FocusEducation Limited

Directors' report and consolidated financial statements

Registered number 04119823

Year ended 31 August 2004

Contents

Company information

Directors

Gershon Daniel Cohen
Stephen Hockaday
Andrew Craig Mason
Andrew David Silverbeck

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3rd Floor, The Venus
1 Old Park Lane
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M41 7HG

Registered Auditors
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M2 6DS

Solicitors
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Bankers
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Company Secretary
Ailison Mitchell LLB ACIS
3rd Floor, The Venus
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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 August 2004.

Principal activities

The principal activities of the Group are to design, finance, construct and operate certain facilities and provide non-educational services at a number of schools in the United Kingdom under concession agreements with relevant local authorities.

Business review

This is the third year of trading for the Group and the results for the year are set out in the profit and loss account on page 5. The loss for the year was £758,000 (2003: loss £60,000).

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the year are as follows:

Gershon Daniel Cohen
Stephen Hockaday
Andrew David Silverbeck
Philip Robert Grant (resigned 29 January 2004)
Andrew Craig Mason (appointed 29 January 2004)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company. The interests of the directors in other group companies are disclosed in the financial statements of those group companies.

Corporate Governance

The Company is committed to high standards of corporate governance, as are appropriate for the longer term obligations to finance, construct and operate non-educational services for the new schools under the Private Finance Initiative programme.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Allison Mitchell LLB ACIS
Secretary

3rd Floor, The Venus
1 Old Park Lane
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Statement of directors' responsibilities

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

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

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

KPMG

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of FocusEducation Limited

We have audited the financial statements on pages 5 to 17.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 August 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP 26/1/05
Chartered Accountants
Registered Auditors

Consolidated profit and loss account
for the year ended 31 August 2004

	Note	**2004 £000**	2003 £000
Turnover		**42,002**	49,055
Net operating costs	*2*	**(41,008)**	(47,253)
Operating profit		**994**	1,802
Interest payable and similar charges	*5*	**(4,890)**	(2,568)
Other interest receivable and similar income	*6*	**3,155**	749
Profit / (loss) on ordinary activities before taxation		**(741)**	(17)
Tax on loss on ordinary activities	*7*	**(17)**	(43)
Retained profit / (loss) for the year	*14*	**(758)**	(60)

The Group has no recognised gains or losses other than the retained profit for the year and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the result as disclosed in the Profit and Loss account and the result on an unmodified historical cost basis.

Consolidated balance sheet

at 31 August 2004

	Note	2004 £000	2003 £000
Current assets			
Debtors: Amounts falling due within one year	9	6,358	1,997
Amounts falling due after more than one year	9	107,911	60,731
		114,269	62,728
Cash at bank and in hand		13,151	24,213
		127,420	86,941
Creditors: Amounts falling due within one year	10	(9,896)	(12,490)
Net current assets		117,524	74,451
Creditors: Amounts falling due after more than one year	11	(117,441)	(74,460)
Provision and contingencies	12	(850)	-
Net assets / (liabilities)		(767)	(9)
Capital and reserves			
Called up share capital	13	101	101
Profit and loss account	14	(868)	(110)
Equity shareholders' funds		(767)	(9)

These financial statements were approved by the board of directors on 6 July 2005 and were signed on its behalf by:

S. Prestbury

Director

Company balance sheet
at 31 August 2004

	Note	**2004 £000**	2003 £000
Fixed asset			
Investments	*8*	**101**	101
Current assets			
Cash at bank and in hand		-	-
Net assets		**101**	101
Capital and reserves			
Called up share capital	*13*	**101**	101
Profit and loss account	*14*	-	-
Equity shareholders' funds		**101**	101

These financial statements were approved by the board of directors on 6 July 2005 and were signed on its behalf by:

Director

Consolidated cash flow statement

for the year ended 31 August 2004

	Note	2004 £000	2003 £000
Reconciliation of operating loss to net cash flow from operating activities			
Operating profit		994	1,802
Increase in debtors		(51,541)	(46,438)
(Decrease)/increase in creditors		(319)	3,251
Net cash outflow from operating activities		(50,866)	(41,385)

Cash flow statement

	Note	2004 £000	2003 £000
Cash flow from operating activities		(50,866)	(41,385)
Returns on investments and servicing of finance	16	(1,689)	(1,776)
Taxation paid		(19)	(41)
Cash outflow before financing		(52,574)	(43,202)
Financing	16	41,512	65,291
(Decrease) / increase in cash in the year		(11,062)	22,089

Reconciliation of net cash flow to movement in net debt

	Note	2004 £000	2003 £000
(Decrease) / increase in cash in the year		(11,062)	22,089
Cash inflow from increase in debt		(41,512)	(65,247)
Change in net debt resulting from cashflows		(52,574)	(43,158)
Amortisation of issue costs		(46)	(43)
Movement in net debt in the year		(52,620)	(43,201)
Net debt at the start of the year		(56,368)	(13,167)
Net debt at the end of the year	17	(108,988)	(56,368)

Reconciliation of movements in shareholders' funds
for the year ended 31 August 2004

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Loss for the financial year	(758)	(60)	-	-
Share capital introduced	-	44	-	44
Net (reduction in)/addition to shareholders' funds	(758)	(16)	-	44
Opening shareholders' (deficit)/funds	(9)	7	101	57
Closing shareholders' (deficit)/funds	(767)	(9)	101	101

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The group has established long term bank facilities for each of the projects, which provide sufficient funds for each project to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. At 31 August 2004, the group had net current assets which allow it to meet current liabilities as they fall due.

No profit and loss account is presented for FocusEducation Limited as permitted by Section 230(4) of the Companies Act 1985. Details of the company profit and loss account for FocusEducation Limited for the financial period is shown in note 14 to these financial statements.

Turnover

Turnover on construction activities represents the value of work done and services rendered, excluding sales and related taxes. Turnover on operational services represents the value of work performed in the year under the concession agreement, together with additional services provided to the authority.

Stocks and work in progress / amounts recoverable under contracts

Costs incurred in the construction of the schools have been accounted for under Financial Reporting Standard ('FRS') 5 Application Note F. Applying the guidance within the Application Note indicates that the project's principal agreements transfer substantially all the risks and rewards of ownership to the appropriate local Council. As such, all construction costs incurred on the project, including interest on finance up to the date of commission and incidental costs, are recorded as amounts recoverable under contracts during the construction phase of the project. Costs are recognised as cost of sales to the extent that they relate to the value of work done in respect of turnover recognised.

On the services commencement date, the amounts outstanding under the contract are transferred from amounts recoverable under contracts into a finance debtor.

Finance lease debtor

Amounts receivable under the concession agreements relating to the school facilities transferred are included under debtors and represent the total amount outstanding under the agreements less unearned interest. Interest receivable is recognised over the period of the contract based on the interest rate implicit in the contracts.

Capitalisation of interest

Loan interest incurred during the construction of the schools is capitalised into the finance debtor.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes *(continued)*

1 Accounting policies *(continued)*

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2 Net operating costs

	2004	2003
	£000	£000
Service costs	1,801	9,417
Lifecycle maintenance charge	893	165
Materials, site and production costs	37,848	33,573
Auditors remuneration - audit fees	43	37
Auditors remuneration – other services (taxation compliance services)	24	-
Other charges	399	4,061
	41,008	47,253

3 Remuneration of directors

	2004	2003
	£000	£000
Recharges in respect of directors services	-	-

None of the directors received emoluments directly from the group.

4 Staff numbers and costs

No staff are directly employed by the group. Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractors service charges.

5 Interest payable and similar charges

	2004	2003
	£000	£000
Interest payable on bank loans	4,844	2,525
Amortisation of issue costs	46	43
	4,890	2,568

During the year £2,689,000 (2003 - £2,525,000) of interest payable has been capitalised as part of the project asset.

Notes *(continued)*

6 Other interest receivable and similar income

	2004 £000	2003 £000
Finance debtor interest receivable	**2,748**	-
Bank interest receivable	**407**	749
	3,155	749

7 Taxation

Analysis of charge in year

	2004 £000	2003 £000
UK corporation tax		
Current tax on income for the year	**17**	43

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2003: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2004 £000	2003 £000
Current tax reconciliation		
Profit / (loss) on ordinary activities before tax	**(741)**	(17)
Current tax at 30%	**(222)**	(5)
Effects of:		
Expenses not deductible for tax purposes (primarily bid costs)	**2**	26
Creation of losses	**237**	-
Adjustment in respect of prior year	**(21)**	-
Taxation in foreign subsidiary at higher rate	**21**	22
Total current tax charge (see above)	**17**	43

Notes *(continued)*

8 Investments

Company	**Shares in subsidiary undertakings 2004 £000**
Cost and net book value	
At beginning and end of the year	101

Shares in subsidiary undertakings relate to the following:

Name of company	**Country of registration**	**Holding**	**Proportion held**
FocusEducation (Lincolnshire) Holdings Limited	England	Ordinary shares	100%
FocusEducation (Newcastle) Holdings Limited	England	Ordinary shares	100%
FocusEducation (NMC) Limited	Ireland	Ordinary shares	100%
FocusEducation (Lambeth) Limited	England	Ordinary shares	100%

The principal activities of the companies are to design, finance, construct, and operate certain new educational facilities under concession agreements with the local council authorities.

9 Debtors

	Group 2004 £000	Group 2003 £000	**Company 2004 £000**	Company 2003 £000
Finance debtors	**57,209**	15,230	-	-
Amounts recoverable on contracts	**53,309**	45,708	-	-
Trade debtors	**1,198**	156	-	-
Other debtors	**2,553**	1,603	-	-
Prepayments and accrued income	-	31	-	-
	114,269	62,728	-	-

The finance debtor and amounts recoverable on contracts include £107,911,000 (2003: £60,731,000) due after more than one year.

Notes *(continued)*

10 Creditors: amounts falling due within one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Senior loan (*see note 11*)	**3,015**	285	-	-
Equity bridge loan (*see note 11*)	**1,640**	5,824	-	-
Subordinated debt (*see note 11*)	**43**	12	-	-
Trade creditors	**2,560**	4,782	-	-
Corporation tax	**43**	45	-	-
Accruals and deferred income	**2,595**	1,542	-	-
	9,896	12,490	-	-

11 Creditors: amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Senior loan	**111,672**	70,525	-	-
Equity bridge loan	**-**	1,805	-	-
Subordinated debt	**5,769**	2,130	-	-
	117,441	74,460	-	-

Analysis of debt:	***Group*** **2004 £000**	*Group* 2003 £000	***Company*** **2004 £000**	*Company* 2003 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	**4,698**	6,121	-	-
Between one and two years	**1,909**	3,187	-	-
Between two and five years	**16,453**	17,762	-	-
In five years or more	**101,902**	56,380	-	-
	124,962	83,450	-	-
Less: issue costs	**(2,823)**	(2,869)	-	-
	122,139	80,581	-	-

The Group has a term loan facility of £18,730,000 due for expiry 28 February 2030 secured by a fixed and floating charge over the assets of the Group. Until 31 August 2003, the rate paid was LIBOR plus a 1.1% margin. This margin changed to 0.75% for a further 5 years, 0.85% for the following 10 years and 0.95% thereafter. The Group has entered into a swap transaction resulting in interest being charged on this loan at a fixed rate of 5.52%.

The Group has a term loan facility of £50,042,021 due for expiry 28 February 2027 secured by a fixed and floating charge over the assets of the group. Until 31 August 2004, the rate paid was LIBOR plus a 1.05% margin. This margin changed to 0.85% for a further 15 years and 0.95% thereafter. The Group has entered into a swap transaction resulting in interest being charged on this loan at a fixed rate of 5.74%.

Notes *(continued)*

11 Creditors: amounts falling due after more than one year *(continued)*

The Group has a term loan facility of €59,550,000 (£41,325,000) due for expiry 19 September 2026 secured by a fixed and floating charge over the assets of the group. This loan is provided equally from 2 lenders, one has an interest rate of EURIBOR plus 0.5% margin for the whole period. For the other lender until 31 August 2004, the rate paid will be EURIBOR plus a 1.0% margin, the margin will change to 0.85% for the following 15 years and 0.95% thereafter. The company has entered into a swap transaction resulting in interest being charged on the loan at a fixed rate of 4.60%.

The Group has a term loan facility of £15,170,000 due for expiry 1 September 2027 secured by a fixed and floating charge over the assets of the group. Until 31 December 2004, the rate paid will be LIBOR plus a 1.1% margin. This margin changes to 0.85% for the following 15 years, and 0.95% thereafter. The company has entered into a swap transaction resulting in interest being charged on this loan at a fixed rate of 5.08%.

The equity bridge loan, which is also secured, expires on 28 February 2005 and incurs interest at LIBOR plus 0.5% margin.

The Subordinated Debt is in respect of unsecured loan notes which have been issued in respect of the Lincolnshire and Newcastle projects. The loan notes are redeemable by 31 August 2032 and bear interest at 11%.

12 Provisions and contingencies

	Lifecycle *maintenance* £000
At beginning of the year	-
Charge to the profit and loss for the year	850
At end of the year	**850**

13 Called up share capital

	2004 £000	2003 £000
Authorised		
Equity: 114,000 ordinary shares of £1 each	**114**	114
Allotted, called up and fully paid		
Equity: 101,000 ordinary shares of £1 each	**101**	101

Notes *(continued)*

14 Reserves

	Company Profit and Loss account £000	**Group Profit and Loss account** £000
At beginning of year	-	(110)
Loss for the year	-	(758)
At end of year	-	(868)

15 Commitments

At 31 August 2004 the Group had authorised and contracted capital commitments of £6,288,000 (2003 - £51,963,000).

16 Analysis of cash flows

	2004 **£000**	2003 £000
Returns on investment and servicing of finance		
Interest payable on borrowings	**(4,844)**	(2,525)
Other interest receivable	**3,155**	749
	(1,689)	(1,776)
Financing		
Increase in bank loans	**41,512**	66,896
Issue costs incurred	-	(1,649)
Issue of ordinary shares	-	44
	41,512	65,291

17 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non cash changes £000	**At end of year** **£000**
Cash in hand, at bank and in hand	24,213	(11,062)	-	**13,151**
Senior loan	(70,810)	(43,831)	(46)	**(114,687)**
Equity bridge loan	(7,629)	5,989	-	**(1,640)**
Subordinated debt	(2,142)	(3,670)	-	**(5,812)**
Net debt	(56,368)	(52,574)	(46)	**(108,988)**

Notes *(continued)*

18 Related party disclosures

Expenditure with related parties	**Relationship**	**Class of Transaction**	**Expenditure 2004 £000**	2003 £000	**Creditor 2004 £000**	2003 £000
Bovis Lend Lease Limited	Subsidiary of a shareholder	Construction & facilities management services	**52,203**	42,748	**7,045**	5,276
Halifax Bank of Scotland (Bank of Scotland)	Holding company of a shareholder	Banking facilities	**6,884**	4,507	**85,490**	79,618