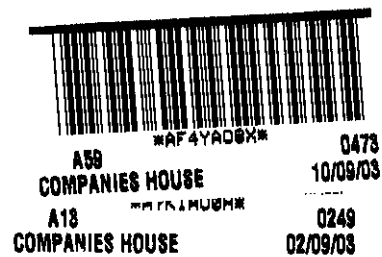


**PYRAMID SCHOOLS TAMESIDE
(HOLDINGS) LIMITED**

Report and Financial Statements

31 March 2003

**Deloitte & Touche LLP
London**



PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Company balance sheet	7
Consolidated cash flow statement	8
Notes to the accounts	9

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

F Shakshir
R D Vince
V Dickinson
G Birley-Smith

SECRETARY

M Lewis

REGISTERED OFFICE

Interserve House
Ruscombe Park
Twyford
Reading
Berkshire RG10 9JU

BANKERS

Bank of Scotland
155 Bishopsgate
London
EC2M 3UB

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the period from 1 January 2003 to 31 March 2003.

ACTIVITIES AND FUTURE PROSPECTS

The company is a holding company with one wholly owned subsidiary undertaking, Pyramid Schools (Tameside) Limited. Pyramid Schools (Tameside) Limited undertakes a Private Finance Initiative (PFI) concession contract to design, build, finance and operate educational establishments in Hattersley. At 31 March 2003 the two primary schools had been handed over to the Tameside Metropolitan Borough Council and the secondary school was still in construction.

The directors anticipate that the project will transfer from the construction stage to the operational stage during the second half of 2003.

ACCOUNTING REFERENCE DATE

The company changed its accounting reference date from 31 December to 31 March on 17 May 2002.

RESULTS

The results of the group are as set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (2002: £nil).

DIRECTORS

The directors who served during the period and who remain directors at the date of this report are set out below:

F Shakshir
R D Vince
V H Dickinson
G Birley-Smith

None of the directors had any interests in the issued share capital of the company or any other UK group company at 31 March 2003 or 31 December 2002.

AUDITORS

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

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



M Lewis
Secretary
15 August 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the group 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; and
- prepare the 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 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 are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

We have audited the financial statements of Pyramid Schools Tameside (Holdings) Limited for the period from 1 January 2003 to 31 March 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable 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 law regarding directors' remuneration and transactions with the company and the group 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 or material inconsistencies with the financial statements.

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 to the circumstances of the company and the group, 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 the affairs of the company and the group as at 31 March 2003 and of the profit for the group for the period from 1 January 2003 to 31 March 2003 and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

15 August 2003

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Period from 1 January 2003 to 31 March 2003

	Note	Period from 1 January to 31 March 2003 £'000	Period from 6 November 2001 to 31 December 2002 £'000
TURNOVER		407	458
Cost of sales		(104)	(106)
GROSS PROFIT		303	352
Administrative expenses		(311)	(1,344)
OPERATING LOSS	2	(8)	(992)
Net interest payable and similar charges	3	-	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(8)	(992)
Tax credit on loss on ordinary activities	4	300	-
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED FOR THE PERIOD	12	292	(992)

All activities derive from continuing operations.

There are no recognised gains and losses for the period other than items shown in the profit and loss account. Accordingly, no separate statement of recognised gains and losses has been presented.

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The result of the company in the year was £nil.

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

CONSOLIDATED BALANCE SHEET

31 March 2003

	Note	31 March 2003 £'000	31 December 2003 £'000
CURRENT ASSETS			
Stock	5	17,466	15,449
Debtors – due within one year	7	208	37
Debtors – due after one year	7	518	
Cash at bank and in hand		2,092	460
		<u>20,284</u>	<u>15,946</u>
CREDITORS: amounts falling due within one year	8	<u>(1,296)</u>	<u>(899)</u>
NET CURRENT ASSETS AND TOTAL ASSETS LESS CURRENT LIABILITIES		<u>18,988</u>	<u>15,047</u>
CREDITORS: amounts due after one year	9	(19,464)	(16,033)
PROVISIONS FOR LIABILITIES AND CHARGES	10	<u>(218)</u>	<u>-</u>
NET LIABILITIES		<u>(694)</u>	<u>(986)</u>
CAPITAL AND RESERVES			
Called up share capital	11	6	6
Profit and loss account - deficit		<u>(700)</u>	<u>(992)</u>
EQUITY SHAREHOLDERS' DEFICIT	12	<u>(694)</u>	<u>(986)</u>

These financial statements were approved by the Board of Directors on 15 August 2003.

Signed on behalf of the Board of Directors



VH Dickinson

Director

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

COMPANY BALANCE SHEET

31 March 2003

	Note	31 March 2003 £'000	31 December 2003 £'000
FIXED ASSETS			
Investment in subsidiary undertaking	6	2,088	6
		<u>2,088</u>	<u>6</u>
CREDITORS: amounts falling due after more than one year	9	(2,082)	-
		<u>(2,082)</u>	<u>-</u>
NET ASSETS		<u>6</u>	<u>6</u>
CAPITAL AND RESERVES			
Called up share capital	11	6	6
		<u>6</u>	<u>6</u>

These financial statements were approved by the Board of Directors on 15 August 2003.

Signed on behalf of the Board of Directors



VH Dickinson

Director

CONSOLIDATED CASH FLOW STATEMENT

Period from 1 January 2003 to 31 March 2003

	Note	Period from 1 January to 31 March 2003 £'000	Period from 6 November 2001 to 31 December 2002 £'000	
Net cash outflow from operating activities	13	(1,706)	(15,305)	
Returns on investments and servicing of finance				
Interest paid		(249)	(460)	
Interest received		2	12	
		(247)	(448)	
Net cash outflow before financing		(1,953)	(15,753)	
Financing				
Issue of shares		-	6	
Secured senior loans		1,503	16,207	
Subordinated loans		2,082	-	
		3,585	16,213	
Increase in cash in the period		1,632	460	
(i) Reconciliation of net cash flow to movement in net debt				
Increase in cash in the period		1,632	460	
Cash inflow from loan financing		(3,585)	(16,207)	
		(1,953)	(15,747)	
Other non-cash changes		(6)	-	
Net debt brought forward		(15,747)	-	
Net debt at 31 March 2003	Note (ii)	(17,706)	(15,747)	
(ii) Analysis of net debt				
	31 December 2002 £'000	Cash flows £'000	Non-Cash flows £'000	31 March 2003 £'000
Cash at bank	460	1,632	-	2,092
Cash inflow from secured senior loans:				
Repayable within one year	(174)	174	(334)	(334)
Repayable after more than one year	(16,033)	(3,759)	328	(19,464)
	(15,747)	(1,953)	(6)	(17,706)

NOTES TO THE ACCOUNTS

Period from 1 January 2003 to 31 March 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted by the directors are described below. They have been applied consistently throughout the current and the preceding financial periods.

Accounting convention

The financial statements are prepared under the historical cost convention.

Group financial statements

The group accounts consolidate the accounts of the company and its subsidiary undertaking.

Turnover

The group's turnover is derived from activities in the United Kingdom and comprises the total invoice value, excluding VAT, of services rendered.

Accounting for PFI contracts (stock)

During the period of construction, costs incurred as a direct consequence of financing, designing and constructing the schools, including finance costs, are shown as work in progress. On completion, credit is taken for the deemed sale, which is recorded within turnover. The construction expenditure and associated costs are reallocated to cost of sales. Amounts receivable are classified as a financial asset receivable (PFI contract).

Revenues received from the customer are apportioned between:

- capital repayments;
- finance income; and
- operating revenue.

Investments

Investments held as fixed assets are stated at cost plus loans, less any provision for impairment in value.

Deferred 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 or income and expenditure in taxation computations in periods different from those in which they 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.

Derivative financial instruments

The group 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.

2. OPERATING LOSS

The company and group had no employees during the year other than the directors (2002: none). Emoluments paid to related parties for directors' services to the company were £2,500 (2002: £7,500).

The audit fee for the group and the company in the current and preceding period was borne by a shareholder.

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Period from 1 January 2003 to 31 March 2003

3. NET INTEREST PAYABLE AND SIMILAR CHARGES

	Period from 1 January to 31 March 2003 £'000	Period from 6 November 2001 to 31 December 2002 £'000
Interest receivable and similar income:		
Bank interest	2	12
Amount capitalised	(2)	(12)
Net interest receivable	-	-
Interest payable and similar charges:		
SWAPS debt	74	126
Senior debt	204	334
	278	460
Amount capitalised	(278)	(460)
Net interest payable	-	-

4. TAX ON LOSS ON ORDINARY ACTIVITIES

	Period from 1 January to 31 March 2003 £'000	Period from 6 November 2001 to 31 December 2002 £'000
United Kingdom corporation tax at 30% (2002: 30%)	85	-
Adjustment in respect of prior periods	433	-
Current tax credit for the period (see below)	518	-
Deferred tax:		
Timing differences, origination and reversal	(83)	-
Adjustment in respect of prior periods	(135)	-
Total tax credit for the period	300	-
Factors affecting the tax credit in the year:		
Loss on ordinary activities before tax	(8)	(992)
Tax credit on loss on ordinary activities before tax at standard rate of 30% (2002: 30%)	2	298
Interest capitalised	83	135
Tax losses unrelieved	-	(433)
Adjustments in respect of prior periods	433	-
Current tax credit for the period	518	-

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Period from 1 January 2003 to 31 March 2003

5. STOCK

	Group	
	31 March 2003 £'000	31 December 2002 £'000
Work in progress (PFI contract)		
Cost and net book value brought forward	15,449	-
Additions in the period	2,017	15,449
Cost and net book value carried forward	17,466	15,449

Cumulative finance costs capitalised to date and included in cost amount to £749,000 (2002: £467,000).

6. INVESTMENT IN SUBSIDIARY UNDERTAKING

	Company	
	31 March 2003 £'000	31 December 2002 £'000
Shares at cost:		
Balance brought forward	6	6
Subordinated debt issued in period	2,082	-
Balance as year end	2,088	6

The company's subsidiary undertaking, Pyramid Schools (Tameside) Limited, is wholly owned and incorporated in Great Britain. Its activity is to provide design, build, finance and operate the services under a Private Finance Initiative concession contract.

7. DEBTORS

	Group	
	31 March 2003 £'000	31 December 2002 £'000
Due within one year:		
Prepayments and other debtors	3	37
VAT receivable	205	-
	208	37
Due after one year:		
Consortium relief receivable	518	-
Total debtors	726	37

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Period from 1 January 2003 to 31 March 2003

8. CREDITORS: AMOUNTS DUE WITHIN ONE YEAR

	Group	
	31 March 2003	31 December 2002
	£'000	£'000
Senior secured loan (net of unamortised issue costs)	334	174
Trade creditors	617	69
Other tax and social security	-	17
Accruals and deferred income	345	639
	<u>1,296</u>	<u>899</u>

9. CREDITORS: AMOUNTS DUE AFTER ONE YEAR

	Group		Company	
	31 March 2003	31 December 2002	31 March 2003	31 December 2002
	£'000	£'000	£'000	£'000
Subordinated loan stock - repayable after five years	2,082	-	2,082	-
Senior secured loan:				
Repayable between two and five years	1,713	1,621	-	-
Repayable after five years	16,039	14,788	-	-
	<u>19,834</u>	<u>16,409</u>	<u>2,082</u>	<u>-</u>
Less: unamortised issue costs	(370)	(376)	-	-
	<u>19,464</u>	<u>16,033</u>	<u>2,082</u>	<u>-</u>

The secured senior loan represents amounts borrowed under a facility agreement with a bank. The loan bears interest at a margin over LIBOR and is repayable in instalments between 2003 and 2028. The loan is secured by fixed and floating charges over the property, assets and rights of the company, and has certain covenants attached.

The subordinated loan stock represents loan notes issued by a bank and a shareholder. The loan notes bear interest at 12.75% and repayment is due between September 2029 and September 2030.

In order to hedge against interest variations on the loan, the company has entered into an interest rate swap agreement with a bank whereby at monthly intervals sums are exchanged reflecting the difference between floating and fixed interest rates calculated on a predetermined notional principal amount.

10. PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2003
	£'000
Deferred taxation:	
Balance at 1 January 2003	-
Provided in the period - short term timing differences	218
	<u>218</u>
Balance at 31 March 2003	<u>218</u>

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Period from 1 January 2003 to 31 March 2003

11. CALLED UP SHARE CAPITAL

	31 March 2003 £'000	31 December 2002 £'000
Authorised, called up, allotted and fully paid: 6,000 ordinary shares of £1 each	6	6

12. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' DEFICIT

	31 March 2003 £'000	31 December 2002 £'000
Equity shareholder's deficit brought forward	(986)	-
Profit/(loss) for the period	292	(992)
Shares issued during period	-	6
Equity shareholders' deficit carried forward	(694)	(986)

There were no other movements on reserves other than the profit for the period as stated above.

13. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Period from 1 January to 31 March 2003 £'000	Period from 6 November 2001 to 31 December 2002 £'000
Operating loss	(8)	(992)
Expenditure on work in progress (PFI contract)	(2,000)	(14,377)
Decrease/(Increase) in debtors	32	(37)
Increase in creditors	270	101
Net cash outflow from operating activities	(1,706)	(15,305)

14. CONTROLLING PARTIES

In the directors' opinion there is no ultimate controlling party. The ultimate parent companies are Interserve Plc and Bank of Scotland.

PYRAMID SCHOOLS TAMESIDE (HOLDINGS) LIMITED

NOTES TO THE ACCOUNTS

Period from 1 January 2003 to 31 March 2003

15. RELATED PARTY TRANSACTIONS

Parties	Services	Amounts paid during the period to 31 March 2003 £'000	Amounts payable at 31 March 2003 £'000	Amounts paid during the period to 31 December 2002 £'000	Amounts payable at 31 December 2002 £'000
Interserve Plc and its subsidiary undertakings	Construction and management services	4,506	364	15,210	692
Bank of Scotland	Services	-	-	248	-

Amounts payable at 31 March 2003 and 31 December 2002 are included within trade creditors and accruals and deferred income.

The company has taken advantage of the exemptions in FRS 8 "Related Party Disclosures" not to disclose transactions with group undertakings.