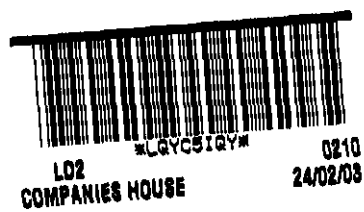


Registered Company No: 3885037

NEWSCHOOLS (LEYTON) LIMITED

REPORT AND FINANCIAL STATEMENTS
For year ended 31st March 2002

Registered Office
Woodcote Grove
Ashley Road
Epsom
Surrey
KT18 5BW



NEW SCHOOLS (LEYTON) LIMITED

REPORT AND FINANCIAL STATEMENTS
For the year ended 31st March 2002

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NEW SCHOOLS (LEYTON) LIMITED

REPORT AND FINANCIAL STATEMENTS

For the year ended 31st March 2002

DIRECTORS & ADVISORS

DIRECTORS

The directors of the Company are shown in the Report of the Directors on page 2.

COMPANY SECRETARIES & REGISTERED OFFICE

A J E Massie	}	Joint Secretaries
R Webster	}	

Woodcote Grove
Ashley Road
Epsom
Surrey
KT18 5BW

AUDITORS

Deloitte & Touche
Chartered Accountants
London

PRINCIPAL BANKERS

National Westminster Bank Plc

NEW SCHOOLS (LEYTON) LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st March 2002.

PRINCIPAL TRADING ACTIVITIES AND BUSINESS REVIEW

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 1 September 2001.

The directors do not recommend the payment of a dividend.

DIRECTORS

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

Director	Date of appointment	Date of resignation
D R Clements	23 July 1999	17 June 2002
W R Crawford	13 March 2001	31 October 2002
A Finegan	23 July 1999	-
M A Fernandes	23 July 1999	12 September 2002
J D Harris	12 September 2002	-
J C B Houlton	23 July 1999	-
R F McGlynn	17 June 2002	-
M J E Tidd	8 May 2001	-
N G Williams	31 October 2002	-

DIRECTORS INTERESTS

None of the directors has or had held at any time during the period any interest in the share capital of the Company or the Group.

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

NEW SCHOOLS (LEYTON) LIMITED

REPORT OF THE DIRECTORS (continued)

CORPORATE GOVERNANCE & 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 UK 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.

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 a 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 accurately disclose the financial position of the Company and 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.

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

CONTRIBUTIONS FOR CHARITABLE & POLITICAL PURPOSES

The Company made no political or charitable donations during the period.

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



**A J E Massie
Secretary**

NEW SCHOOLS (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 31st March 2002 which comprise the principle accounting policies, profit and loss account, statement of movement on reserves, the reconciliation of movements in shareholders' funds, the balance sheet, the cashflow 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 financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 the law regarding the directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of 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.

NEW SCHOOLS (LEYTON) LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
NEWSCHOOLS (LEYTON) LIMITED (continued)**

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 assurances that the financial statements are free from material misstatements, 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 affairs the company at 31st March 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants &
Registered Auditors
London

\ 0 February 2003

NEW SCHOOLS (LEYTON) LIMITED

PRINCIPAL ACCOUNTING POLICIES

Principal accounting policies

These financial statements have been prepared in accordance with applicable UK Accounting Standards and the Companies Act 1985. A summary of the principal accounting policies which have been consistently applied 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 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
- 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.

Deferred taxation

The Company has adopted Financial Reporting Standard 19 'Deferred Tax (FRS 19). Deferred tax is provided in full on timing differences which result in an obligation at

NEW SCHOOLS (LEYTON) LIMITED

PRINCIPAL ACCOUNTING POLICIES (continued)

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.

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.

NEW SCHOOLS (LEYTON) LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31st March 2002

	Note	2002 £'000	17 months to March 2001 £'000
TURNOVER	1	14,722	-
Cost of sales		(14,420)	-
Gross profit		<u>302</u>	<u>-</u>
Administrative expenses		(220)	(146)
OPERATING PROFIT/(LOSS)	2-4	<u>82</u>	<u>(146)</u>
Interest payable	5	(665)	-
Interest receivable	6	616	-
PROFIT/ (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>33</u>	<u>(146)</u>
Tax on profit on ordinary activities	7-8	(2)	-
RETAINED PROFIT/(LOSS) ON ORDINARY ACTIVITIES FOR THE FINANCIAL YEAR		<u>31</u>	<u>(146)</u>

All gains and losses are recognised in the profit and loss account, accordingly no statement of recognised gains and losses is required.

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

NEW SCHOOLS (LEYTON) LIMITED

STATEMENT OF MOVEMENT OF RESERVES

For the year ended 31st March 2002

	2002	17 months to March 2001
	£'000	£'000
Profit and loss account brought forward	(146)	-
Retained profit/(loss) for the year/period	31	(146)
Profit and loss account carried forward at 31 st March	<u>(115)</u>	<u>(146)</u>

**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS'
DEFICIT**

for the year ended 31st March 2002

	2002	17 months to March 2001
	£'000	£'000
Profit/(loss) for the year/period	31	(146)
New share capital subscribed	-	1
Net movement in shareholders' funds/deficit	<u>31</u>	<u>(145)</u>
Opening shareholders' deficit	(145)	-
Closing shareholders' deficit as at 31st March	<u>(114)</u>	<u>(145)</u>

NEW SCHOOLS (LEYTON) LIMITED


BALANCE SHEET

As at 31st March 2002

	Note	2002 £'000	2001 £'000
CURRENT ASSETS			
Stock and work in progress	9	-	9,549
Debtors	10	14,182	88
Cash at bank and in hand		1,743	120
CURRENT LIABILITIES			
CREDITORS: amounts falling due within one year	11a	(1,243)	(1,431)
NET CURRENT ASSETS		<u>14,682</u>	<u>8,326</u>
CREDITORS: amounts falling due after more than one year	11b	(14,686)	(8,462)
PROVISION FOR LIABILITIES AND CHARGES	12	(110)	(9)
NET LIABILITIES		<u>(114)</u>	<u>(145)</u>
CAPITAL AND RESERVES			
Called up share capital	17	1	1
Profit and loss account		(115)	(146)
EQUITY SHAREHOLDERS' DEFICIT		<u>(114)</u>	<u>(145)</u>

The financial statements were approved by the Board of Directors on 10 -2 - 2003 and were signed on its behalf by:


Director


Director

NEW SCHOOLS (LEYTON) LIMITED

CASHFLOW STATEMENT
for the year ended 31st March 2002

	Note	2002 £'000	17 months to March 2001 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	13	(4,611)	(8,539)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		14	7
Interest paid		(314)	(501)
Interest element on PFI contract debtor		605	-
Net cash outflow from returns on investments and servicing of finance		305	(494)
Net cash outflow before financing		(4,306)	(9,033)
FINANCING			
Issue of ordinary shares		-	1
Loans	15	5,814	9,152
Capital element on PFI contract debtor		115	-
NET CASH INFLOW FROM FINANCING		5,924	9,153
INCREASE IN CASH IN THE YEAR/PERIOD		1,623	120

NEW SCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st March 2002

1. TURNOVER

	2002 £'000	17 months to March 2001 £'000
Turnover in the year is analysed as follows:		
Construction revenue	14,051	-
Operating revenue	667	-
Third party revenue	2	-
Other	2	-
Total	14,722	-

All turnover relates to operating activities carried out in the UK.

2. OPERATING PROFIT

	2002 £'000	17 months to March 2001 £'000
Operating profit is stated after charging:		
Auditor's remuneration for Audit Services	9	8

On completion of construction £14,051,000 of construction costs were transferred from work in progress and are included in cost of sales.

3. EMOLUMENTS OF DIRECTORS

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

	2002 £'000	17 months to March 2001 £'000
Amounts payable to third parties in respect of the services of directors	19	21

NEW SCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st March 2002 (continued)

4. STAFF NUMBERS & COSTS

The Company had no employees during the year to 31 March 2002 or in the period to 31 March 2001.

5. INTEREST PAYABLE

	2002 £'000	17 months to March 2001 £'000
Amounts payable on bank loans	665	505
	<hr/>	<hr/>
Less amounts added to work in progress	-	505
	<hr/>	<hr/>
	665	-
	<hr/>	<hr/>

6. INTEREST RECEIVABLE

	2002 £'000	17 months to March 2001 £'000
Amounts receivable on swaps and bank deposits	11	7
Finance on PFI contract debtor	605	-
	<hr/>	<hr/>
	616	7
	<hr/>	<hr/>
Less amounts added to work in progress	-	7
	<hr/>	<hr/>
	616	-
	<hr/>	<hr/>

NEW SCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st March 2002 (continued)

7. TAXATION

	2002 £'000	17 months to March 2001 £'000
Corporation Tax charge at 20% (2001:20%)	2	-
Prior year	-	-
	<u>2</u>	<u>-</u>

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 20%. The difference is explained in the tax reconciliation below:

	2002 £'000	17 months to March 2001 £'000
Profit/(loss) on ordinary activities before tax	33	(146)
Tax charge (credit) of the profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 20%	6	(29)
Effects of:		
Utilisation of tax losses	(4)	-
Deferred tax asset not recognised on losses	-	29
Current tax charge for the period	<u>2</u>	<u>-</u>

8. DEFERRED TAXATION

The deferred tax asset on trade losses carried forward of £125,200 as at 31 March 2002 (2001 : £129,600) has not been recognised as it is uncertain that the asset will crystallise in the foreseeable future.

NEW SCHOOLS (LEYTON) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st March 2002 (continued)**

9. STOCKS AND WORK IN PROGRESS

	2002	2001
	£'000	£'000
Work in progress	-	9,549
	<u> </u>	<u> </u>

10. DEBTORS

	2002	2001
	£'000	£'000
(a) Due within one year:		
Trade debtors	232	2
Finance debtor	214	-
Other debtors	18	69
Prepayments	-	17
	<u> </u>	<u> </u>
	464	88

(b) Due after more than one year:

Finance debtor	13,718	-
	<u> </u>	<u> </u>
	14,182	88
	<u> </u>	<u> </u>

11. CREDITORS

	2002	2001
	£'000	£'000
(a) Amounts falling due within one year		
Bank loans (Note 16a)	268	908
Trade creditors	483	483
Amounts owed to group undertakings (Note 16b)	12	-
Other creditors	371	40
Corporation tax	2	-
Accruals and deferred income	107	-
	<u> </u>	<u> </u>
	1,243	1,431
	<u> </u>	<u> </u>

NEW SCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st March 2002 (continued)

(b) Amounts falling due after one year

	2002	2001
	£'000	£'000
Bank loans (Note 16a)	13,238	8,244
Amounts owed to group undertaking (Note 16b)	1,448	-
Accruals and deferred income	-	218
	<u>14,686</u>	<u>8,462</u>

12. PROVISIONS FOR LIABILITIES AND CHARGES

	2002	2001
	£'000	£'000
At 1 April	9	-
Utilised during the year	-	-
Charge for the year	101	9
At 31 March	<u>110</u>	<u>9</u>

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.

13. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002	2001
	£'000	£'000
Operating profit	82	(146)
(Increase)/decrease in stocks	9,051	(9,051)
(Increase)/decrease in debtors	(13,712)	(88)
Increase/(decrease) in creditors	(133)	737
Life cycle provision	101	9
Net cash outflow from operating activities	<u>(4,611)</u>	<u>(8,539)</u>

NEW SCHOOLS (LEYTON) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st March 2002 (continued)**

14. ANALYSIS OF CHANGES IN NET DEBT

	31 March 2002 £'000	31 March 2001 £'000	Cashflow £'000
Cash at bank	1,743	120	1,623
Bank loans due within one year	(268)	(908)	640
Bank loans due after more than one year	(13,238)	(8,244)	(4,994)
Subordinated loan due within one year	(12)	-	(12)
Subordinated loan due after more than one year	(1,448)	-	(1,448)
	<u>(13,223)</u>	<u>(9,032)</u>	<u>(4,191)</u>

15. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £'000	2001 £'000
Increase in cash during the year/ period	1,623	120
Net cash flow from debt financing activities	(5,814)	(9,152)
Changes in net debt resulting from cash flows	<u>(4,191)</u>	<u>(9,032)</u>
Net debt at beginning of the year/ period	<u>(9032)</u>	<u>-</u>
Net debt at the end of the year/ period	<u>(13,223)</u>	<u>(9,032)</u>

NEW SCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st March 2002 (continued)

16. LOANS

(a) Bank loans

	31 March 2002 £'000	31 March 2001 £'000
Due within one year	268	908
Due after more than one year	13,238	8,244
	<u>13,506</u>	<u>9,152</u>
The bank loans are repayable as follows:		
Within one year	268	908
Between one and two years	510	366
Between two and five years	1,726	1,099
After five years	11,002	6,779
	<u>13,506</u>	<u>9,152</u>

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.

The amounts drawn under the Equity Bridge facility were repaid in September 2001. Interest charges on amounts drawn are based on floating LIBOR. The Company has entered into an interest rate swap agreement whereby it pays a fixed rate of 6.415% per annum in respect of amounts drawn under the facilities.

The swap expires on 31 May 2024.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st March 2002 (continued)

(b) Subordinated loan

	31 March	31 March
	2002	2001
	£'000	£'000
Due within one year	12	-
Due after more than one year	1,448	-
	<u>1,460</u>	<u>-</u>
The loans are repayable as follows:		
Within one year	12	-
Between one and two years	13	-
Between two and five years	51	-
After five years	1,384	-
	<u>1,460</u>	<u>-</u>

The subordinated loan represents amounts borrowed 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 Financial reporting Standard 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.

17. SHARE CAPITAL

	2002	2001
	£	£
Authorised		
1,000 ordinary shares of £1 each (2001 : 1,000)	1,000	1,000
	<u>1,000</u>	<u>1,000</u>
Allotted called up and fully paid		
1,000 ordinary shares of £1 each (2001 : 1,000)	1,000	1,000
	<u>1,000</u>	<u>1,000</u>

NEW SCHOOLS (LEYTON) LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31st March 2002 (continued)

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.

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

	Development costs	Provision of services	Amount due to related party at 31 March 2002
	£'000	£'000	£'000
Innisfree PFI Fund II LP	-	10	5
Newschools Limited	-	54	4
Wates Construction Limited	4,594	-	272
Wates PFI Investments Limited	-	3	2
WS Atkins Consultants Limited	-	1	-
WS Atkins Investments Limited	-	10	5
WS Atkins FM Limited	-	658	40

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

	Development costs	Provision of services	Amount due to related party at 31 March 2001
	£'000	£'000	£'000
Innisfree PFI Fund II LP	27	9	4
Newschools Limited	-	102	8
Wates Construction Limited	7,361	-	385
Wates PFI Investments Limited	6	3	1
WS Atkins Consultants Limited	-	9	3
WS Atkins Investments Limited	310	9	4
WS Atkins FM Limited	101	-	31

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 42 ½ % is owned by Innisfree PFI Fund II, a Limited Partnership, 42 ½ % by WS Atkins Investments Limited and 15% by Wates PFI Investments Limited, all of which are registered in England and Wales. The directors do not consider that the Holding Company is controlled by any one party.