

Registered in England No: 4364914

Investors in the Community (Harrow Schools) Limited

ANNUAL REPORT

FOR THE PERIOD ENDED 31 October 2004



Investors in the Community (Harrow Schools) Limited

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Investors in the Community (Harrow Schools) Limited

Directors' Report for the period ended 31 October 2004

The directors present their report and the audited financial statements of the company for the period ended 31 October 2004.

Principal activity and business review

The principal activity of the Company is the design, construction, and facilities management operation of three schools on two sites under a private finance initiative ("PFI") with London Borough of Harrow.

The directors have reviewed the activities of the business for the period and the position as at 31 October 2004 and consider them to be satisfactory.

Results and dividends

The period under review is for a ten month period to 31 October 2004 due to the accounting reference date being shortened.

The trading results for the period under review and the company's financial position at 31 October 2004 are shown in the attached financial statements.

The directors do not recommend the payment of a dividend for the period ended 31 October 2004 (2003: £nil).

Directors and their interests in shares of the company

The directors of the Company who held office during the period and to the date of this report are listed below:

A S Robertson	(resigned 17 November 2004)
T B Symes	(appointed 20 December 2004)
D H S Toplas	

None of the directors held any disclosable beneficial interests in the Company at 31 October 2004, or at any time during the period.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution to re-appoint KPMG LLP as the company's auditors will be put to the forthcoming Annual General Meeting.

Registered office:
6-8 Old Bond Street
LONDON
W1S 4PH

By Order of the Board


D H S Toplas
Director

Approved by the directors on  May 2005.

Investors in the Community (Harrow Schools) Limited

Directors' Responsibilities

for the period ended 31 October 2004

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 at the end of the period and of the profit or loss for the period then ended.

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. The directors 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.

Investors in the Community (Harrow Schools) Limited

Independent auditors' report to the members

We have audited the financial statements on pages 4 to 14.

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

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility, 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 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 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 as at 31 October 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP
Accountants and Registered Auditors
London, England

16 May 2005

Investors in the Community (Harrow Schools) Limited

Profit and loss account for the period ended 31 October 2004

	Notes	10 months ended 31 October 2004 £	Year ended 31 December 2003 £
Turnover	2	4,219,846	5,124,388
Cost of sales		<u>(4,216,614)</u>	<u>(5,124,388)</u>
Operating profit	3	3,232	-
Interest receivable	6	66,276	3,611
Interest payable and similar charges	7	<u>(552,601)</u>	<u>(149,094)</u>
Loss on ordinary activities before taxation		(483,093)	(145,483)
Tax on loss on ordinary activities	8	<u>144,928</u>	<u>43,581</u>
Loss for the financial period		(338,165)	(101,902)
Balance brought forward		<u>(101,902)</u>	<u>-</u>
Balance carried forward		<u><u>(440,067)</u></u>	<u><u>(101,902)</u></u>

All results are in respect of continuing activities.

The company has no recognised gains or losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.

There are no differences between the amounts reported in the profit and loss account and their historical cost equivalents.

The period under review is for a ten month period to 31 October 2004.


The notes on pages 7 to 14 form part of these accounts.

Investors in the Community (Harrow Schools) Limited

Balance sheet

as at 31 October 2004

	Notes	2004 £	2003 £
Deferred taxation	9	188,509	43,581
Current assets			
Debtors:	10		
Amounts falling due within one year		509,536	653,461
Amounts falling due after one year		9,148,935	5,086,058
		9,658,471	5,739,519
Cash at bank and in hand	11	940,193	1,377,727
		10,598,664	7,117,246
Creditors: amounts falling due within one year	12	(1,038,547)	(1,050,459)
Net current assets		9,560,117	6,066,787
Total assets less current liabilities		9,748,626	6,110,368
Creditors: amounts falling due after one year	13	(10,163,693)	(6,187,270)
Net liabilities		(415,067)	(76,902)
Capital and reserves			
Called up share capital	14	12,500	12,500
Share premium reserve	15	12,500	12,500
Profit and loss account		(440,067)	(101,902)
Equity shareholders' deficit	16	(415,067)	(76,902)

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


D H S Toplas
Director

Investors in the Community (Harrow Schools) Limited

Cash flow statement

for the period ended 31 October 2004

		10 months ended 31 October 2004	Year ended 31 December 2003
		£	£
Operating profit		3,232	-
Increase in debtors		(3,918,952)	(5,739,517)
(Decrease) / increase in creditors		(79,989)	1,118,536
Net cash outflow from operating activities		(3,995,709)	(4,620,981)
Returns on investments and servicing of Finance			
Interest received		66,276	3,611
Interest paid		(543,518)	(145,461)
		<u>(477,242)</u>	<u>(141,850)</u>
Cash outflow before financing		(4,472,951)	(4,762,831)
Financing			
Increase in bank loans		4,035,417	5,096,536
Issue of ordinary share capital		-	24,998
Issue of loan stock		-	1,346,000
Loan issue expenses		-	(326,976)
		<u>4,035,417</u>	<u>6,140,558</u>
(Decrease) / increase in cash in the period		<u>(437,534)</u>	<u>1,377,727</u>
Reconciliation of net cash flow to movement in net debt			
(Decrease) / increase in cash in the period	17	(437,534)	1,377,727
Cash inflow from increase in debt		<u>(4,035,417)</u>	<u>(6,442,537)</u>
Change in net debt resulting from cashflows		(4,472,951)	(5,064,810)
Net debt at beginning of period		<u>(5,064,810)</u>	<u>-</u>
Net debt at end of period	17	<u>(9,537,761)</u>	<u>(5,064,810)</u>

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

1. Accounting policies

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

Basis of preparation

These financial statements have been prepared on a going concern basis having regard to a confirmation given by IIC Projects Limited (formerly Mill Partnerships Limited) that it undertakes to provide financial and other support to the Company for at least the next twelve months from the date on which the balance sheet was signed off and thereafter for the foreseeable future, to enable it to continue to trade and to meet its liabilities as they fall due for payment.

These financial statements have been prepared under the historical cost convention, the accounting policies set out below, and in accordance with applicable accounting standards.

Turnover

Turnover, which excludes Value Added Tax, represents work done and services rendered.

Amounts recoverable on contract and finance debtor

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 London Borough of Harrow. As such, all construction costs incurred on the project, including incidental costs, are recorded as amounts recoverable on contract during the construction phase of the project. Costs are recognised as cost of sales to the extent they relate to the value of the work done in respect of turnover recognised.

Upon becoming operational, the amounts recoverable on contract are transferred to finance debtor. During the operational phase, income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income which relate to facilities management services is included within turnover.

Interest

Interest costs are expensed to profit and loss account when incurred.

Taxation

The charge for taxation is based on the profit for the period 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.

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

2. Analysis of turnover

	2004 £	2003 £
Construction income	4,062,878	5,086,058
Facilities management income	156,968	38,330
	<u>4,219,846</u>	<u>5,124,388</u>

All turnover originates in the United Kingdom.

3. Operating profit

Operating profit is stated after charging:

	2004 £	2003 £
Auditors' remuneration		
- as auditors	10,000	2,000
- taxation services	-	20,000
- accounting advice	-	7,800
	<u>-</u>	<u>29,800</u>

4. Directors remuneration

The directors received no emoluments in respect of their services to the company during the period (2003: Nil).

5. Particulars of employees

The company had no employees during the period (2003: Nil).

6. Interest receivable

	2004 £	2003 £
Finance debtor interest receivable	57,822	-
Bank interest receivable	8,454	3,611
	<u>66,276</u>	<u>3,611</u>

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

7. Interest payable and similar charges

	2004	2003
	£	£
Bank fees payable	29,783	26,081
Interest on bank loan	366,508	65,835
Interest on loan stock	147,227	53,545
Amortisation of issue costs	9,083	3,633
	<u>552,601</u>	<u>149,094</u>

8. Tax on loss on ordinary activities

	2004	2003
	£	£
(a) Tax on loss on ordinary activities		
United Kingdom corporation tax at 30% (2003: 30%)	-	-
Deferred taxation (note 9)	144,928	43,581
	<u>144,928</u>	<u>43,581</u>

(b) Factors affecting the tax charge for the current period

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

Current tax reconciliation	2004	2003
	£	£
Loss on ordinary activities before tax	(483,093)	(145,483)
Current tax at 30%	(144,928)	(43,645)
Effects of:		
Deferred taxation (refer to note 9)	144,928	43,581
Expenses not deductible for tax purposes	-	64
Total current tax charge	<u>-</u>	<u>-</u>

(c) Factors that may affect future tax charges

The effective rate of taxation will vary as a result of losses carried forward to offset future profits.

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

9. Deferred taxation

	2004	2003
	£	£
Balance at beginning of period	43,581	-
Losses carried forward	144,928	43,581
	<hr/>	<hr/>
Balance at end of period	188,509	43,581
	<hr/>	<hr/>

10. Debtors

	2004	2003
	£	£
Trade debtors	11,092	29,373
Amounts recoverable on contract	5,199,344	5,086,058
Finance debtor	3,949,591	-
Other debtors	373,022	518,707
Prepayments and accrued income	125,422	105,381
	<hr/>	<hr/>
	9,658,471	5,739,519
	<hr/>	<hr/>

Debtors include amounts recoverable on contracts of £5,199,344 (2003: £5,086,058) due after more than one year.

Debtors include finance debtor of £3,949,591 (2003: £ nil) due after more than one year.

11. Cash at bank

Cash at bank includes the construction bank account with Nationwide Building Society having a balance of £907,390 (2003: £1,377,200). Withdrawals from this bank account are restricted to items set out in the Credit Agreement with Nationwide Building Society and the Company must satisfy certain requirements before being permitted to withdraw any amounts from this bank account.

12. Creditors: Amounts falling due within one year

	2004	2003
	£	£
Trade creditors	613,054	771,753
Amounts due to fellow subsidiary undertakings	-	142,660
Retentions	152,501	68,079
Accruals and deferred income	272,992	67,967
	<hr/>	<hr/>
	1,038,547	1,050,459
	<hr/>	<hr/>

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

13. Creditors: Amounts falling due after one year

	2004	2003
	£	£
Retentions	-	68,077
Bank loan	9,131,954	5,096,537
Loan stock	1,346,000	1,346,000
	<hr/>	<hr/>
	10,477,954	6,510,614
Issue costs	(314,261)	(323,344)
	<hr/>	<hr/>
	10,163,693	6,187,270
	<hr/>	<hr/>

The Company has undrawn committed borrowing facilities of £6,380,046 (2003:£10,415,464) expiring 31 August 2033.

The bank loan has a fixed interest rate of 5.19% with a margin of 0.9% until 1 March 2006, and 0.85% thereafter. The bank loan is secured, in favour of Nationwide Building Society, with fixed and floating charges over the Company and all of its property and assets, present and future, including goodwill, book debts, uncalled capital, buildings, fixtures, and fixed plant and machinery. There is also a legal mortgage of shares owned in the Company by its shareholders in favour of Nationwide Building Society as security for the payment of all obligations and liabilities owed by the Company to Nationwide.

The loan stock has an interest coupon of 12%. The loan stock and any other liabilities owed by the Company to Merchant Place School Partnership are secured by way of a second ranking legal mortgage of shares owned in the Company by Mill Group Limited in favour of Merchant Place School Partnership.

	2004	2003
	£	£
Debt can be analysed as falling due as follows:		
In one year or less	-	-
Between one and two years	157,708	-
Between two and five years	1,073,671	933,902
In five years or more	9,246,575	5,508,635
	<hr/>	<hr/>
	10,477,954	6,442,537
Issue costs	(314,261)	(323,344)
	<hr/>	<hr/>
	10,163,693	6,119,193
	<hr/>	<hr/>

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

14. Called up share capital

Authorised share capital:	2004		2003	
	Number	£	Number	£
Ordinary shares of £0.50 (2003: £0.50) each	50,000	25,000	50,000	25,000
	<u>50,000</u>	<u>25,000</u>	<u>50,000</u>	<u>25,000</u>
Allotted, called up and fully paid:	2004		2003	
	Number	£	Number	£
Ordinary shares of £0.50 (2003: £0.50) each	25,000	12,500	25,000	12,500
	<u>25,000</u>	<u>12,500</u>	<u>25,000</u>	<u>12,500</u>

15. Share premium reserve

	2004	2003
	£	£
As at beginning of period	12,500	-
Premium on issue of ordinary equity shares	-	12,500
	<u>-</u>	<u>12,500</u>
As at end of period	<u>12,500</u>	<u>12,500</u>

16. Reconciliation of movements in shareholders' deficit

	2004	2003
	£	£
Loss for the financial period	(338,165)	(101,902)
Opening shareholders' deficit	(76,902)	2
Increase in share capital	-	12,498
Premium on issue of share capital	-	12,500
	<u>-</u>	<u>12,500</u>
Closing shareholders' deficit	<u>(415,067)</u>	<u>(76,902)</u>

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

17. Analysis of net debt

	At 1 January 2004 £	Cashflow £	At 31 October 2004 £
Cash in hand, at bank	1,377,727	(437,534)	940,193
Debt falling due after one year	(6,442,537)	(4,035,417)	(10,477,954)
	<u>(5,064,810)</u>	<u>(4,472,951)</u>	<u>(9,537,761)</u>

18. Commitments

Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2004 £	2003 £
Contracted	<u>5,871,246</u>	<u>9,733,066</u>

19. Related party transactions

During the previous period, the company had transactions in the ordinary course of business with companies which are related parties by virtue of them being under the common ultimate control of Mill Group UK Holdings Limited. Outstanding balances at the previous period end with these companies have been separately disclosed in the financial statements, as balances owing to or from fellow subsidiary undertakings.

Details of these transactions and any other related party transactions are set out below:

Related party	Relationship	Class of transaction	Expenditure		Creditor/ (Debtor)	
			2004 £	2003 £	2004 £	2003 £
Mill Asset Management Group Limited	Fellow wholly owned subsidiary of Mill Group UK Holdings Limited.	Sponsor fees	-	389,000	-	-
		Recharge of bid costs	-	426,201	-	-
		Reimbursement of costs	-	-	-	142,660
Merchant Place School Partnership	100% holder of loan stock and 20% shareholder.	Loan stock	-	-	-	1,346,000

Investors in the Community (Harrow Schools) Limited

Notes to the financial statements for the period ended 31 October 2004

20. Ultimate controlling party

The immediate parent company is IIC Projects Limited (formerly Mill Partnerships Limited), which is registered in England and Wales.

The ultimate parent company is Mill Group UK Holdings Limited, which is incorporated in the British Virgin Islands.