

FocusEducation (Newcastle) Limited

**Directors' report and financial
statements**

Registered number 04402652

16 month period ended 31 December 2006

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Company information

Executive Director

Martin John Coleman (appointed 5 April 2006)

Non Executive Directors

Stephen Hockaday

Michael Edward Davis

Michael Andrew Donn

Kenneth William Gillespie

Company Secretary

Alison Louise Mitchell

Registered Office

3rd Floor, The Venus

1 Old Park Lane

Trafford

Manchester

M41 7HG

Registered Auditors

KPMG Audit Plc

St James' Square

Manchester

M2 6DS

Solicitors

Dickinson Dees

St Ann's Wharf

112 Quayside

Newcastle upon Tyne

NE99 1SB

Bankers

Bank of Scotland

Client Banking England

11 Earl Grey Street

Edinburgh

EH3 9BN

Directors' report

The directors present their annual report and the audited financial statements for the 16 month period ended 31 December 2006

Change of accounting reference date

During the period, to align with that of its ultimate holding company, the company's accounting reference date was extended from 31 August to 31 December

Principal activities

The principal activities of the Company are to design, finance, construct and operate certain facilities and provide non-educational services at a number of schools in Newcastle for the period until 31 August 2032 under a concession agreement with The Council of the City of Newcastle. The agreement to provide new schools and associated facilities management was signed on 18 April 2002.

Business review

The results for the period are set out in the Profit and Loss account on page 5.

All schools are now built and operational.

Development and performance of the business

The project has now completed its third year of operations since the construction phase was completed. Full operational services are now being provided and these are generally progressing well, with minimal performance deductions.

Principal risks and uncertainties

The availability fee and the majority of the costs are contractually linked to the RPI index. A relatively small proportion of total costs are not inflation-linked and a rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance though there are mechanisms within the concession agreement to share any variances, claims history so far is good and current premium renewals are within budgeted amounts.

Key performance indicators

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator. These are reported quarterly to the Board and have been small in relation to total unitary payments.

Another key indicator is the ratio of operating cash flow to the senior debt service amount. This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider.

Going concern

The directors have reviewed the net liabilities position at 31 December 2006 and believe that it will not impact on the ability of the company to continue trading for the foreseeable future and have therefore prepared the accounts on a going concern basis.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend (*year ended 31 August 2005: £nil*). The retained loss for the period is £405,000 (*year ended 31 August 2005: loss £98,000*).

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during the period are set out on page 1

None of the directors who held office at the end of the financial period 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.

Political and charitable contributions

There were no donations of a political or charitable nature made during the year (2005 £nil)

Payments to creditors policy

It is Company policy that payments to suppliers are made in accordance with agreed terms. The average payment year to creditors amounted to 26 days (2005 30 days)

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.

Corporate governance principles have been implemented within the framework established by agreement between the shareholding parties who have launched the company under a concession agreement with the Council of the City of Newcastle. The Board has taken note of the new Combined Code, as this has been introduced to apply to equity quoted plc's with certain reporting requirements, this company, not being an equity quoted plc, is not bound by the code's requirements but has voluntarily adopted those principles considered relevant.

This report is a narrative on the principles of the corporate governance, as applied in this company. It does not provide a detailed statement to identify those provisions of the new Code from which the company's governance differs.

A The Board

- 1 The Board meets quarterly and reviews operating performance against the financial model and detailed management budgets. This model incorporates all aspects of the strategic business plan and associated risks, all proposals for contract variations are vetted before approval against the model.
The Board reserves its own decision on all contractual expenditure and associated funding, and has established the provision of management, company secretary and accountancy services for the implementation of the project.
- 2 The position of Chairman is rotated on a quarterly basis and the nominated chair leads the Board. The Executive Director has full responsibility for the separate task of running the company's business, subject to regular and specific direction by the Board.
- 3 The Board comprises 4 non-executive directors together with the Executive Director.
- 4 The Board receives quarterly information which encompasses all corporate, business, financial and relationship matters which are necessary and appropriate for the purposes of monitoring and progressing the complex contractual obligations for the school project.
- 5 Nominations for any changes to Board membership are subject to the shareholders' separate or collective decision.
- 6 For the particular interests of the shareholders in the continuity of the project, no directors retire by rotation.

Directors' report *(continued)*

Corporate governance *(continued)*

B *Remuneration*

No directors received remuneration directly from the subsidiary company. The remuneration of the Executive Director (full-time) is set by the shareholders of Catalyst Lend Lease Limited, and is included in the services provided by that company.

C *Dialogue with Institutions*

The Board maintains regular liaison with Bank of Scotland as the senior funder on this project.

D *Financial Reporting*

- 1 The Board, after seeking appropriate external advice, decides upon accounting policies which are appropriate for the Company and ensures that they are consistently applied.
- 2 The Board has instigated a rigorous process of internal control, under the discipline of contractual agreements, in order to safeguard the outcomes for the company in terms of operational performance, financial control, legal and regulatory compliance, provision for risk factors, and longer-term relationships.
- 3 The Board has decided to undertake the role of an Audit Committee with all directors except the Executive Director. The Audit Committee meets annually to review the Management Letter tabled by the Auditors.
- 4 The Board continue to satisfy themselves that, given the contractual and long-term funding provisions, the Company will continue to trade as a going concern.

E *Internal Controls*

- 1 The board annually review the need for a formal internal audit function.
- 2 The board maintains a sound system of internal control to safeguard shareholders' investments and the company's assets.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the 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.

Auditors

During the year the company's auditors KPMG LLP resigned and subsequently KPMG Audit plc have been appointed as auditors.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Alison Mitchell LLB ACIS
Secretary

Date

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

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 Audit Plc

St James Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of FocusEducation (Newcastle) Limited

We have audited the financial statements of FocusEducation (Newcastle) Limited for the period ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders Funds and the related notes. 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report to the members of FocusEducation (Newcastle) Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

MMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

5/7 2007

Profit and loss account

for the 16 month period ended 31 December 2006

	Note	16 month period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Turnover		4,768	5,825
Net operating costs	2	(4,742)	(5,671)
Operating profit		26	154
Interest payable	5	(4,217)	(3,147)
Other interest receivable and similar income	6	3,786	2,895
Loss on ordinary activities before taxation		(405)	(98)
Tax on loss on ordinary activities	7	-	-
Retained loss for the period	13	(405)	(98)

All amounts relate to continuing activities

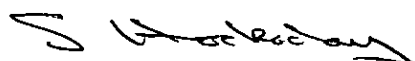
The Company has no recognised gains or losses other than the retained loss for the period and therefore no separate statement of total recognised gains and losses has been presented

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

Balance sheet
at 31 December 2006

	Note	16 month period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Current assets			
Debtors amounts falling due within one year	8	2,273	2,521
amounts falling due after more than one year	8	39,738	40,592
		42,011	43,113
Cash at bank and in hand		3,907	3,202
		<u>45,918</u>	<u>46,315</u>
Creditors amounts falling due within one year	9	(3,993)	(3,140)
Net current assets		<u>41,925</u>	<u>43,175</u>
Creditors amounts falling due after more than one year	10	(41,289)	(42,816)
Provisions for liabilities and charges	11	(1,923)	(1,241)
Net assets		<u>(1,287)</u>	<u>(882)</u>
Capital and reserves			
Called up share capital	12	37	37
Profit and loss account	13	(1,324)	(919)
Shareholders' funds		<u>(1,287)</u>	<u>(882)</u>

These financial statements were approved by the board of directors on 25/6/2007 and were signed on its behalf by



Director

Reconciliation of movements in shareholders' funds
for the 16 month period ended 31 December 2006

	16 month period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Loss for the financial period	(405)	(98)
Reduction in shareholders' deficit	(405)	(98)
Opening shareholders' deficit	(882)	(784)
Closing shareholders' deficit	(1,287)	(882)

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

In these financial statements the following new standards have been adopted for the first time

- FRS 21 'Events after the balance sheet date',
- the presentation requirements of FRS 25 'Financial instruments presentation and disclosure', and
- FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption

FRS 21 'Events after the balance sheet date' has had no material effect on these financial statements as dividends have not been paid in the current or prior years

FRS 25 'Financial instruments presentation and disclosure' has had no material effect on these financial statements as only ordinary shares are held

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985

Basis of preparation

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

As 100% of the Company's voting rights are controlled within the group headed by Catalyst Investment Holdings Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Catalyst Investment Holdings Limited, within which this Company is included, can be obtained from the address given in note 15

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

The company is dependent on support from FocusEducation Limited, its parent undertaking, for continued operation as a going concern The directors of FocusEducation Limited have confirmed their intention to support the company for at least the next 12 months and for the foreseeable future

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 period under the concession agreement, together with additional services provided to the authority

Notes (continued)

1 Accounting policies (continued)

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 Council of the City of Newcastle. 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 agreement with The Council of the City of Newcastle relating to the school facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Interest receivable is recognised over the period of the contract based on the interest rate implicit in the contract.

Lifecycle costs

Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods.

Capitalisation of interest

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

Cash at bank and in hand

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Notes (continued)

1 Accounting policies (continued)

Taxation

The charge for taxation is based on the result 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

2 Net operating costs

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Service costs	3,089	1,556
Lifecycle maintenance charge	711	532
Materials, site and production costs	795	3,282
Other charges	131	210
Insurance	-	67
	<hr/>	<hr/>
	4,726	5,647
Fees charged by auditors and their associates include		
Audit of these financial statements	9	12
Other services relating to taxation	7	12
	<hr/>	<hr/>
	4,742	5,671
	<hr/>	<hr/>

3 Remuneration of directors

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Recharges in respect of directors services	-	-
	<hr/>	<hr/>

None (2005 none) of the directors received emoluments directly from the Company or from the parent company

4 Staff numbers and costs

No (2005 none) staff are directly employed by the Company. 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.

Notes (continued)

5 Interest payable

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Interest payable on bank loans	3,507	2,605
Amounts owing to group undertakings	607	455
Amortisation of issue costs	70	60
Other charges	33	27
	<u>4,217</u>	<u>3 147</u>

Interest payable of £nil (year ended 31 August 2005 £nil) has been capitalised as part of the project asset during the period

6 Other interest receivable and similar income

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Bank interest receivable	236	197
Finance debtor interest receivable	3,550	2 698
	<u>3,786</u>	<u>2 895</u>

7 Taxation

Analysis of charge in period

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
UK corporation tax	-	-
Current tax on income for the period	<u>-</u>	<u>-</u>

Notes (continued)

7 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the current and preceding period is below the standard rate of corporation tax in the UK (30%, year ended 31 August 2005 30%). The differences are explained below

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(405)	(98)
Current tax at 30% (year ended 31 August 2005 30%)	(122)	(29)
<i>Effects of</i>		
Creation of losses	122	29
Total current tax charge	-	-

No deferred tax asset has been recognised due to the uncertainty of future profits

8 Debtors

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Finance debtor	40,548	41,302
Trade debtors	1,385	1,219
Other debtors and prepayments	78	592
	42,011	43,113

The finance debtor and amounts recoverable on contracts include £39,738,022 (year ended 31 August 2005 £40,592,000) due after more than one year

9 Creditors: amounts falling due within one year

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Amounts owed to group undertakings	185	32
Trade creditors	386	1,350
Other tax and social security	376	-
Accruals and deferred income	1,783	583
Senior loan	1,263	1,175
	3,993	3,140

Notes (continued)

10 Creditors: amounts falling due after more than one year

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Senior loan	37,695	39,192
Amounts owed to group undertakings	3,594	3,624
	<u>41,289</u>	<u>42,816</u>

The Company 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 has now changed 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 5.74%.

Analysis of debt

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Debt can be analysed as falling due		
In one year or less, or on demand	1,296	1,207
Between one and two years	1,374	1,278
Between two and five years	4,632	4,314
In five years or more	35,857	37,868
	<u>43,159</u>	<u>44,667</u>
Less issue costs	(574)	(644)
	<u>42,585</u>	<u>44,023</u>

11 Provisions for liabilities and charges

	Lifecycle maintenance £000
At beginning of period	1,241
Charge to the profit and loss for the period	711
Lifecycle expenditure	(29)
	<u>1,923</u>
At end of period	

Notes (continued)

12 Called up share capital

	Period ended 31 December 2006 £000	Year ended 31 August 2005 £000
Authorised		
Equity 37,000 ordinary shares of £1 each	37	37
	<hr/>	<hr/>
Allotted, called up and fully paid		
Equity 37,000 ordinary shares of £1 each	37	37
	<hr/>	<hr/>

13 Reserves

	Profit and loss account 2006 £000
At beginning of period	(919)
Loss for the period	(405)
At end of period	<hr/> (1,324) <hr/>

14 Commitments

At 31 December 2006 the Company had authorised and contracted capital commitments of £nil (*year ended 31 August 2005 £nil*)

15 Ultimate holding company

The Company is a subsidiary undertaking of Catalyst Investment Holdings Limited which is the ultimate parent company incorporated in England and Wales

The largest group in which the results of the Company are consolidated is that headed by Catalyst Investment Holdings Limited incorporated in England and Wales. No other group financial statements include the results of the Company. The consolidated financial statements of this group are available to the public and may be obtained from 3rd Floor, The Venus, 1 Old Park Lane, Trafford, Manchester, M41 7HG