

Company Registration No. 03885037

NewSchools (Leyton) Limited

Report and Financial Statements

Year ended 31 March 2005



NewSchools (Leyton) Limited

Report and financial statements

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NewSchools (Leyton) Limited

Report and financial statements For the year ended 31 March 2005

Officers and professional advisers

Directors

A Finegan
E Clarke
I Hudson

Company secretary

A. Oyesiku

Registered office

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

Auditors

Deloitte & Touche LLP
Chartered Accountants
London

Principal bankers

National Westminster Bank Plc
135 Bishopsgate
London
EC2M 3UR

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 2005.

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 1 September 2001.

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

Results and dividends

The profit for the year after tax was £280,000 (2004: £306,000). Interim dividends of £300 per share (2004: £450) was paid in the year. The directors do not recommend the payment of a final dividend (2004: £nil).

Directors and their interests

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

A Finegan	
E H Clarke	
I Hudson	(appointed 1 July 2005)
C Best	(appointed 1 April 2005, resigned 30 November 2005)
S Yazdabadi	(appointed 20 September 2005, resigned 30 November 2005)
S Potter	(appointed 1 June 2005, resigned 20 September 2005)
L Esau	(resigned 1 June 2005)
M Campion	(resigned 1 April 2005)
M Webber	(resigned 18 February 2005)
M A Fernandes	(resigned 20 September 2004)

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 has 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.

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.

NewSchools (Leyton) Limited

Report of directors (continued)

The directors are responsible for keeping proper accounting records, 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 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 Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed.


Contribution for charitable and political purposes

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

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**



A. Oyesiku
Company secretary

30 January

2006

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 2005 which comprise the profit and loss account, the statement of movement on reserves, the reconciliation of movements in equity shareholders' funds, the balance sheet, the cash flow statement, and the related notes 1 to 20. 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 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 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.

Independent auditors' report to the members of

NewSchools (Leyton) Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs the company at 31 March 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

31 January 2006

NewSchools (Leyton) Limited

Profit and loss account Year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Turnover	1,2	2,535	2,382
Cost of sales		(868)	(652)
Gross profit		<u>1,667</u>	<u>1,730</u>
Administrative expenses		(191)	(261)
Operating profit	3	<u>1,476</u>	<u>1,469</u>
Interest payable	6	(1,128)	(1,164)
Interest receivable	7	53	60
Profit on ordinary activities before taxation		<u>401</u>	<u>365</u>
Tax on profit on ordinary activities	8	(121)	(59)
Profit on ordinary activities after taxation		<u>280</u>	<u>306</u>
Dividends paid	17	(300)	(450)
Retained loss for the financial year		<u>(20)</u>	<u>(144)</u>

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.

NewSchools (Leyton) Limited

Statement of movement in reserves Year ended 31 March 2005

	2005 £'000	2004 £'000
Profit and loss account brought forward	185	329
Retained loss for the year	(20)	(144)
Profit and loss account carried forward at 31 March	<u>165</u>	<u>185</u>

Reconciliation of movement in equity shareholders' funds Year ended 31 March 2005

	2005 £'000	2004 £'000
Retained profit/ (loss) for the year	(20)	(144)
Net movement in equity shareholders' funds	<u>(20)</u>	<u>(144)</u>
Opening equity shareholders' funds	186	330
Closing equity shareholders' funds as at 31 March	<u>166</u>	<u>186</u>

NewSchools (Leyton) Limited

Balance sheet As at 31 March 2005

	Note	2005 £'000	2004 £'000
Current assets			
Debtors			
amounts due within one year	10	702	819
amounts due after more than one year	10	12,968	13,141
Investments in short term deposits		885	1,725
Cash at bank and in hand		1,030	18
		<u>15,585</u>	<u>15,703</u>
Creditors: amounts falling due within one year	11a	(1,530)	(1,212)
Total assets less current liabilities		<u>14,055</u>	<u>14,491</u>
Creditors: amounts falling due after more than one year	11b	(13,492)	(14,022)
Provision for liabilities and charges	12	(397)	(283)
Net assets		<u>166</u>	<u>186</u>
Capital and reserves			
Called up share capital	18	1	1
Profit and loss account		165	185
Equity shareholders' funds		<u>166</u>	<u>186</u>

The financial statements were approved by the Board of Directors on 27 January 2006 and were signed on its behalf by:



A Finegan
Director

NewSchools (Leyton) Limited

Cash flow statement Year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	13	2,017	1,709
Returns on investments and servicing of finance:			
Interest received		47	60
Interest paid		(1,142)	(1,166)
		(1,095)	(1,106)
Taxation		(34)	(10)
Dividends paid		(300)	(450)
Net cash inflow before use of liquid resources and financing		588	143
Management of liquid resources			
Cash transferred from short term deposits		840	125
Financing			
Loans			
Repayments of secured loans		(402)	(273)
Repayments of unsecured loans		(14)	(6)
Increase/(decrease) in cash in the year	15	1,012	(11)

NewSchools (Leyton) Limited

Notes to the accounts

For the year ended 31 March 2005

1. Principal 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 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.

Current Investments

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

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (continued)

2. Turnover

	2005 £'000	2004 £'000
Turnover in the year is analysed as follows:		
Interest receivable on PFI Debtor	986	1,007
Operating revenue	1,422	1,345
Third party revenue	27	30
Construction revenue	100	-
Total	2,535	2,382

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

3. Operating profit

	2005 £'000	2004 £'000
Operating profit is stated after charging:		
Auditor's remuneration:-		
Audit fees	9	8
Other Services	5	6

4. Emoluments of directors

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

	2005 £'000	2004 £'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 2005 or in the year to 31 March 2004.

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (continued)

6. Interest payable

	2005 £'000	2004 £'000
Amounts payable on bank loans	944	977
Amounts payable on subordinated loan interest	184	187
	<u>1,128</u>	<u>1,164</u>

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

	2005 £'000	2004 £'000
Receivable on swaps and bank deposits	53	60
	<u>53</u>	<u>60</u>

8. Tax on profit on ordinary activities

	2005 £'000	2004 £'000
Corporation Tax charge at 30% (2004:30%)	120	32
Prior year adjustment at 30%	1	-
	<u>121</u>	<u>32</u>
Deferred tax (see Note 9)	-	27
	<u>121</u>	<u>59</u>

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (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:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	401	365
Tax charge on the profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2004:30%)	<u>120</u>	<u>110</u>
Effects of:		
Prior year adjustment	1	-
Utilisation of tax losses	-	(75)
Marginal relief	-	(3)
Current tax charge for the year	<u>121</u>	<u>32</u>

9. Deferred taxation asset

	2005 £'000	2004 £'000
Movement on deferred taxation balance in the year		
Opening balance	-	(27)
Charge/(credit) to profit and loss account	-	27
Closing balance	<u>-</u>	<u>-</u>

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (continued)

10. Debtors	2005	2004
	£'000	£'000
(a) Due within one year:		
Trade debtors	285	547
PFI Debtor	264	245
Prepayments and accrued income	153	27
	<u>702</u>	<u>819</u>
(b) Due after more than one year:		
PFI Debtor	12,968	13,141
	<u>13,670</u>	<u>13,960</u>
	<u><u>13,670</u></u>	<u><u>13,960</u></u>
11. Creditors	2005	2004
	£'000	£'000
(a) Amounts falling due within one year		
Bank loans (Note 16a)	483	373
Trade creditors	222	222
Subordinated loan (Note 16b)	17	13
Corporation tax creditor	120	32
Other creditors	632	572
Accruals and deferred income	56	-
	<u>1,530</u>	<u>1,212</u>
	<u><u>1,530</u></u>	<u><u>1,212</u></u>
(b) Amounts falling due after one year	2005	2004
	£'000	£'000
Bank loans (Note 16a)	12,085	12,597
Amounts owed to group undertaking (Note 16b)	1,407	1,425
	<u>13,492</u>	<u>14,022</u>
	<u><u>13,492</u></u>	<u><u>14,022</u></u>

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (continued)

12. Provision for liabilities and charges

	2005 £'000	2004 £'000
At 1 April	283	171
Charge for the year	114	112
At 31 March	<u>397</u>	<u>283</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. The provision will be utilised over the life of the project.

13. Net cash inflow from operating activities

	2005 £'000	2004 £'000
Operating profit	1,476	1,469
Decrease in debtors	295	200
Increase/(decrease) in creditors	132	(72)
Increase in life cycle provision	114	112
Net cash inflow from operating activities	<u>2,017</u>	<u>1,709</u>

14. Analysis of changes in net debt

	2004 £'000	Cash flow £'000	Other movements £'000	2005 £'000
Cash at bank	18	1,012	-	1,030
Bank loans due within one year	(373)	402	(512)	(483)
Bank loans due after more than one year	(12,597)	-	512	(12,085)
Subordinated loan due within one year	(13)	14	(18)	(17)
Subordinated loan due after more than one year	(1,425)	-	18	(1,407)
	<u>(14,390)</u>	<u>1,428</u>	<u>-</u>	<u>(12,962)</u>

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (continued)

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

	2005 £'000	2004 £'000
Increase/(decrease) in cash during the year	1,012	(11)
Net cash flow from debt financing activities	416	279
Changes in net debt resulting from cash flows	<u>1,428</u>	<u>268</u>
Net debt at beginning of the year	<u>(14,390)</u>	<u>(14,658)</u>
Net debt at the end of the year	<u>(12,962)</u>	<u>(14,390)</u>

16. Loans

(a) Bank loans

	2005 £'000	2004 £'000
Due within one year	483	373
Due after more than one year	12,085	12,597
	<u>12,568</u>	<u>12,970</u>
The bank loans are repayable as follows:		
Within one year	483	373
Between one and two years	495	483
Between two and five years	1,071	1,144
After five years	10,519	10,970
	<u>12,568</u>	<u>12,970</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.

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (continued)

16. Loans (continued)

(b) Subordinated loan

	2005 £'000	2004 £'000
Due within one year	17	13
Due after more than one year	1,407	1,425
	<u>1,424</u>	<u>1,438</u>
The loans are repayable as follows:		
Within one year	17	13
Between one and two years	19	15
Between two and five years	72	56
After five years	1,316	1,354
	<u>1,424</u>	<u>1,438</u>

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 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. Dividends

An interim dividend of £300,000 (£300 per share) was paid in December 2004, (2003: £450,000).

18. Share capital

	2005 £'000	2004 £'000
Authorised:		
1,000 ordinary shares of £1 each (2004 : 1,000)	1	1
	<u>1</u>	<u>1</u>
Allotted called up and fully paid:		
1,000 ordinary shares of £1 each (2004 : 1,000)	1	1
	<u>1</u>	<u>1</u>

NewSchools (Leyton) Limited

Notes to the accounts for the year ended 31 March 2005 (continued)

19. 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 arms 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 2005 £'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

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 2004 £'000
Innisfree PFI Fund II LP	34	79	26
Innisfree M&G PPP LP	4	-	4
Newschools Limited	48	-	4
Wates PFI Investments Limited	4	28	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.

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

20. Ultimate parent company

The Company is a wholly owned subsidiary of NewSchools (Leyton) Holdings Limited which the directors regard as the controlling party, which at 31 March 2005, 85% was 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 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.

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

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.