085)	-	505	(11,580)
Subordinated loan due within one year	(17)	-	(2)	(19)
Subordinated loan due after more than one year	(1,407)	-	17	(1,390)
	(12,962)	28	-	(12,934)

14. Reconciliation of net cash flow to movement in net debt

	2006 £'000	2005 £'000
(Decrease)/Increase in cash during the year	(480)	1,012
Net cash flow from debt financing activities	508	416
Changes in net debt resulting from cash flows	28	1,428
Net debt at beginning of the year	(12,962)	(14,390)
Net debt at the end of the year	(12,934)	(12,962)

Notes to the accounts

For the year ended 31 March 2006 (continued)

15. Loans

a. Bank loans

	2006 £'000	2005 £'000
Due within one year	495	483
Due after more than one year	11,580	12,085
	12,075	12,568
The bank loans are repayable as follows:		
Within one year	495	483
Between one and two years	336	495
Between two and five years	1,268	1,071
After five years	9,976	10,519
	12,075	12,568

Bank loans represent amounts borrowed under two facilities, a Senior Debt Facility and an Equity Bridge Facility.

The amounts drawn under the Senior Debt Facility are repayable in forty-five equal semi annual instalments commencing May 2002.

Interest charges on amounts drawn are based on floating LIBOR. The Company has entered into an interest rate swap agreement where variable rate interest payments are swapped for a fixed rate of 6.415% per annum in respect of amounts drawn under the facilities. This has been done in order to hedge against cash-flow interest rate risk arising from the variable rate debt. The swap expires on 31 May 2024. As at 31 March 2006 the interest rate swap contract has a fair value of £11,813,100 (2005: £12,453,025).

The senior facility is secured by fixed and floating charges on the assets of the company.

b. Subordinated loan due to parent company

	2006 £'000	2005 £'000
Due within one year	19	17
Due after more than one year	1,390	1,407
	1,409	1,424
The loans are repayable as follows:		
Within one year	19	17
Between one and two years	21	19
Between two and five years	82	72
After five years	1,287	1,316
	1,409	1,424

Notes to the accounts

For the year ended 31 March 2006 (continued)

15b. Subordinated loan due to parent company (continued)

The subordinated loan represents amounts borrowed from the parent company, NewSchools (Leyton) Holdings Limited, under the Equity Subscription Agreement facility. The amounts drawn are repayable in semi annual instalments commencing 2002. Interest charges on amounts drawn are at 12.5% per annum.

In accordance with FRS 4 issue costs have been offset against the related loans and are being amortised over the duration of the facilities.

The subordinated loan is not secured over the assets of the Company.

16. Dividends

Interim dividends of £224,000 (£224 per share) were paid in the year (2005: £300,000 - £300 per share): In May 2005 £190,000 was paid and in December 2005 £34,000 was paid.

17. Share capital

	2006 £'000	2005 £'000
Authorised:		
1,000 ordinary shares of £1 each (2005: 1,000)	1	1
Called up, allotted and fully paid:		
1,000 ordinary shares of £1 each (2005: 1,000)	1	1

18. Related party transactions

In accordance with the exemption afforded by the Financial Reporting Standard No 8 there is no disclosure in these financial statements of transactions with entities that are part of the NewSchools (Leyton) group. All related party transactions were carried out at arm's length.

The directors consider the material transactions undertaken by the Company during the year with related parties were as follows:

	Provision of services £'000	Subordinated loan interest £'000	Amount due to related party at 31 March 2006 £'000
Innisfree PFI Fund II LP	11	77	13
Innisfree M&G PPP LP	11	91	-
Newschools Limited	85	-	8
Wates PFI Investments Limited	4	14	-
Wates Construction Limited	178	-	-

Notes to the accounts

For the year ended 31 March 2006 (continued)

18. Related party transactions (continued)

Payments to related parties in the prior year are set out below:

	Provision of services £'000	Subordinated loan interest £'000	Amount due to related party at 31 March 2006 £'000
Innisfree PFI Fund II LP	9	78	26
Innisfree M&G PPP LP	9	78	26
Newschools Limited	73	-	-
Wates PFI Investments Limited	3	27	9

In addition to shareholders during the year, related parties include NewSchools Limited, a joint venture between Innisfree PFI Fund II LP and Innisfree M&G PPP LP, both shareholders in the Company, Wates Construction Limited, whose parent company is Wates Group Limited, the parent company of Wates PFI Investments Limited, a shareholder in the Company during the year.

Year end amounts owed to related parties are shown within "Creditors: amounts falling due within one year" in the balance sheet.

19. Ultimate parent company

The Company is a wholly owned subsidiary of NewSchools (Leyton) Holdings Limited which the directors regard as the controlling party, of which 100% (2005: 85%) is owned by Innisfree Nominees Limited, acting as nominees for Innisfree PFI Fund II, a Limited Partnership, and Innisfree M&G PPP, a Limited Partnership and 0% (2005: 15%) by Wates PFI Investments Limited, all of which are incorporated in Great Britain and registered in England and Wales. The directors do not consider that the parent company is controlled by any one party.

On 30 November 2005 the Directors approved the transfer of Wates PFI Investments Limited shares in NewSchools (Leyton) Holdings Limited and the obligation to subscribe for loan notes in the company to Innisfree M&G PPP LP.

On 06 April 2006 the Directors approved the transfer of Innisfree PFI Fund II shares in NewSchools (Leyton) Holdings Limited and the obligation to subscribe for loan notes in the company to Innisfree PFI Continuation Fund LP.

The results of the company are not consolidated in the accounts of any entity.