

East Leake Schools Limited
Annual Report and Financial Statements
31 December 2018



East Leake Schools Limited
Annual Report and Financial Statements
Year Ended 31 December 2018

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East Leake Schools Limited

Officers and Professional Advisers

The Board of Directors

Amit Thakrar
Phillip Would

Company Secretary

Infrastructure Managers Limited

Registered Office

10-11 Charterhouse Square
London
EC1M 6EH

Independent Auditors

PricewaterhouseCoopers LLP
Chartered accountant & Statutory Auditors
Level 4
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Bankers

HSBC Bank plc
60 Queen Victoria Street
London
EC4N 4TR

Solicitors

Fenwick Elliott LLP
Aldwych House
71-91 Aldwych
London
WC2B 4HN

East Leake Schools Limited

Directors' Report

Year Ended 31 December 2018

The directors present their report and the audited Annual Report and Financial Statements of East Leake Schools Limited ("the Company") for the year ended 31 December 2018.

Principal Activities

The principal activity of the Company is that of a special purpose vehicle to provide Nottinghamshire County Council with two serviced schools and community leisure facilities. The contract is in year 15 of its term expiring in 2027.

Performance Review

The profit for the financial year, after taxation, amounted to £189,452 (2017: £333,529).

The profit for the financial year will be transferred to reserves.

The directors note the announcement in January 2018 of the liquidation of Carillion plc ("Carillion"). At that time a subsidiary of Carillion plc, Carillion (AMBS) Limited, was engaged by the Company as the facilities manager for the schools. Carillion (AMBS) Limited went into liquidation on 27th April 2018 and the Company's banking covenants stipulate that this is an event of default. The Company has worked with a replacement provider, Mitie PFI Limited ("Mitie"), to ensure continuity of services.

On 1 June 2018, lender consent was received to terminate Carillion (AMBS) Limited and replace with Mitie. Mitie entered into a Letter of Intent to commence provision of Interim Services from 4 June 2018. The replacement FM contract was signed on 16th November 2018.

As a result of the replacement, there is no longer an event of default.

The directors are satisfied with the overall performance of the Company and do not foresee any significant change in the Company's activities in the coming financial year.

Key Performance Indicators

The performance of the Company from a cash perspective is assessed six monthly by the testing of the covenants of the senior debt provider. The key indicator being the debt service cover ratio. The Company has been performing well and has been compliant with the ratio covenants laid out in the Group loan agreement.

Going Concern

As noted in the performance review section above, the Company suffered a contractual event of default under its loan agreement, as a result of the liquidation of its former FM provider.

As the replacement is now in place, there is no longer an event of default and as such, the directors have continued to prepare the financial statements on a basis of Going Concern.

Directors

The directors who served the Company during the year and up to the date of this report were as follows:

Amit Thakrar	(Appointed 18 December 2018)
Phillip Would	(Appointed 18 December 2018)
Michael Canham	(Resigned 18 December 2018)
Natalia Poupard	(Resigned 18 December 2018)

Dividends

Particulars of dividends paid are detailed in note 10 to the financial statements.

East Leake Schools Limited

Directors' Report *(continued)*

Year Ended 31 December 2018

Financial Instruments

Due to the nature of the Company's business, the financial risks the directors consider relevant to this Company is credit, interest rate, cash flow and liquidity risk. The credit risk is not considered significant as the client is a quasi governmental organisation.

Interest rate risk

The financial risk management objectives of the Company are to ensure that financial risks are mitigated by the use of financial instruments. The Company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

Cash Flow and Liquidity risk

Many of the Cash Flow risks are addressed by means of contractual provisions. The Company's liquidity risk is principally managed through financing the Company by means of long-term borrowings.

Qualifying Third Party Indemnity Provisions

The Company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

Small Company Provisions

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

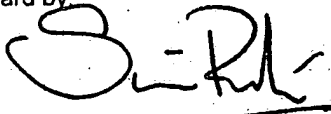
Disclosure of Information to Auditors

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

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors are deemed to have been re-appointed in accordance with section 487 of the Companies Act 2006.

This report was approved by the board of directors on 28 June 2019 and signed by order of the board by:



Infrastructure Managers Limited
Company Secretary

East Leake Schools Limited

Directors' Responsibilities Statement

Year Ended 31 December 2018

The directors are responsible for preparing the Directors' Report and the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Annual Report and Financial Statements for each financial year. Under that law the directors have prepared the Annual Report and Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102), and applicable law).

Under company law the directors must not approve the Annual Report and Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing the Annual Report and Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the Annual Report and Financial Statements; and
- prepare the Annual Report and Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Annual Report and Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

East Leake Schools Limited

Independent Auditors' Report to the Members of East Leake Schools Limited Year Ended 31 December 2018

Report on the Audit of the Financial Statements

Opinion

In our opinion, East Leake Schools Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions Relating to Going Concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, suppliers and the wider economy.

East Leake Schools Limited

Independent Auditors' Report to the Members of East Leake Schools Limited

(continued)

Year Ended 31 December 2018

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

East Leake Schools Limited

Independent Auditors' Report to the Members of East Leake Schools Limited (continued)

Year Ended 31 December 2018

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of This Report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Required Reporting

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to Exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Paul Cheshire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered accountant & Statutory Auditors
Edinburgh

28 June 2019

East Leake Schools Limited
Statement of Comprehensive Income
Year Ended 31 December 2018

	Note	2018 £	2017 £
Turnover	4	1,230,894	1,180,637
Cost of sales		<u>(778,416)</u>	<u>(699,261)</u>
Gross profit		452,478	481,376
Administrative expenses		<u>(332,120)</u>	<u>(188,482)</u>
Operating profit	5	120,358	292,894
Other interest receivable and similar income	7	805,525	856,582
Interest payable and similar expenses	8	<u>(583,087)</u>	<u>(633,911)</u>
Profit before taxation		342,796	515,565
Tax on profit	9	<u>(153,344)</u>	<u>(182,036)</u>
Profit for the financial year		<u>189,452</u>	<u>333,529</u>
Fair value movements on cash flow hedging instruments, net of tax		279,463	289,585
Total comprehensive income for the year		<u>468,915</u>	<u>623,114</u>

All the activities of the Company are from continuing operations.

The notes on pages 11 to 21 form part of the Annual Report and Financial Statements.

East Leake Schools Limited

Statement of Financial Position

As at 31 December 2018

	Note	2018 £	2017 £
Current assets			
Debtors: amounts falling due within one year	11	881,307	816,907
Debtors: amounts falling due after more than one year	11	8,977,215	9,801,362
Cash at bank and in hand		1,850,569	1,328,467
		<u>11,709,091</u>	<u>11,946,736</u>
Creditors: amounts falling due within one year	12	(2,826,719)	(2,336,729)
Net current assets		8,882,372	9,610,007
Total assets less current liabilities		8,882,372	9,610,007
Creditors: amounts falling due after more than one year	13	(6,978,079)	(8,131,032)
Provisions for liabilities			
Taxation including deferred taxation	14	(674,108)	(717,705)
Net assets		1,230,185	761,270
Capital and reserves			
Called up share capital	17	10,000	10,000
Hedging reserve	18	(812,895)	(1,092,358)
Retained earnings	18	2,033,080	1,843,628
Total shareholders' funds		1,230,185	761,270

The Annual Report and Financial Statements were approved by the board of directors and authorised for issue on 28 June 2019, and are signed on behalf of the board by:



Amit Thakrar
Director

Company registration number: 04261326

The notes on pages 11 to 21 form part of the Annual Report and Financial Statements.

East Leake Schools Limited
Statement of Changes in Equity
Year Ended 31 December 2018

	Called up share capital £	Hedging reserve £	Retained earnings £	Total £
At 1 January 2017	10,000	(1,381,943)	1,794,310	422,367
Profit for the financial year			333,529	333,529
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	289,585	—	289,585
Total comprehensive income for the year	—	289,585	333,529	623,114
Dividends paid and payable 10	—	—	(284,211)	(284,211)
Total investments by and distributions to owners	—	—	(284,211)	(284,211)
At 31 December 2017	10,000	(1,092,358)	1,843,628	761,270
Profit for the financial year			189,452	189,452
Other comprehensive income for the year:				
Fair value movements on cash flow hedging instruments, net of tax	—	279,463	—	279,463
Total comprehensive income for the year	—	279,463	189,452	468,915
At 31 December 2018	10,000	(812,895)	2,033,080	1,230,185

Included in the fair value movement on cash flow hedging instruments is £313,940 (2017: £362,860) that was recycled through Interest Payable in the Statement of Comprehensive Income.

The notes on pages 11 to 21 form part of the Annual Report and Financial Statements.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements

Year Ended 31 December 2018

1. General Information

East Leake Schools Limited ("the Company") is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office is 10-11 Charterhouse Square, London, EC1M 6EH.

The principal activity of the Company is that of a special purpose vehicle to provide Nottinghamshire County Council with two serviced schools and community leisure facilities.

The Company's functional and presentation currency is the pound sterling.

2. Statement of Compliance

The individual financial statements of East Leake Schools Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3. Accounting Policies

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed further in the accounting policies.

The accounting policies stated below have been consistently applied to the years presented, unless otherwise stated.

(b) Going concern

As noted in the performance review section in the Directors' Report, the Company suffered a contractual event of default under its loan agreement, as a result of the liquidation of its former FM provider, but the default has now been rectified.

As a result of the replacement, there is no longer an event of default, and as such, the directors have continued to prepare the financial statements on a basis of Going Concern.

(c) Disclosure exemptions

The entity satisfies the criteria of being a small company as defined in FRS 102. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102:

(a) No cash flow statement has been presented for the Company.

The Company is wholly owned by East Leake Schools (Holdings) Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements (continued)

Year Ended 31 December 2018

3. Accounting Policies (continued)

(d) Judgments and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. These estimates and judgments are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Impairment of assets

The carrying value of those assets recorded in the Company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and/or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

(e) Revenue recognition

Turnover represents the services' share of the management services income received by the Company for the provision of a PFI (Private Finance Initiative) asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2018

3. Accounting Policies *(continued)*

(f) Income tax

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

(g) Finance debtor

The Company has taken the transition exemption in FRS 102 Section 35.10(i) that allows the Company to continue the service concession arrangement accounting policies from previous UK GAAP.

The Company is accounting for the concession asset based on the ability to substantially transfer all the risks and rewards of ownership to the customer, with this arrangement the costs incurred by the Company on the design and construction of the assets have been treated as a finance debtor within these financial statements.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements (continued)

Year Ended 31 December 2018

3. Accounting Policies (continued)

(i) Borrowings

Borrowings are recognised at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the Statement of Comprehensive Income over the life of the borrowings. Borrowings with maturities greater than twelve months after the reporting date are classified as non-current liabilities.

(j) Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of Financial Position and the amount of the provision as an expense. Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset.

(k) Financial instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments are subsequently measured at fair value, with any changes recognised in the Statement of Comprehensive Income, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in the Statement of Comprehensive Income immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2018

3. Accounting Policies *(continued)*

Financial instruments *(continued)*

Any reversals of impairment are recognised in the Statement of Comprehensive Income immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

(I) Hedge accounting

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps").

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

4. Turnover

Turnover arises from:

	2018	2017
	£	£
Sale of goods	<u>1,230,894</u>	<u>1,180,637</u>

The whole of the turnover is attributable to the principal activity of the Company wholly undertaken in the United Kingdom.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2018

5. Operating Profit

Operating profit or loss is stated after charging:

	2018	2017
	£	£
Fees payable for the audit of the annual report and financial statements	<u>8,821</u>	<u>8,730</u>

Included in the fee above is £2,066 (2017: £2,000) for the audit of the immediate parent entity East Leake Schools (Holdings) Limited.

6. Particulars of Employees and Directors

The average number of persons employed by the Company during the financial year, including the directors, amounted to nil (2017: nil). The Directors did not receive any remuneration from the Company during the year (2017: £nil).

7. Other Interest Receivable and Similar Income

	2018	2017
	£	£
Interest on cash and cash equivalents	3,671	2,266
Interest received on finance debtor	<u>801,854</u>	<u>854,316</u>
	<u>805,525</u>	<u>856,582</u>

8. Interest Payable and Similar Expenses

	2018	2017
	£	£
Interest on bank loans and overdrafts	409,090	456,128
Interest due to Group undertakings	157,123	159,042
Other interest payable and similar expenses	<u>16,874</u>	<u>18,741</u>
	<u>583,087</u>	<u>633,911</u>

9. Tax on Profit

Major components of tax expense

	2018	2017
	£	£
Current tax:		
UK current tax expense	196,942	219,284
Deferred tax:		
Origination and reversal of timing differences	(48,728)	(42,171)
Impact of change in tax rate	<u>5,130</u>	<u>4,923</u>
Total deferred tax	<u>(43,598)</u>	<u>(37,248)</u>
Tax on profit	<u>153,344</u>	<u>182,036</u>

East Leake Schools Limited

Notes to the Annual Report and Financial Statements (continued)

Year Ended 31 December 2018

9. Tax on Profit (continued)

Reconciliation of tax expense

The tax assessed on the profit for the year is higher than (2017: higher than) the standard rate of corporation tax in the UK of 19% (2017: 19.25%).

	2018 £	2017 £
Profit before taxation	342,796	515,565
Profit by rate of tax	65,131	99,229
Effect of expenses not deductible for tax purposes	83,083	77,884
Impact of change in tax rate	5,130	4,923
Total tax charge	153,344	182,036

10. Dividends

Dividends paid during the year (excluding those for which a liability existed at the end of the prior year):

	2018 £	2017 £
Interim dividend of £nil (2018: £28.42) per ordinary share.	–	284,211

11. Debtors

Debtors amounts falling due within one year are as follows:

	2018 £	2017 £
Prepayments and accrued income	39,785	43,657
Finance debtor	841,522	773,250
	881,307	816,907

Debtors amounts falling due after more than one year are as follows:

	2018 £	2017 £
Deferred tax asset	166,497	223,736
Finance debtor	8,810,718	9,577,626
	8,977,215	9,801,362

Finance Debtor

The movement in the finance debtor is analysed as follows:

	2018 £	2017 £
At beginning of year	10,350,876	10,988,160
Additions	74,648	73,878
Repayments	(773,284)	(711,162)
At end of year	9,652,240	10,350,876

East Leake Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2018

12. Creditors: amounts falling due within one year

	2018	2017
	£	£
Bank loans and overdrafts	737,466	685,210
Trade creditors	173,642	25,043
Amounts owed to Group undertakings	324,352	84,781
Accruals and deferred income	1,339,777	1,263,349
Corporation tax	114,399	174,019
Taxation and social security	93,523	79,082
Other creditors	43,560	25,245
	<u>2,826,719</u>	<u>2,336,729</u>

Amounts owed to Group undertakings consists of subordinated loan notes (£156,084), subordinated loan interest (£157,123) and group tax relief (£11,145). The group tax relief is not interest bearing, unsecured and is repayable on demand. See note 13 for further details on subordinated loan notes.

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

	2018	2017
	£	£
Bank loans and overdrafts	4,883,550	5,621,015
Amounts owed to Group undertakings	1,115,137	1,193,924
Derivative financial liability	979,392	1,316,093
	<u>6,978,079</u>	<u>8,131,032</u>

Included within creditors: amounts falling due after more than one year is an amount of £2,542,192 (2017: £3,482,539) in respect of liabilities payable or repayable by instalments which fall due for payment after more than five years from the reporting date.

Bank loan

There is one term loan facility drawn down at 31 December 2018. The tenure of the Term Loan from NIBC Bank NV is for 23.5 years maturing 1 February 2026 and repayable in 47 semi-annual instalments commencing 30 June 2003. Interest charged on amounts drawn under the facility is based on the floating LIBOR rate. The term loan facility has been syndicated to a consortium of banks. The current loan balance of £5,690,563 (2017: £6,392,646) is shown within creditors net of issue costs of £69,547 (2017: £86,421).

All amounts drawn under the facilities are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the company and by a floating charge over the Company's undertakings and assets.

Amounts owed to Group undertakings

The subordinated loan notes are to mature in full on 30 June 2027 and are repayable in semi-annual instalments provided certain conditions are met and relevant consents are given. In addition the Company may redeem all or part of the loan notes at anytime subject to the same conditions and consents as for regular repayments. The loan notes are unsecured and bear interest at 12% and interest is payable semi-annually.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements (continued)

Year Ended 31 December 2018

14. Provisions for Liabilities

	Deferred tax (note 15) £
At 1 January 2018	717,706
Deferred tax	(43,598)
At 31 December 2018	<u>674,108</u>

15. Deferred Tax

The deferred tax included in the statement of financial position is as follows:

	2018 £	2017 £
Included in debtors (note 11)	166,497	223,736
Included in provisions for liabilities (note 14)	(674,108)	(717,705)
	<u>(507,611)</u>	<u>(493,969)</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	2018 £	2017 £
Accelerated capital allowances	550,532	584,785
Short term timing differences	123,576	132,920
Derivative financial instruments	(166,497)	(223,736)
	<u>507,611</u>	<u>493,969</u>

The net deferred tax liability expected to reverse in 2019 is £77,753. This primarily relates to the reversal of timing differences on capital allowances offset and short term timing differences.

	2018 £
Opening balance	493,969
Movement through the profit or loss	(43,598)
Movement through other comprehensive income	57,240
Closing balance	<u>507,611</u>

16. Financial Instruments

The carrying amount for each category of financial instrument is as follows:

	2018 £	2017 £
Financial assets that are debt instruments measured at amortised cost		
Financial assets that are debt instruments measured at amortised cost	<u>9,652,241</u>	<u>10,350,876</u>
Financial liabilities measured at amortised cost		
Financial liabilities measured at amortised cost	<u>7,234,147</u>	<u>7,609,973</u>

East Leake Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2018

16. Financial Instruments *(continued)*

The fair values of the interest rate swap have been calculated by discounting the fixed cash flows at forecasted forward interest rates over the term of the financial instrument. The bank borrowing and finance debtor are both held at amortised cost.

Hedge accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates. The Company's use of derivative financial instruments is described below.

Interest rate swaps

The Company has entered into interest rate swaps with third parties for the same notional amount as all of the Company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those loans for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan/swap arrangements. The interest rate swaps were entered into on 18 April 2002 and expire on 30 June 2026.

The Directors believe that the hedging relationship between the interest rate swaps and related variable rate bank loans meet the criteria set out in FRS 102 section 12.18 and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

Carrying value of all derivative financial instruments

All of the Company's derivative financial instruments are carried at fair value. The net carrying value of all derivative financial instruments at 31 December 2018 amounted to net liabilities of £979,392 (2017: £1,316,093) comprising solely of interest rate swaps. All of the movements during the year in the fair value of these derivative financial instruments have been recorded in the cash flow hedge reserve amounting to a credit of £336,701 (2017: £348,898).

17. Called Up Share Capital

Issued, called up and fully paid

	2018		2017	
	No.	£	No.	£
Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>

18. Reserves

The hedging reserve records fair value movements on cash flow and net investment hedging instruments.

Retained earnings records retained earnings and accumulated losses.

19. Related Party Transactions

The Company is wholly owned by East Leake Schools (Holdings) Limited and has taken advantage of the exemption in section 33 of FRS 102 'Related Party Disclosures', that allows it not to disclose transactions with wholly owned members of a group.

East Leake Schools Limited

Notes to the Annual Report and Financial Statements *(continued)*

Year Ended 31 December 2018

20. Controlling Party

The immediate parent undertaking is East Leake Schools (Holdings) Limited.

The Company is a wholly owned subsidiary of East Leake Schools (Holdings) Limited, a company which is incorporated in England and Wales. In the opinion of the Directors, the ultimate controlling party is Équitix Fund V LP.