3ED Holdings Limited

Directors' Report and Accounts

For the year ended

30 September 2004
Registered Number SC190329

Directors' Report and Financial Statements

Contents

Directors' Report

The Directors present their report and audited accounts for the year ended 30 September 2004.

Review of the Business

The company was formed to design, construct, refurbish and provide lifecycle maintenance, facilities management and information technology services to schools within the Glasgow area over a 30 year period. Included within the project are 29 secondary schools and 1 primary school. The partnership with Glasgow City Council is currently the largest schools project in the UK under the government's Public-Private Partnership.

The completion of St Thomas Aquinas in October 2003, nearly three months ahead of schedule, marked the overall completion of all initial construction work on the project. Completion of these works also means the final transition to steady state of the operational side of the project. The full scope of facilities management, ICT managed services, and beginnings of Lifecycle maintenance services are now operating at all of the project schools.

In addition to the main contract requirements, construction work is also almost complete on a significant variation to the project comprising additional football pitches, and changing facilities at Lochend Community School. The initial capital cost is funded by the Council, however the facilities management, and Lifecycle maintenance services will be incorporated into the overall project scope.

The 3ED consortium is comprised of The Miller PPP Holdings Limited, Laing Investments Limited and Uberior Infrastructure Investments Limited.

Results for the period

The results for the period are set out in the attached profit and loss account. The profit for the year of £4,988,000 (2003 – loss of £996,000) has been transferred to reserves.

Directors and Directors' Interests

The Directors who held office during the period were as follows:

A G Bremner (resigned 24 June 2004)
P McVey (appointed 24 June 2004)
R S Mackie
A Scott
N Smith
R Weston (resigned 28 October 2004)
D Marshall (appointed 28 October 2004)
I A MacDonald
P R Grant (resigned 29 January 2004)
A D Darling (resigned 29 January 2004)
A L Tennant (appointed 29 January 2004)
M T Smith (appointed 29 January 2004)

None of the Directors who held office during the financial period had any interest in the share capital of the company.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board

Director **31 March 2005**

Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial period 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 accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts 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 accounts 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.

Independent Auditors' Report to the Members of 3ED Holdings Limited

We have audited the company's financial statements for the period ended 30 September 2004 which comprise Group Profit & Loss Account, Group, Group Statement of Total Recognised Gains & Losses, Company Balance Sheet, Group Balance sheet, Group Cash Flow Statement and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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.

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 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 and of the group as at 30 September 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Glasgow

31 March 2005

Group Profit and Loss Account
for the year to 30 September 2004

	Note	**12 Months to 30 September 2004 £'000**	9 Months to 30 September 2003 £'000
Turnover	*2*	**42,262**	32,243
Cost of Sales		**(15,957)**	(18,475)
Gross Profit/(Loss)		**26,305**	13,768
Administrative expenses		**(10,033)**	(2,050)
Operating Profit/(Loss)	*3*	**16,272**	11,718
Bank interest receivable		**1,487**	782
Interest payable	*5*	**(21,543)**	(14,803)
Loss on ordinary activities before taxation		**(3,784)**	(2,303)
Income from sale of tax losses	*6*	**8,772**	1,307
Tax on loss on ordinary activities		**-**	-
Retained Profit/(Loss) for the financial period		**4,988**	(996)

Group Statement of Total Recognised Gains and Losses

There are no recognised gains or losses other than the Profit for the period of £4,988,000 (2003 – £996,000).

Group Balance sheet
at 30 September 2004

	Note	2004 £'000	2003 £'000
Tangible fixed assets	*7*	**180,052**	188,947
Current assets			
Debtors	*9*	**6,600**	9,854
Cash at bank and in hand		**41,475**	28,144
		48,075	37,998
Creditors: amounts falling due within one year	*10*	**(17,935)**	(10,677)
Net current assets		**30,140**	27,321
Total assets less current liabilities		**210,192**	216,268
Creditors: amounts falling due after more than one year	*11*	**(281,037)**	(291,566)
Deferred Income	*12*	**(13,929)**	(14,464)
Net Liabilities		**(84,774)**	(89,762)
Capital and reserves			
Called up share capital	*13*	**20**	20
Profit and loss account	*14*	**(84,794)**	(89,782)
Equity shareholders' deficit		**(84,774)**	(89,762)

These accounts were approved by the board of Directors on 31 March 2005 and were signed on its behalf by:

Director **Director**

Balance sheet
at 30 September 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Unlisted investments	*8*	**20**	20
Current assets			
Cash at bank and in hand		**5**	5
Net current assets		**5**	5
Net Assets		**25**	25
Capital and reserves			
Called up share capital	*13*	**20**	20
Profit and loss account	*14*	**5**	5
Equity shareholders' funds		**25**	25

These accounts were approved by the board of Directors on 31 March 2005 and were signed on its behalf by:

Director **Director**

Group Statement of Cashflows
at 30 September 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities		**28,783**	**22,654**
Returns on investments and servicing of *finance*			
Interest received		**1,486**	765
Interest paid		**(21,631)**	(16,713)
		(20,145)	(15,948)
Taxation			
Sale of tax losses		**8,772**	975
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(753)**	(8,502)
Net cash (outflow) before management of liquid *resources and financing*		**16,657**	(821)

Group Statement of Cashflows
at 30 September 2004

	Note	2004 £'000	2003 £'000
Net cash inflow / (outflow) before management of liquid resources and financing		**16,657**	(821)
Management of liquid resources			
Repayment of short term loans		-	(16,847)
Financing			
Long term loans		**105,000**	33,500
Loan repayments		**(108,326)**	(36,978)
		(3,326)	(3,478)
(Decrease)/Increase in cash		**13,331**	(21,146)

Reconciliation of net cash flow to movement in net debt

Increase / (decrease) in cash	**13,331**	(21,146)
Cash outflow from movement in loans	**3,326**	3,478
Cash inflow from new loans	-	16,847
Change in net debt resulting from cash flows	**16,657**	(821)
Movement in net debt	**16,657**	(821)
Net debt at 1 October 2003	**(266,382)**	(265,561)
Net debt at 30 September 2004	**(249,725)**	(266,382)

Notes

(forming part of the accounts)

1. *Accounting Policies*

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

Basis of preparation

The accounts have been prepared under the historical cost accounting rules and in accordance with applicable Accounting Standards. The accounts have been prepared on the going concern basis as the financial projections indicate that sufficient funds will be generated to allow ongoing obligations to be met as they fall due.

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

It is the policy of the Company to sell tax losses to shareholders at a rate which at least compensates the Company for the additional tax to be paid at a future date.

Fixed assets

All fixed assets have been incorporated at cost.

Depreciation

Depreciation is provided on short leasehold buildings to write off the cost in equal annual instalments over the duration of the PFI contract to 30 June 2030 as follows:

Buildings	27-29 years

Other tangible fixed assets are depreciated over their expected useful lives in equal annual instalments as follows:

Machinery and Equipment	5 years
Other assets	3-5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Milestone payments

Milestone payments are credited to deferred income and are released to the profit and loss account in equal instalments over the life of the contract, commencing October 2002.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

There is no provision for deferred tax due to the availability of tax losses. These losses should be available to offset against future profits.

2. ***Turnover***

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. *Turnover is attributable to one continuing activity, being the provision of construction,* refurbishment, facilities management and information technology services to schools.

3. **Operating Profit**

	30 September 2004 £'000	30 September 2003 £'000
Operating Profit/(loss) is stated after charging:		
Auditor's remuneration	**12**	12
Depreciation	**9,785**	8,569
Operating Lease Rentals: Office Lease	**16**	16

4. **Directors' Emoluments**

The Directors did not receive any remuneration from the company during the period (2003 – nil).

5. **Interest payable**

On bank loans	**21,543**	14,803

6. **Taxation**

(a) **Tax on profit on ordinary activities:**

The tax credit is made up as follows:

Current tax:		
Income from sale of tax losses by way of consortium relief	**8,772**	1,307

(b) **Factors affecting current tax charge**

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 30% (2002 – 30%). The differences are reconciled below:

Loss on ordinary activities before tax	**3,784**	2,303
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 – 30%)	**(1,135)**	(691)
Capital allowances in excess of depreciation	**(1,480)**	(1,424)
Expenses not deductible for tax purposes	**1,218**	1,011
Prior year adjustment for consortium relief	**(11,642)**	(2,178)
Other timing differences	**4**	5
Rate difference on consortium relief	**2,870**	871
Losses arising in the year not relievable against current tax	**1,393**	1,099
Total current tax credit	**(8,772)**	(1,307)

(c) Deferred tax

	30 September 2004 £'000	30 September 2003 £'000
Accelerated capital allowances	**10,876**	9,406
Other timing differences	**2,185**	2,185
Tax losses carried forward	**(13,507)**	(22,466)
Deferred tax asset	**(446)**	(10,875)
Deferred tax asset not recognised	**(446)**	10,875

(d) Factors that may affect future tax charges

Based on current capital expenditure plans, the company expects that depreciation will be in excess of capital allowance claims in future years. The tax losses are available indefinitely for offset against future taxable profits. Deferred tax assets have not been recognised as they do not meet the criteria for recognition set down in FRS 19.

7. Fixed assets

	Short Leasehold Buildings £'000	***Other* Fixed Assets £'000**	***Machinery &* Equipment £'000**	***Assets in the* Course of Construction £'000**	**Total £'000**
Cost					
At 1 October 2003	183,187	8	14,895	7,692	205,782
Additions	638	1	251	-	890
Disposals	7,692	-		(7,692)	-
At 30 September 2004	191,517	9	15,146	-	206,672
Depreciation					
At 1 October 2003	9,825	6	7,004	-	16,835
Charge for year	6,766	2	3,017	-	9,785
At 30 September 2004	16,591	8	10,021	-	26,620
Net Book Value at 30 September 2004	**174,926**	**1**	**5,125**	-	**180,052**
Net Book Value at 30 September 2003	173,362	2	7,891	7,692	188,947

Included within the Short Leasehold Buildings and Assets in the Course of Construction at cost is capitalised interest to date of £7,701,000 (2003 – £7,701,000).

8. Investments

	Subsidiary Undertaking
	£'000
At 1 October 2003 and 30 September 2004	**20**

Subsidiary Undertaking:	Holding
3ED Glasgow Limited	100% Ordinary Shares

9. Debtors (group)

	***30 September* 2004 £'000**	30 September 2003 £'000
Trade Debtors	**4,866**	5,741
Other Debtors	**191**	2,348
Prepayments	**1,543**	1,765
	6,600	9,854

10. Creditors: amounts falling due within one year (group)

Trade creditors	**2,125**	718
Other Creditors	**2,937**	2,640
Current instalments due on bank loans:		
£265,250,000 bank loan	**4,169**	2,827
£16,750,000 Shareholders loan "A" – 10% coupon	**5,994**	83
£16,750,000 Shareholders loan "B" – 13.25% coupon	**-**	50
Accruals	**2,710**	4,359
	17,935	10,677

11. Creditors: amounts falling due after more than one year (group)

Wholly repayable within five years:		
None	**-**	-
Not wholly repayable within five years:		
£265,250,000 bank loan, repayable in instalments commencing September 2002	**257,833**	**261,026**
£16,750,000 Shareholders loan "A" – 10% coupon	**16,700**	16,750
£16,750,000 Shareholders loan "B" – 13.25% coupon	**16,667**	16,750
	291,200	294,526
Less: included in creditors, amounts falling due within one year	**10,163**	2,960
	281,037	291,566

11. Creditors: amounts falling due after more than one year (continued)

The maturity of debt is as follows:

In one year or less or on demand	**10,163**	2,960
Between one and two years	**9,063**	10,168
Between two and five years	**23,424**	20,907
In five years or more	**248,550**	252,491
	291,200	294,526

The Equity Bridge Loan was repaid on 30th September 2003. Shareholders Loans are as follows:

£16,750,000 Shareholders loan note "A" – 10% coupon rate, repayments commence 30th September 2004, until 31st March 2009.
£16,750,000 Shareholders loan note "B" – 13.25% coupon rate, first repayment 30th September 2004, followed by three repayments from 31 March 2027 until 31 March 2028.

Bank loans have been hedged via swaps entered into at the date of financial closure. Swaps result in 90% of outstanding Senior Debt being fixed, with the remaining 10% at a variable rate.

During the year, the company received a loan of £105m from EIB for fulfilling certain requirements in line with contract. This loan replaced existing syndicated senior debt loan of the same value, which was repaid to the syndicate members on receipt of the EIB loan.

All bank loans have been assigned to Halifax PLC as security trustee via Scots Law.

12. Deferred Income (group)

	30 September 2004 £'000	30 September 2003 £'000
At 1 October 2003	**14,464**	14,861
Amounts received in the period	-	
Released during the period	**(535)**	(397)
At 30 September 2003	**13,929**	14,464

13. Share Capital

Authorised

100,000 Ordinary Shares of £1 each	**100**	100

Allotted, called up and fully paid

20,000 Ordinary Shares of £1 each	**20**	20

14. Reconciliation of Shareholders' Funds and Movement on Reserves (group)

	Share Capital £'000	Profit & Loss Account £'000	Total Shareholders Funds £'000
At 1 October 2003	20	(89,782)	(89,762)
Profit for the Period	-	4,988	4,988
At 30 September 2004	**20**	**(84,794)**	**(84,774)**

Reconciliation of Shareholders' Funds and Movement on Reserves (company)

At 1 October 2003	20	5	25
Profit for the Period	-	-	-
At 30 September 2004	**20**	**5**	**25**

15. Capital Commitments

There were no amounts contracted for but not provided in the accounts (2003 - £1,500,000).

16. Other Financial Commitments

At 30 September 2004 the group had annual commitments under non-cancellable operating leases, relating to Land and Buildings, as follows:

	30 September 2004 £'000	30 September 2003 £'000
Operating Leases which expire:		
Within one year	-	-
In two to five years	**80**	77
Over five years	-	-

The group has entered into the following other financial commitments:

- With Amey BPO Services Limited to provide facilities management and maintenance services to the project schools for the duration of the contract, which finishes on 30 June 2030. Payments due in the next financial year amount to £8,971,000. This amount is indexed annually until 1 April 2030.
- With Mitel Telecom Limited to provide information and communication technology services to the project Schools until 31 July 2012. Payments due in the next financial year amount to £3,466,000. This amount is indexed annually until 1 April 2012.

With Amey Miller (Glasgow) Lifecycle Joint Venture (LCJV), a joint venture between Amey Construction Limited and the Miller Group Limited to provide asset maintenance and replacement services to the project schools for the duration of the Contract. Payments due in the next financial year amount to £1,218,000. Over the duration of the contract payments amounting to £105,812,000 indexed are due.

17. Transactions with Related Parties

During the year, the group purchased services in the normal course of business from the shareholders of 3ED Holdings Limited, in the following amounts:

<u>The Miller Group Limited</u>

Miller PPP Holdings Limited is a related party of the Miller Group Limited. During the year, the group purchased services and loan interest and fees payable to related parties of The Miller Group Limited, for £1,335,000 (2002 – £291,000). At the balance sheet date the amount due to related parties of the Miller Group Limited was £8,665,000 (2002 – £8,706,000).

During the year, the company purchased design & build and other services from Amey – Miller (Glasgow) Joint Venture (CJV), a joint venture between Amey Construction Limited and The Miller Group Limited, for £3,002,000 (2002 – £8,934,000).
At the balance sheet date the amount due to Amey – Miller (Glasgow) Joint Venture (CJV) was £338,000 (2002 – £163,000).

<u>Laing Investments Limited</u>

During the year, the company purchased services and loan interest and fees payable to related parties of Laing Investments Limited for £1,017,000 (2003 - £105,000).
At the balance sheet date the amount due to related parties of Laing Investments Limited was £8,559,000 (2003 – £8,567,000)

<u>HBOS PLC</u>

Uberior Infrastructure Investments Limited is a related party of HBOS PLC. During the year, the company incurred loan interest and fees payable to related parties of HBOS PLC, some of which relates to a syndicated loan, for which HBOS PLC acts as agent, for £23,551,000 (2003 – £14,940,000). At the balance sheet date the amount due to related parties of HBOS PLC, some of which relates to a syndicated loan, for which HBOS PLC acts as agent, was £170,752,000 (2003 – £277,441,000).

Tax losses were sold to the shareholders of 3ED Holdings Limited during the year as follows;

	Loss Sold	Price Paid
Miller construction (UK) Limited	**26,110,814**	**5,834,703**
Uberior Infrastructure Investments (No.2) Limited	**12,696,752**	**2,937,001**

18. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities - (group)

	30 September 2004	30 September 2003
	£'000	£'000
Operating profit/(loss)	**16,272**	11,718
Depreciation tangible fixed assets	**9,785**	8,569
Movement in deferred income	**(535)**	(397)
(Increase)/decrease in debtors	**3,254**	(1,507)
Increase/(decrease) in creditors	**7**	4,271
Net cash inflow/(outflow) from operating activities	**28,783**	22,654

(b) Analysis of net debt (group)

	At 1 October 2003	**Cashflow**	**At 30 September 2004**
	£'000	**£'000**	**£'000**
Cash at Bank and in hand	28,144	13,331	**41,475**
Short-term debt	-	-	-
Loans	(294,526)	3,326	**(291,200)**
	(266,382)	16,657	**(249,725)**