

**FocusEducation (Newcastle) Limited**

**Directors' report and financial  
statements**

Registered number 04402652

Year ended 31 August 2003



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## **Company information**

### **Executive Directors**

Gershon Daniel Cohen  
Stephen Hockaday  
Andrew Craig Mason  
Andrew David Silverbeck

### **Registered Office**

9<sup>th</sup> Floor  
St James's Buildings  
Oxford Street  
Manchester  
M1 6FQ

### **Registered Auditors**

KPMG LLP  
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

### **Company Secretary**

HLM Secretaries Limited  
9<sup>th</sup> Floor  
St James's Buildings  
Oxford Street  
Manchester  
M1 6FQ

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 August 2003.

### 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 year are set out in the Profit and Loss account on page 5.

Construction progress is in line with contract and the first two school phases opened on time during the year. Subsequent to the year end a further three school phases also opened on time.

### Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The profit for the year retained in the Company is £nil (2002: £7,000).

### Directors and directors' interests

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

Gershon Daniel Cohen  
Stephen Hockaday  
Andrew David Silverbeck  
Philip Robert Grant

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

On 29 January 2004, Philip Robert Grant resigned as director and Andrew Craig Mason was appointed.

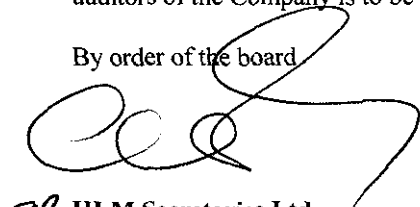
### Corporate Governance

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

### Auditors

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

By order of the board



 HLM Secretaries Ltd  
Secretary

Date 18 June 2004

9th Floor  
St James's Buildings  
Oxford Street  
Manchester  
M1 6FQ

## Statement of directors' responsibilities

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

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

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



KPMG LLP

St James' Square  
Manchester  
M2 6DS  
United Kingdom

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

We have audited the financial statements on pages 5 to 12.

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

### **Respective responsibilities of directors and auditors**

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

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


### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 August 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
KPMG LLP 25/6/04  
Chartered Accountants  
Registered Auditor

**Profit and loss account**  
*for the year ended 31 August 2003*

	<i>Note</i>	<b>2003</b> <b>£000</b>	<b>2002</b> <b>£000</b>
<b>Turnover</b>		<b>24,238</b>	<b>6,368</b>
Net operating costs		<b>(23,147)</b>	<b>(6,274)</b>
<b>Operating profit</b>	<b>2</b>	<b>1,091</b>	<b>94</b>
Interest payable	<b>5</b>	<b>(1,305)</b>	<b>(105)</b>
Other interest receivable and similar income	<b>6</b>	<b>214</b>	<b>18</b>
<b>Profit on ordinary activities before taxation</b>		<b>-</b>	<b>7</b>
Tax on profit on ordinary activities	<b>7</b>	<b>-</b>	<b>(38)</b>
<b>Retained profit / (loss) for the year</b>	<b>12</b>	<b>-</b>	<b>(31)</b>

The Company has no recognised gains or losses other than the retained profit /(loss) for the year and therefore no separate statement of total recognised gains and losses has been presented.

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

**Balance sheet**  
*at 31 August 2003*

	<i>Note</i>	<b>2003</b> <b>£000</b>	<b>2002</b> <b>£000</b>
<b>Current assets</b>			
Debtors: Amounts falling due within one year	8	1,045	923
Amounts falling due after more than one year	8	29,358	5,623
		30,403	6,546
Cash at bank and in hand		2,464	1,552
		<u>32,867</u>	<u>8,098</u>
<b>Creditors: Amounts falling due within one year</b>	9	(6,325)	(1,024)
<b>Net current assets</b>		<u>26,542</u>	<u>7,074</u>
<b>Creditors: Amounts falling due after more than one year</b>	10	(26,536)	(7,068)
<b>Net assets</b>		<u>6</u>	<u>6</u>
<b>Capital and reserves</b>			
Called up share capital	11	37	37
Profit and loss account	12	(31)	(31)
<b>Equity shareholders' funds</b>		<u>6</u>	<u>6</u>

These financial statements were approved by the board of directors on 18 June 2004 and were signed on its behalf by:

  
 Director



**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 August 2003*

	2003 £000	2002 £000
Profit / (Loss) for the financial year	-	(31)
Dividends	-	-
Share capital introduced	-	37
	<hr/>	<hr/>
<b>Net addition to shareholders' funds</b>	-	6
Opening shareholders' funds	6	-
	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	6	6
	<hr/>	<hr/>

## 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.

#### ***Basis of preparation***

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

As the Company is a wholly owned subsidiary of FocusEducation 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).

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.

#### ***Turnover***

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

#### ***Stocks and work in progress / amounts recoverable under contracts***

Costs incurred in the construction of the schools have been accounted for under Financial Reporting Standard ('FRS') 5 Application Note F. Applying the guidance within the Application Note indicates that the project's principal agreements transfer substantially all the risks and rewards of ownership to The 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.

#### ***Capitalisation of interest***

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

#### ***Taxation***

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

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

## Notes (continued)

### 2 Operating profit

	2003 £000	2002 £000
<i>Operating profit is stated after charging:</i>		
Auditors' remuneration	10	10

Other services of £nil have been paid to the auditors in the year ended 31 August 2003.

### 3 Remuneration of directors

	2003 £000	2002 £000
Recharges in respect of directors services	-	-

None of the directors received emoluments directly from the Company.

### 4 Staff numbers and costs

No 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.

### 5 Interest payable

	2003 £000	2002 £000
Interest payable on bank loans	1,286	104
Amortisation of issue costs	19	1
	<u>1,305</u>	<u>105</u>

Interest payable of £1,286,000 (2002: £104,000) has been capitalised as part of the project asset during the year.

### 6 Other interest receivable and similar income

	2003 £000	2002 £000
Bank interest receivable	214	18

## Notes (continued)

### 7 Taxation

#### Analysis of charge in year

	2003 £000	2002 £000
<i>UK corporation tax</i>		
Current tax on income for the year	-	38

#### Factors affecting the tax charge for the current period

The current tax charge for the year is in line with (2002 - higher than) the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2003 £000	2002 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	-	7
Current tax at 30%	-	2
<i>Effects of:</i>		
Expenses not deductible for tax purposes (primarily bid costs)	-	36
Total current tax charge (see above)	-	38

### 8 Debtors

	2003 £000	2002 £000
Finance debtor	6,375	-
Amounts recoverable on contracts	23,088	5,623
Trade debtors	116	-
Other debtors and prepayments	824	923
	30,403	6,546

The finance debtor and amounts recoverable on contracts include £29,358,000 (2002:£5,623,00) due after more than one year.

### 9 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Trade creditors	2,262	957
Corporation tax	-	38
Accruals and deferred income	381	29
Equity bridge loan (see note 10)	3,682	-
	6,325	1,024

## Notes (continued)

### 10 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Senior loan	26,536	3,386
Equity bridge loan	-	3,682
	<u>26,536</u>	<u>7,068</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 will be LIBOR plus a 1.05% margin. This margin will change to 0.85% for the following 15 years and 0.95% thereafter. The Company has entered into a swap transaction resulting in interest being charged on this loan at a fixed rate of 5.74%.

The equity bridge loan, which is also secured, expires on 31 August 2004 and incurs interest at LIBOR plus 0.5% margin.

<b>Analysis of debt:</b>	<b>2003 £000</b>	<b>2002 £000</b>
Debt can be analysed as falling due:		
In one year or less, or on demand	3,682	-
Between one and two years	1,066	3,682
Between two and five years	5,133	3,484
In five years or more	21,061	646
	<u>30,942</u>	<u>7,812</u>
Less: issue costs	(724)	(744)
	<u>30,218</u>	<u>7,068</u>

### 11 Called up share capital

	2003 £000	2002 £000
<b>Authorised</b>		
Equity: 37,000 ordinary shares of £1 each	37	37
	<u>37</u>	<u>37</u>
<b>Allotted, called up and fully paid</b>		
Equity: 37,000 ordinary shares of £1 each	37	37
	<u>37</u>	<u>37</u>

## Notes (continued)

### 12 Reserves

	Profit and loss account £000
At beginning of year	(31)
Retained profit for the year	-
At end of year	<u>(31)</u>

### 13 Commitments

At 31 August 2003 the Company had authorised and contracted capital commitments of £11,659,000.

### 14 Contingent liability

Subsequent to the year end, the company has been advised of bid costs which have been identified by Bovis Lend Lease Limited in connection with this project (totalling £100,000). Bovis Lend Lease Limited wishes to charge these costs to the company but it is not yet clear who was responsible for incurring the spend and in which company's accounts it should be shown. At the date of signing the accounts, this matter is still being investigated and provision has not been made in the accounts for these items.

### 15 Related party disclosures

Expenditure with related parties	Relationship	Class of Transaction	Expenditure		Creditor	
			2003 £000	2002 £000	2003 £000	2002 £000
Bovis Lend Lease Limited	Subsidiary of a shareholder	Construction & facilities management services	23,205	4,187	1,914	957
Halifax Bank of Scotland (Bank of Scotland)	Holding company of shareholder	Banking facilities	1,787	821	31,529	7,812

### 16 Ultimate holding company

The Company's immediate parent company is FocusEducation (Newcastle) Holdings Limited, a company incorporated in England and Wales.

The Company's ultimate holding company is FocusEducation Limited, a company incorporated in England and Wales, which also heads the largest group in which the results are consolidated. Copies of the group accounts of FocusEducation Limited can be obtained from 9th Floor, St James's Buildings, Oxford Street, Manchester, M1 6FQ.