

**BY EDUCATION (LEWISHAM)  
LIMITED**

**Directors' Report and Financial  
Statements  
31 December 2009**



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## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2009

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

### Principal activities

The Company's principal activity is the design, build, finance, operation and maintenance of new educational facilities for the Mayor and Burgesses of the London Borough of Lewisham over 30 years under HM Government's Private Finance Initiative. No change in the Company's activities is anticipated.

### Business review

The results for the year are set out in the profit and loss account on page 6.

The Company, as defined in note 17 to the financial statements, has entered into a Project Agreement with the Mayor and Burgesses of the London Borough of Lewisham, together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements ('the Project Agreement'). The Project Agreement requires it to finance, design, develop, construct, maintain and deliver three educational facilities within the London Borough of Lewisham.

Greenvale School, Forest Hill Secondary School and Prendergast School were handed over on 1<sup>st</sup> August 2007, 2<sup>nd</sup> September 2008 and 13<sup>th</sup> February 2009 respectively. The School facilities are fully operational and the concession period will continue for the next 27 years ending on 15<sup>th</sup> May 2036.

### Results and Dividend

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009 (*2008 £nil*).

### Key performance indicators (KPIs)

The Company's management regards the level of turnover, net profit before tax and level of its debts as the key indicators of the Company's performance. These are monitored on a regular basis to assess whether the Company is achieving the targets set. In the year ended 31 December 2009, deductions of £95,271 (*2008 £218,791*) had been levied.

### Financial risk management policies and objectives

The Company's principal financial instruments comprise short term bank deposit, bank debt at LIBOR plus a bank margin with a swap contract in place to hedge interest rates.

### Going concern

Notwithstanding the deficit on net assets, the directors consider it appropriate to prepare the financial statements on a going concern basis on the grounds that the review of the profit forecasts demonstrates an improvement in the future financial performance and that the Company has access to banking facilities (see note 11 to the financial statements) which are sufficient to meet its financial obligations as they fall due.

### Directors and directors' interest

The directors who served during the year were as follows:

B Bodin

D Carr (Alternate to B Bodin)

P J Cooper

G A Quaife

M Wayment (Alternate to G A Quaife) (Appointed 28th April 2009)

D Lambrecht

Y P Le Saux

## **Director's report *(continued)***

### **Directors' liabilities**

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of Section 234 of the Companies Act 2006

### **Supplier payment policy**

The Company does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

The amount due to the Company's trade creditors at 31 December 2009 represented 75 day's (2008 36 day's) average daily purchases of goods and services received from those creditors, calculated in accordance with Part 5 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

### **Political and charitable contributions**

The Company made no political or charitable contributions during the year (2008 £nil)

### **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 auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor are aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

### **Auditor**

KPMG Audit Plc are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006.

## **Statement of Directors' responsibilities in relation to financial statements**

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the auditor in relation to 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 present fairly the financial position and the performance of the Company, the Company's Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

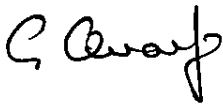
In preparing these financial statements, the directors are required to

- 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 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 financial statements comply with the Companies Act 2006. 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.

By order of the Board



Director

Registered Office  
8 Canada Square  
London  
E14 5HQ

Date 25 June 2010

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BY EDUCATION (LEWISHAM) LTD**

We have audited the financial statements of By Education (Lewisham) Ltd for the year ended 31 December 2009 set out on pages 6 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



**A Moses, Senior Statutory Auditor**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

Arlington Business Park  
Theale  
Reading RG7 4SD

Date *30<sup>th</sup> June 2010*

## Profit and loss account

For the year ended 31 December 2009

	<i>Note</i>	<b>Year ended 31 December 2009 £000</b>	<b>Year ended 31 December 2008 £000</b>
<b>Turnover</b>	<b>2</b>	<b>2,739</b>	<b>8,685</b>
Cost of sales		(2,229)	(8,595)
<b>Gross profit</b>		<b>510</b>	<b>90</b>
Administrative expenses		(312)	-
<b>Operating profit</b>		<b>198</b>	<b>90</b>
Other interest receivable and similar income	6	2,815	2,997
Interest payable and similar charges	7	(2,516)	(2,890)
<b>Profit/(Loss) on ordinary activities before taxation</b>	<b>3</b>	<b>497</b>	<b>197</b>
Tax on profit/(loss) on ordinary activities	8	(140)	(55)
<b>Profit/(Loss) for the financial year</b>		<b>357</b>	<b>142</b>

The results above are all derived from continuing operations. There are no recognised gains or losses other than the profit for the year.

Movements in reserves are shown in note 13.

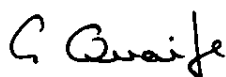
The notes on pages 9 to 14 form part of these financial statements.

**Balance sheet**  
*at 31 December 2009*

	<i>Note</i>	<b>2009</b> <b>£000</b>	<b>2008</b> <b>£000</b>
<b>Current assets</b>			
Debtors (including £46,296,088 (2008 £47,107,711) due after more than one year)	<i>9</i>	<b>47,453</b>	49,670
Cash at bank and in hand		<b>4,259</b>	3,550
		<b>51,712</b>	53,220
<b>Creditors</b> amounts falling due within one year	<i>10</i>	<b>(6,507)</b>	(7,075)
<b>Net current assets</b>		<b>45,205</b>	46,145
<b>Creditors</b> amounts falling due after more than one year	<i>11</i>	<b>(46,472)</b>	(47,769)
<b>Net liabilities</b>		<b>(1,267)</b>	(1,624)
<b>Capital and reserves</b>			
Called up share capital	<i>12</i>	<b>1</b>	1
Profit and loss account	<i>13</i>	<b>(1,268)</b>	(1,625)
<b>Equity shareholder's deficit</b>		<b>(1,267)</b>	(1,624)

The notes on pages 9 to 14 form part of these financial statements

These financial statements were approved by the Board of directors on 25 June 2010 and were signed on its behalf by



*Director*

**GEOFFLEY QUAIFE**



**Reconciliation of movements in shareholder's deficit**  
*For the year ended 31 December 2009*

	Year ended 31 December 2009	Year ended 31 December 2008
	£000	£000
Profit/(Loss) for the financial year	357	142
Dividends	-	-
	<hr/>	<hr/>
Net decrease/(increase) to shareholder's deficit	357	142
Opening shareholders deficit	(1,624)	(1,766)
Increase in share capital	-	-
	<hr/>	<hr/>
Closing shareholder's deficit	(1,267)	(1,624)
	<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

Under Financial Reporting Standard ("FRS") 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

As the Company is a wholly owned subsidiary of BY Education (Lewisham) 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 BY Education (Lewisham) Holdings Limited, within which this Company is included, can be obtained from the address given in note 17

Notwithstanding the deficit on net assets, the directors consider it appropriate to prepare the financial statements on a going concern basis on the grounds that, having reviewed profit forecasts which demonstrate an improvement in the future financial performance and that the Company has access to banking facilities (see note 11 to the financial statements) which are sufficient to meet its financial obligations as they fall due

#### ***Finance debtor and services income***

The Company is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be a tangible asset of the Company under FRS 5 Application Note F because the rewards of ownership as set in that standard are deemed to lie principally with the Mayor and Burgesses of the London Borough of Lewisham

During the construction phase of the project, all attributable expenditure is included in amounts recoverable on contracts and turnover Upon becoming operational, the costs are transferred to the finance debtor During the operational phase income will be allocated between interest receivable and the finance debtor using a project specific interest rate The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 5 Application Note G The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of those services is recognised when the services are performed

#### ***Interest***

Interest costs are expensed to the profit and loss account during both construction and operational stage of the project

#### ***Taxation***

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 Analysis of turnover

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Services income	2,456	2,030
Other pass through income	239	-
Construction income	44	6,655
	<u>2,739</u>	<u>8,685</u>

Services income relates to the facilities management at Greenvale School, Forest Hill Secondary School and Prendergast School. Other pass through income relates to additional variation works funded by the London Borough of Lewisham. Construction income relates to the final stage of Prendergast School.

All turnover and profit on ordinary activities before taxation originates in the United Kingdom. Turnover is recognised in accordance with the finance debtor and services income accounting policy and excludes VAT.

### 3 Profit/(loss) on ordinary activities before taxation

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000 (Revised)
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
Audit of these financial statements	<u>6</u>	<u>6</u>

### 4 Remuneration of directors

Directors' emoluments for the year under review amounted to £nil (2008 £nil)

### 5 Staff numbers and costs

The Company had no employees during the year under review (2008 nil)

### 6 Other interest receivable and similar income

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Finance debtor interest income	2,807	2,819
Bank interest	8	178
	<u>2,815</u>	<u>2,997</u>

**Notes (continued)**

**7 Interest payable and similar charges**

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Interest on bank loans	2,063	2,866
Subordinated debt interest	426	-
Amortisation of debt issue costs	18	24
Other similar charges	9	-
	<u>2,516</u>	<u>2,890</u>

**8 Taxation**

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
<i>UK corporation tax</i>		
Current tax on income for the year	3	-
	<u>3</u>	<u>-</u>
Total current tax	3	-
<i>Deferred tax</i>		
Origination/reversal of timing differences	137	55
	<u>140</u>	<u>55</u>
Tax on profit/(loss) on ordinary activities	140	55

*Factors affecting the tax charge for the current period*

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
<i>Current tax reconciliation</i>		
Profit/(Loss) on ordinary activities before taxation	497	197
	<u>497</u>	<u>197</u>
Current tax at 28% (2008 28.5%)	140	55
	<u>140</u>	<u>55</u>
Effect of		
Tax losses utilised	(87)	(55)
Previous year adjustment	(50)	-
	<u>(137)</u>	<u>(55)</u>
Total current tax charge (see above)	3	-

## Notes (continued)

### 8 Taxation (continued)

#### Factors affecting future tax charges

The corporation tax rate applicable to the Company is 28% (2008 28.5%)

#### Deferred tax

Deferred tax is provided at 28% (2008 28%) on the following losses (note 9)

	Year ended 31 December 2009 £000	Year ended 31 December 2008 £000
Tax losses	1,931	2,243

The deferred tax asset has been recognised in the current year on those tax losses which can be set off against future profits of the Company. The future profits of the Company have been estimated based on the forecast cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract.

### 9 Debtors

	2009 £000	2008 £000
Amounts recoverable on contracts	-	709
Finance debtor	46,480	46,655
Trade debtors	249	1,493
Other debtors	183	185
Deferred taxation (see note 8)	541	628
	<u>47,453</u>	<u>49,670</u>

Debtors include finance debtor of £46,479,708 (2008 £46,654,507) in which £724,298 (2008 £627,669) is due less than one year and £45,755,410 (2008 £46,479,707) is due after more than one year. Amounts recoverable on contracts of £nil (2008 £709,282) is due after more than one year and a deferred tax asset of £540,678 (2008 £628,004) which is expected to be offset against taxable profits after more than one year.

### 10 Creditors amounts falling due within one year

	2009 £000	2008 £000
Trade creditors	458	1,077
Accruals	974	259
Bank loans	1,168	2,097
Subordinated debt	142	786
Unitary charge control account	3,503	2,666
Other creditors (VAT)	259	190
Corporation tax	3	-
	<u>6,507</u>	<u>7,075</u>

**Notes (continued)**

**11 Creditors amounts falling due after more than one year**

	2009 £000	2008 £000
Bank loans	44,369	46,470
Subordinated debt	3,874	4,660
Less Unamortised issue costs	(460)	(478)
	<u>47,783</u>	<u>50,652</u>
Less amounts due within one year	(1,311)	(2,883)
	<u>46,472</u>	<u>47,769</u>

**Analysis of debt**

	2009 £000	2008 £000
<i>Debt can be analysed as falling due</i>		
In one year or less, or on demand	1,311	2,883
Between one and two years	1,334	1,306
Between two and five years	3,733	4,035
In five years or more	41,865	42,906
	<u>48,243</u>	<u>51,130</u>

Bank loans are secured by fixed and floating charges over the assets of the Company

Bank loans bear interest based on LIBOR. The Company has entered into swap contracts for the period 3<sup>rd</sup> August 2006 to 30<sup>th</sup> April 2035 covering all of the debt drawn down which hedges the Company's interest rate exposure on the senior debt of £46,470,000. Bank loans bear interest based on LIBOR plus a swap spread of 4.945%.

The bank loans are repayable in six monthly instalments commencing on 31 March 2009 and ending on 15 May 2035. The Company has agreed bank facility terms to borrow up to £51,510,236. The facility is subject to certain financial and non-financial covenants.

The index-linked subordinated unsecured loan stock issued to the company bears interest at 10.30% and is fully redeemable by 31<sup>st</sup> March 2036. The subordinated debt is repayable in six monthly instalments commencing on 31 March 2009.

**12 Called up share capital**

	2009 £000	2008 £000
<i>Allotted, called up and fully paid</i>		
Equity Ordinary shares of £1 each	<u>1</u>	<u>1</u>

## Notes (continued)

### 13 Profit and loss account

	2009 £000	2008 £000
At beginning of year	(1,625)	(1,767)
Profit/(Loss) for the financial year	357	142
At end of year	<u>(1,268)</u>	<u>(1,625)</u>

### 14 Commitments

Capital commitments at the end of the financial year for which no provision has been made is £nil (2008 £nil)

### 15 Post Balance Sheet Events

There were no significant events between the balance sheet date, 31 December 2009 and the date the financial statements were approved by the board of directors

### 16 Related party disclosures

During the year, the Company incurred costs charged by these related parties which are detailed as follows

	Cash transactions Expense/(receipt)		Balance owed to/(from) at year end	
	2009 £000	2008 £000	2009 £000	2008 £000
<b>Subordinated debt</b>				
HSBC Infrastructure Fund Management Limited	888	-	3,362	3,961
Bouygues Construction Investments (UK) Ltd	169	40	596	702
	<u>1,057</u>	<u>40</u>	<u>3,958</u>	<u>4,663</u>

### 17 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of BY Education (Lewisham) Holdings Limited which is incorporated in the United Kingdom

HSBC Infrastructure Fund Management Limited as general partner for and on behalf of each of the several limited partnerships constituting HSBC Infrastructure Fund II is the majority shareholder of BY Education (Lewisham) Holdings Limited

The largest and smallest group in which the results of the Company are consolidated is that headed by BY Education (Lewisham) Holdings Limited. The consolidated accounts of this group are available to the public and may be obtained from the Secretary, BY Education (Lewisham) Holdings Limited, 8 Canada Square, London, E14 5HQ