3ED Holdings Limited

Directors' Report and Accounts

31 December 2002

Registered Number SC190329

Directors' Report and Financial Statements

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Directors' Report

The Directors present their report and group accounts for the year ended 31 December 2002.

Review of the business

The group 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.

Eleven of the twelve new schools have been built with one under construction, being St Thomas Aquinas scheduled for competition in December 2003, the remaining eighteen being fully upgraded and refurbished, several with major extensions. All schools will have a fully equipped library, a networked learning centre with computers and study areas. Pupils will have their own e-mail address and access to a bank of computerised learning programmes. There will be improved indoor and outdoor sports facilities.

As at 31 December 2002 the 3ED consortium comprised of The Miller Group Limited, Argon Ventures Limited (formerly Amey Ventures Limited) and Halifax Project Investments Limited, with technology partner Mitel Networks Limited, supported by The New HP Company Limited and the Morse Group Limited.

On 14 March 2003 Amey plc sold Argon Ventures Limited to Laing Investments Limited, a fully owned subsidiary of John Laing plc.

During the year the group continued the above works and provision of services.

Results and Dividend

The results for the year are set out in the attached group profit and loss account. The loss for the year of £28,126,555 (2001 - £40,689,528) has been transferred to reserves.

Directors and Directors' interests

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

A G Bremner	
I A MacDonald	
R S Mackie	
A Scott	(Appointed 16 January 2003)
M W McEwan	(Resigned 16 January 2003)
C M Mogg	(Resigned 14 March 2003)
A L Nelson	(Resigned 14 March 2003)
D I Sutherland	(Resigned 14 March 2003)
G D Blood	(Appointed 14 March 2003, Resigned 29 May 2003)
N Smith	(Appointed 14 March 2003)
R Weston	(Appointed 29 May 2003)
P R Grant	(Appointed 26 July 2002)
A D Darling	(Appointed 26 July 2002)

None of the Directors who held office at the end of the financial year 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 **2003**

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 accounts for the year ended 31 December 2002 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Statement of Total Recognised Gains and Losses, Group Cash Flow and the related notes 1 to 18. These accounts have been set out 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 accounts in accordance with applicable United Kingdom law and accounting standards.

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

We report to you our opinion as to whether the accounts 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 accounts, 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.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 2002 and of the loss 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
17 July 2003

Group Profit and Loss Account

for the year ended 31 December 2002

	Notes	31 December 2002 £	31 December 2001 £
Turnover	2	**29,051,594**	3,260,425
Cost of sales		**(40,342,806)**	(34,761,964)
Group profit/(loss)		**(11,291,212)**	(31,501,539)
Administrative expenses		**(4,833,529)**	(4,618,848)
Operating profit/(loss)	3	**(16,124,741)**	(36,120,387)
Bank interest receivable		**587,714**	837,123
Interest payable	5	**(16,875,273)**	(7,515,766)
Loss on ordinary activities before taxation		**(32,412,300)**	(42,799,030)
Income from sale of tax losses	6	**4,285,745**	2,109,502
Tax on loss on ordinary activities	6	**-**	-
Retained loss for the financial year		**(28,126,555)**	(40,689,528)

Group Statement of Total Recognised Gains and Losses

There are no recognised gains or losses other than the loss for the year of £28,126,555 (2001 - £40,689,528).

Group Balance sheet
at 31 December 2002

	Note	2002 £	2001 £
Tangible fixed assets	7	**189,014,073**	166,168,397
Current assets			
Debtors	9	**7,998,613**	14,677,593
Cash at bank and in hand		**49,289,600**	21,301,147
		57,288,213	35,978,740
Creditors: amounts falling due within one year	10	**(58,978,128)**	(20,575,724)
Net current assets		**(1,689,915)**	15,403,016
Total assets less current liabilities		**187,324,158**	181,571,413
Creditors: amounts falling due after more than one year	11	**(261,228,877)**	(237,210,688)
Deferred income	12	**(14,861,111)**	(5,000,000)
Net liabilities		**(88,765,830)**	(60,639,275)
Capital and reserves			
Called up share capital	13	**20,000**	20,000
Profit and loss account	13/14	**(88,785,830)**	(60,659,275)
Equity shareholders' deficit		**(88,765,830)**	(60,639,275)

These accounts were approved by the board of Directors on 17 July 2003 and were signed on its behalf by:

Director

Director

Balance sheet
at 31 December 2002

	Note	2002 £	2001 £
Fixed assets			
Unlisted investments	8	**20,000**	20,000
Current assets			
Cash at bank and in hand		**4,758**	24,216
		4,758	24,216
Creditors: amounts falling due within one year	10	**-**	(20,000)
Net current assets		**4,758**	4,216
Total assets less current liabilities		**24,758**	24,216
Creditors: amounts falling due after more than one year		**-**	-
Net assets		**24,758**	24,216
Capital and reserves			
Called up share capital	13/14	**20,000**	20,000
Profit and loss account	14	**4,758**	4,216
Equity shareholders' funds		**24,758**	24,216

These accounts were approved by the board of Directors on 17 July 2003 and were signed on its behalf by:

Director

Director

Group Statement of Cashflows
at 31 December 2002

	Notes	**2002** £	2001 £
Net cash outflow from operating activities	*18(a)*	**(8,582,546)**	(40,031,278)
Returns on investments and servicing of finance			
Interest received		**587,714**	837,123
Interest paid		**(14,653,274)**	(7,274,138)
		(14,065,560)	(6,437,015)
Taxation			
Sale of tax losses		**5,499,982**	-
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(28,598,339)**	(124,807,335)
Receipt of milestone payments		**10,000,000**	5,000,000
		(18,598,339)	(119,807,335)
Net cash (outflow)/inflow before management of liquid Resources and financing		**(35,746,463)**	(166,275,628)

Group Statement of Cashflows
at 31 December 2002

	Notes	2002 £	2001 £
Net cash (outflow) before management of liquid resources and financing		**(35,746,463)**	(166,275,628)
Management of liquid resources			
Increase in short-term loans	*18(b)*	**4,183,799**	12,663,483
Financing			
New long-term loans		**59,551,117**	157,500,000
Increase in cash		**27,988,453**	3,887,855

Reconciliation of net cash flow to movement in net debt

	Notes	2002 £	2001 £
Increase in cash		**27,988,453**	3,887,855
Cash inflow from increase in loans		**(59,551,117)**	(157,500,000)
Cash inflow from short-term loans		**(4,183,799)**	(12,663,483)
Change in net debt resulting from cash flows		**(35,746,463)**	(166,275,628)
Exchange differences		-	-
Other		-	-
Movement in net debt		**(35,746,463)**	(166,275,628)
Net debt at 1 January		**(229,815,037)**	(63,539,409)
Net debt at 31 December		**(265,561,500)**	(229,815,037)

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 year 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 3ED Glasgow Limited to sell tax losses to shareholders at a rate which at least compensates 3ED 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 all tangible fixed assets to write off the cost less estimated residual value of tangible fixed assets by equal instalments over their expected useful lives as follows:

Buildings	-	27 - 30 years
Machinery and equipment	-	3 - 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 in Glasgow.

3. Operating loss

	31 December 2002	31 December 2001
	£	£
Operating loss is stated after charging:		
Auditors' remuneration	**15,000**	15,000
Depreciation	**5,752,663**	1,908,598
Operating lease rentals: office lease	**20,375**	28,451

4. Directors' emoluments

The Directors did not receive any remuneration from the group during the year (2001 - £Nil)

5. Interest payable

	31 December 2002	31 December 2001
	£	£
On bank loans	**16,875,273**	7,506,811
Other	**-**	8,955
	16,875,273	7,515,766

6. Taxation

(a) Tax on profit on ordinary activities:

The tax credit is made up as follows:

	2002	2001
	£	£
Current tax:		
Income from sale of tax losses by way of consortium relief	**4,285,745**	2,109,502

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 – 30%). The differences are reconciled below:

	2002	2001
	£	£
Loss on ordinary activities before tax	**32,412,300**	42,799,030
Loss on ordinary activities multiplied by standard rate of corporation Tax in the UK of 30% (2001 – 30%)	**(9,723,690)**	(12,839,709)
Expenses not deductible for tax purposes	**1,037,746**	56,260
Decelerated/(accelerated) capital allowances	**(3,498,356)**	(3,765,902)
Other timing differences	**(923,975)**	(898,953)
Rate difference on consortium relief	**2,857,163**	1,406,335
Losses arising in the year not relievable against current tax	**5,965,367**	13,932,467
Total current tax credit	**(4,285,745)**	(2,109,502)

6. **Taxation** (continued)

(c) **Deferred tax**

Group		
Accelerated capital allowances	**7,908,291**	4,409,935
Other timing differences	**2,224,541**	1,300,567
Tax losses carried forward	**(22,782,648)**	(16,820,321)
Deferred tax asset	**(12,649,816)**	(11,109,819)
Deferred tax asset not recognised	**12,649,816**	11,109,819
At 1 January 2002	**-**	-
Deferred tax movement in year	**(1,539,997)**	(9,267,612)
Deferred tax asset not recognised	**1,539,997**	9,267,612
At 31 December 2002	**-**	-

The company has no deferred taxation.

(d) **Factors that may affect future tax charge**

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	Other Fixed Assets	Machinery & Equipment	Assets in the Course of Construction	Total
	£	£	£	£	£
Cost					
At 1 January 2002	123,864,667	7,913	10,647,095	34,162,136	168,681,811
Additions	-	-	4,255,729	24,342,610	28,598,339
Transfers	56,612,450	-	-	(56,612,450)	-
At 31 December 2002	180,477,117	7,913	14,902,824	1,892,296	197,280,150
Depreciation					
At 1 January 2002	272,353	2,138	2,238,923	-	2,513,414
Charge for year	3,219,353	1,983	2,531,327	-	5,752,663
At 31 December 2002	3,491,706	4,121	4,770,250	-	8,266,077
Net Book Value					
At 31 December 2002	**176,985,411**	**3,792**	**10,132,574**	**1,892,296**	**189,014,073**
At 31 December 2001	123,592,314	5,775	8,408,172	34,162,136	166,168,397

Included within the Short Leasehold Buildings and Assets in the Course of Construction is capitalised interest of £7,394,034 (2001 – £4,335,222).

8. Investments

	Subsidiary Undertaking £
At 1 January and 31 December 2002	20,000

Subsidiary undertakings	*Holding*
3ED Glasgow Limited	100% ordinary shares

9. Debtors

Group

	2002 £	2001 £
Trade debtors	**5,424,127**	8,616,698
Other debtors	**976,329**	111,412
Other taxes and social security	**-**	3,533,122
Prepayments	**1,598,157**	2,416,361
	7,998,613	14,677,593

10. Creditors: amounts falling due within one year

Group

	2002 £	2001 £
Trade creditors	**2,183,120**	4,243,357
Other creditors	**17,407,609**	13,697,426
Current instalments due on bank loans	**36,774,941**	1,242,013
Accruals	**2,612,458**	1,392,928
	58,978,128	20,575,724

Company

	2002 £	2001 £
Amounts due to subsidiary undertakings	**-**	20,000

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

Group

	2002 £	2001 £
Wholly repayable within five years:		
£33,500,000 bank loan, repayable December 2003	**33,500,000**	33,500,000
Not wholly repayable within five years:		
£265,250,000 bank loan, repayable in instalments commencing September 2002	**264,503,818**	204,952,701
	298,003,818	238,452,701
Less: included in creditors: amounts falling due within one year	**36,774,941**	1,242,013
	261,228,877	237,210,688

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

The maturity of debt is as follows:

	2002 £	2001 £
In one year or less or on demand	**36,774,941**	1,242,013
Between one and two years	**2,829,247**	35,864,345
Between two and five years	**16,454,619**	10,604,241
In five years or more	**241,945,011**	190,742,102
	298,003,818	238,452,701

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.

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

12. Deferred income

Group

	2002 £	2001 £
At 1 January	**5,000,000**	-
Amounts received in the year	**10,000,000**	5,000,000
Released during the year	**(138,889)**	-
At 31 December 2002	**14,861,111**	5,000,000

13 Share capital

	2002 £	2001 £
Authorised: Ordinary shares of £1 each	**100,000**	100,000
Allotted, called up and paid Ordinary shares of £1 each	**20,000**	20,000

14 Reconciliation of shareholders' funds and movement on reserves

Group

	Share Capital £	Profit and loss account £	Total shareholders funds £
At 1 January 2002	20,000	(60,659,275)	(60,639,275)
Loss for the year	-	(28,126,555)	(28,126,555)
At 31 December 2002	**20,000**	**(88,785,830)**	**(88,765,830)**

14 Reconciliation of shareholders' funds and movement on reserves (continued)

Company

	Share Capital	*Profit and loss account*	*Total shareholders funds*
	£	*£*	*£*
At 1 January 2002	20,000	4,216	24,216
Profit for the year	-	542	542
At 31 December 2002	**20,000**	**4,758**	**24,758**

15. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £7,631,978 (Contracted but not provided in 2001 - £55,694,173).

16. Other financial commitments

At 31 December 2002 the group had annual commitments under non-cancellable operating leases, relating to land and buildings, as follows:

	£
Operating leases which expire:	
Within one year	-
In two to five years	116,706
In over five years	-

There were no other financial commitments as at 31 December 2002.

17. Transactions with related parties

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

Amey Ventures Limited	£144,206	(2001 - £87,797)
The Miller Group Limited	nil	(2001 - £Nil)
Uberior Infrastructure Investments (No 2) Limited	£12,484	(2001 - £36,921)

Balances due as at 31 December 2002 to shareholders of 3ED Holdings Limited were

Amey Ventures Limited	nil	(2001 - £80,690)

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

	Loss Sold	**Price Paid**
Uberior Infrastructure Investments (No 2) Limited	£3,430,000	£617,400
The Miller Group Limited	£3,418,000	£654,000

17. Transactions with related parties (continued)

Balances due as at 31 December 2002 from the shareholders of 3ED Holdings Limited were:

Amey Ventures Limited	nil	(2001 - £2,101)
The Miller Group Limited	£666,600	(2001 - £15,599)
Uberior Infrastructure Investments (No 2) Limited	£241,264	(2001 - £2,209,022)

The Amey group – goods and services

During the year, the company purchased facility management and other services from Amey BPO Services Limited, a related party of Amey Ventures Limited, for £13,194,899 (2001 - £10,510,281). At the balance sheet date the amount due to Amey BPO Services Limited was £1,206,242 (2001 - £1,310,791).

During the year, the company purchased design and build and other services from Amey – Miller (Glasgow) Joint Venture (CJV), a joint venture between Amey Construction Limited (a related party of Amey Ventures Limited) and The Miller Group Limited, for £46,267,853 (2001 - £139,001,623). At the balance sheet date the amount due to Amey – Miller (Glasgow) Joint Venture (CJV) was £125,088 (2001 - £1,627).

The Miller Group – Goods and Services

During the year, the company purchased services from Miller Construction (UK) Limited, a related party of The Miller Group Limited, for £1,284,744 (2001 - £1,305,163). At the balance sheet date the amount due to Miller Construction (UK) Limited was £55,983 (2001 - £195,652).

During the year, the company purchased design and build and other services from Amey – Miller (Glasgow) Joint Venture (CJV), a joint venture between Amey Construction Limited (a related party of Amey Ventures Limited) and The Miller Group Limited, for £46,267,853 (2001 - £139,001,623. At the balance sheet date the amount due to Amey – Miller (Glasgow) Joint Venture (CJV) was £125,088 (2001 - £1,627).

Halifax Group – Good and Services

During the year, the company incurred loan interest and fees payable to Halifax PLC, a related party of Uberior Infrastructure Investments (No 2) Limited, of £18,256,084 (2001 - £11,362,515). At the balance sheet date the amount due to Halifax PLC was £298,003,818 (2001 - £238,452,701).

18. Notes to the statement of cash flows

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

	2002	2001
	£	£
Operating profit/(loss)	**(16,124,741)**	(36,120,387)
Depreciation tangible fixed assets	**5,752,663**	1,908,598
Movement in deferred income	**(138,889)**	-
Increase in debtors	**5,464,943**	(4,926,595)
Decrease in creditors	**(3,536,522)**	(892,894)
Net cash outflow from operating activities	**(8,582,546)**	(40,031,278)

18. Notes to the statement of cash flows (continued)

(b) Analysis of net debt

	At 1 January 2002	Cashflow	Other non-cash movements	**At 31 December 2002**
	£	£	£	**£**
Cash at Bank and in hand	21,301,147	27,988,453	-	**49,289,600**
Cash	21,301,147	27,988,453	-	**49,289,600**
Short-term debt	(12,663,483)	(4,183,799)	-	**(16,847,282)**
Loans	(238,452,701)	(59,551,117)	-	**(298,003,818)**
	(229,815,037)	(35,746,463)	-	**(265,561,500)**