Community Schools Holdings Limited

Directors' report and financial statements

Registered number SC210980

31 July 2003

Contents

Directors' report

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

Principal activities

The principal activity of the company is that of a holding company.

Business review

The company has the beneficial ownership of the entire issued share capital of Community Schools (Highlands) Limited. The results for the group are set out in these financial statements. The group made a profit before tax of £48,972 (2002: a loss of £27,339). The directors are pleased to report that all four schools were completed on programme, and became operational in time for the 2002/03 school year. Income streams commenced accordingly in August 2002. The forthcoming year is expected to bring delivery of satisfactory services to the client, with business performance meeting shareholder expectations.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

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

David A Eyre (resigned 30 April 2003)

Paul E Hilton (appointed 11 November 2002)

Ronald G Jack

James D Kay (resigned 11 November 2002)

William J Mackintosh

Colin W McLellan (appointed 24 February 2004)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

DA Eyre and JD Kay are shareholders in MJ Gleeson Group plc which is a 50% shareholder of Community Schools Holdings Limited. Their interest in the share capital of that company are disclosed in the financial statements of MJ Gleeson Group plc.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Political and charitable contributions

The company made no political or charitable contributions during the period.

Auditors

KPMG Audit Plc were re-appointed as auditors during the period. 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

Paul E Hilton
Director

Unit 9
Callender Business Park
Falkirk
Scotland
FK1 1XR

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 and of the profit or loss of the company and group 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;
- 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 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

KPMG Audit Plc
St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditors to the members of Community Schools Holdings Limited

We have audited the financial statements on pages 4 to 19.

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 directors' report and, as described on page 2, 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 company 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 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 the group as at 31 July 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

28 June 2004

Consolidated profit and loss account

for the year ended 31 July 2003

	Note	**2003**	2002
		£	**£**
Turnover		**3,409,033**	15,042,179
Cost of sales		**(2,749,227)**	(15,042,179)
Gross profit		**659,806**	-
Administrative expenses		**(94,272)**	(35,360)
Operating profit/(loss)		**565,534**	(35,360)
Other interest receivable and similar income	*4*	**982,664**	8,021
Interest payable and similar charges	*5*	**(1,499,226)**	-
Profit/(loss) on ordinary activities before taxation	*2*	**48,972**	(27,339)
Tax on profit/(loss) on ordinary activities	*6*	**5,108**	(2,406)
Retained profit/(loss) for the period	*14*	**54,080**	(29,745)

Turnover and operating loss were derived from continuing operations and there were no recognised gains or losses other than the loss for the period shown above.

There is no difference between the profits/losses in the profit and loss account and their historical cost equivalents.

Consolidated balance sheet
at 31 July 2003

	Note	2003 £	£	2002 £	£
Current assets					
Debtors (including £18,419,387 (*2002: £17,161,567*) due after more than one year)	8	**19,396,652**		18,138,731	
Cash at bank and in hand		**1,291,752**		637,215	
		20,688,404		18,775,946	
Creditors: amounts falling due within one year	*10*	**(1,327,746)**		(2,142,806)	
Net current assets			**19,360,658**		16,633,140
Creditors: amounts falling due after more than one year	*11*		**(19,340,066)**		(16,661,520)
Provisions for liabilities and charges	*12*		**-**		(5,108)
Net assets/(liabilities)			**20,592**		(33,488)
Capital and reserves					
Called up share capital	*13*		**198**		198
Profit and loss account	*14*		**20,394**		(33,686)
Equity shareholders' funds/(deficit)			**20,592**		(33,488)

These financial statements were approved by the board of directors on 28/6/04 and were signed on its behalf by:

Paul E Hilton
Director

Company balance sheet
at 31 July 2003

	Note	**2003** **£**	2002 £
Fixed assets			
Investments	7	**198**	198
Net assets		**198**	198
Capital and reserves			
Called up share capital	*13*	**198**	198
Equity shareholders' funds		**198**	198

These financial statements were approved by the board of directors on 28/6/04 and were signed on its behalf by:

Paul E Hilton
Director

Consolidated cash flow statement

for the year ended 31 July 2003

	Note		2003 £		2002 £
Cash flow from operating activities	*15*		**(2,544,978)**		(12,755,121)
Returns on investments and servicing of finance					
Bank interest received		**37,017**		17,029	
Finance debtor interest received	*4*	**945,647**		-	
Bank interest paid		**(1,089,100)**		(207,884)	
Commitment fees paid		**-**		(62,533)	
Net cash outflow from returns on investments and servicing of finance			**(106,436)**		(253,388)
Cash outflow before management of liquid resources and financing			**(2,651,414)**		(13,008,509)
Management of liquid resources and financing					
Increase in secured loan repayable in 2025 (senior debt)		**3,088,073**		11,550,000	
Increase in unsecured loan repayable in 2025 (sub-ordinate debt)		**441,272**		1,185,870	
Repayment of secured loan – Senior debt		**(201,949)**		-	
Repayment of secured loan – Subordinate debt		**(21,445)**		-	
Net cash inflow from management of liquid resources and financing	*17*		**3,305,951**		12,735,870
Increase/(decrease) in cash in the period	*17*		**654,537**		(272,639)

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

	Group 2003 £000	2002 £000	Company 2003 £000	2002 £000
Profit/(loss) for the financial year	**54,080**	(29,745)	**-**	-
Net addition to/(reduction in) shareholders' funds	**54,080**	(29,745)	**-**	-
Opening shareholders' funds/(deficit)	**(33,488)**	(3,743)	**198**	198
Closing shareholders' funds/(deficit)	**20,592**	(33,488)	**198**	198

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied 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.

The company is exempt under s230(4) of the Companies Act 1985 from the requirement to present its own profit and loss account.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking made up to 31 July 2003. The acquisition method of accounting has been adopted.

Turnover

Turnover represents the value of work done and services rendered, excluding sales and related taxes.

Amounts recoverable under contracts / stocks and work in progress

Costs incurred in the construction of the schools have been accounted for under Financial Reporting Standard ('FRS') 5 'Reporting the substance of transactions' 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 Highland Council. 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 construction work in progress 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 practiced completion date, the amounts outstanding under the contract were transferred from amounts recoverable under contracts into a finance debtor.

Finance lease debtor

Accounts receivable under the agreement with the Highland Council relating to the schools facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

Capitalisation of interest

Loan interest incurred during the construction of the school is capitalised into work-in-progress.

Debt issue costs

Debt issue costs are netted off the outstanding loan balance and are amortised over the loan period in accordance with FRS 4 'Capital Instruments'.

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 'Deferred Tax'.

Notes *(continued)*

2 Profit/(loss) on ordinary activities before taxation

Group	2003	2002
	£	£
Profit/(loss) on ordinary activities before taxation is stated after charging		
Auditors' remuneration – audit	**6,500**	6,220
- other services	**12,500**	3,000

The company audit fee is borne by the company's subsidiary.

3 Staff numbers and costs

The company had no employees during the period and the directors received no emoluments for their services.

4 Other interest receivable and similar income

Group	2003	2002
	£	£
Bank interest	**37,017**	8,021
Finance interest	**945,647**	-
	982,664	8,021

5 Interest payable and similar charges

Group	2003	2002
	£	£
On bank loans and overdrafts	**1,518,377**	577,716
Bank commitment fees payable	**-**	56,143
Amortisation of issue costs	**7,650**	7,650
Interest capitalised in work-in-progress	**(26,801)**	(641,509)
	1,499,226	-

Cumulative finance costs of £698,793 *(2002: £671,992)* have been capitalised into the finance lease debtor (2002: *Amounts recoverable on contracts*).

Notes *(continued)*

6 Taxation

Analysis of charge in period

Group	**2003**	2002
	£	£
Current tax on income for the period	-	-
Deferred tax (see note 12)		
Origination and reversal of timing differences	**(5,108)**	2,406
Tax (charge)/credit on profit/(loss) on ordinary activities	**(5,108)**	2,406

There is no current tax charge arising on the results for the period since tax losses arising from trading activities are available for offset against future trading profits.

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (*2002:higher*) than the standard rate of corporation tax in the UK. The differences are explained below.

Group	**2003**	2002
	£	£
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	**48,972**	(27,339)
Current tax at 30% *(2002:30%)*	**14,692**	(8,201)
Expenses not deductible for tax purposes	**186,788**	8,201
Capital allowances in excess of finance debtor amortisation	**(306,158)**	-
Other timing differences	**14,234**	-
Increase in tax losses carried forward	**90,444**	-
Total current tax charge (see above)	-	-

Notes *(continued)*

7 Fixed asset investments

Company	Total £000
Cost and net book value	
At beginning of year	198
Additions	-
At end of year	198

Information in respect of subsidiary undertaking:

	Country of incorporation	Principal activity	Class and percentage of shares held
Community Schools (Highlands) Limited	Scotland	Building Management services	Ordinary £1 shares 100%

8 Debtors

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Trade debtors	**547,128**	-	-	-
Finance lease debtor (see note 9)	**18,842,802**	-	-	-
Amounts recoverable on contracts	-	17,564,819	-	-
Other debtors	-	557,912	-	-
Prepayments and accrued income	**6,722**	16,000		
	19,396,652	18,138,731	-	-

£17,161,567 of amounts recoverable on contracts was due in more than one year

9 Analysis of finance debtor

Group		2003 £	2002 £
Amounts due within	1 year	**423,415**	-
	1 - 2 years	**444,585**	-
	2 - 5 years	**1,471,633**	-
	Over 5 years	**16,503,169**	-
		18,842,802	-
Less: amounts due within one year		**(423,415)**	-
Amounts falling due after more than one year		**18,419,387**	-

Notes *(continued)*

9 Analysis of finance debtor *(continued)*

The movement in the finance debtor balance can be considered as follows:

Group	2003 £	2002 £
Opening debtor	-	-
Additions to finance debtor in the period	**19,246,054**	-
Capital element of payments received in period	**(403,252)**	-
Total finance debtor	**18,842,802**	-

In accordance with FRS 5 Application Note F, the income received in the form of a unitary charge has been allocated to the finance debtor using a property specific rate of return which the directors consider appropriate for the asset concerned. The gross earnings in respect of the finance debtor are allocated to give a constant periodic rate of return on Community Schools (Highlands) Limited's net cash investment.

10 Creditors: amounts falling due within one year

	Group 2003 £000	2002 £000	Company 2003 £000	2002 £000
Bank loans and overdrafts	**576,762**	179,849	-	-
Trade creditors	**215,100**	-	-	-
Other creditors including taxation and social security	**15,616**	-		
Taxation and social security	**429,735**	-	-	-
Accruals and deferred income	**90,533**	1,962,957	-	-
	1,327,746	2,142,806	-	-

11 Creditors: amounts falling due after more than one year

	Group 2003 £000	2002 £000	Company 2003 £000	2002 £000
Bank loans and overdrafts	**19,340,066**	15,994,101	-	-
Other creditors	-	667,419	-	-
	19,340,066	16,661,520	-	-

Notes *(continued)*

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

Analysis of debt:

	Group		Company	
	2003	2002	**2003**	2002
	£000	£000	**£000**	£000
Debt can be analysed as falling due:				
In one year or less	**576,762**	179,849	-	-
Between one and two years	**627,533**	464,966	-	-
Between two and five years	**2,197,381**	1,660,939	-	-
In five years or more	**16,683,443**	14,044,136	-	-
	20,085,119	16,349,890	-	-
Issue costs	**(168,290)**	(175,940)		
	19,916,829	16,173,950	-	-

The loan from The Royal Bank of Scotland plc (the senior debt) is secured by way of a fixed and floating charge over all the assets of the borrower, and by a fixed charge over the cash balances and investments of the borrower.

Interest on the senior debt is charged at a margin of 1.05% over LIBOR until service commencement date (12 August 2002) and 0.95% over LIBOR thereafter. Repayment is scheduled at six-monthly intervals between January 2003 and July 2025.

No interest on the subordinated debt accrues during the construction phase of the project. Subsequently, interest is charged at 16% per annum. Repayment is scheduled at six-monthly intervals between January 2003 and July 2025.

Payments of interest and principal in respect of subordinated debt are conditional on satisfaction of covenants specified in the loan agreement with The Royal Bank of Scotland plc.

Amounts repayable in more than five years:

	2003	2002
	£	£
Senior debt	**15,081,929**	12,748,607
Subordinated debt	**1,601,514**	1,295,529
	16,683,443	14,044,136

Notes *(continued)*

12 Provisions for liabilities and charges

	Taxation including deferred taxation £	Total £
At beginning of year	**5,108**	**5,108**
Charged during the year	**(5,108)**	**(5,108)**
At end of year	-	-

The elements of deferred taxation are as follows:

	2003 £	2002 £
Capital allowances in excess of finance debtor amortisation	**312,804**	-
Other timing differences	**(14,234)**	5,108
Losses	**(298,570)**	-
Deferred tax liability	-	5,108

Further losses of £94,341 *(2002: £302,466)* have not been recognised on the basis that the recoverability of this element of the losses cannot be predicted with sufficient certainty.

13 Called up share capital

	2003 £000	2002 £000
Authorised		
Equity: A Ordinary shares of £1 each	**500**	500
Equity: B Ordinary shares of £1 each	**500**	500
	1,000	1,000
Allotted, called up and fully paid		
Equity: A Ordinary shares of £1 each	**99**	99
Equity: B Ordinary shares of £1 each	**99**	99
	198	198

The A and B ordinary shares rank pari passu.

Notes *(continued)*

14 Reserves

Group

	Profit and loss account £
At beginning of year	(33,686)
Retained profit for the year	54,080
At end of year	20,394

Company

	Profit and loss account £
At beginning of year	-
Retained profit for the year	-
At end of year	-

15 Reconciliation of operating profit/(loss) to operating cash flows

	2003 £	2002 £
Operating profit/(loss)	565,534	(35,360)
Interest capitalised in work-in-progress	26,801	641,509
(Increase)/decrease in debtors	(1,257,921)	(15,219,780)
(Increase)/decrease in creditors	(1,879,392)	1,858,510
Net cash outflow from operating activities	(2,544,978)	(12,755,121)

Notes *(continued)*

16 Reconciliation of net cash flow to movement in net debt

	2003 £	2002 £
Increase/(decrease) in cash in the period	**654,537**	(272,639)
Cash inflow from increase in debt financing	**(3,305,951)**	(12,735,870)
Non-cash inflow – Capitalised interest added to loan balance	**(429,277)**	(372,450)
Change in net debt resulting from cash flows	**(3,080,691)**	(13,380,959)
Non-cash movement	**(7,650)**	(7,650)
Movement in net debt in the period	**(3,088,341)**	(13,388,609)
Net debt at the start of the period	**(15,536,735)**	(2,148,126)
Net debt at the end of the period	**(18,625,076)**	(15,536,735)

17 Analysis of net debt

	At beginning of year £000	Cash flow £000	Capitalised interest £000	Other non cash changes £000	**At end of year** **£000**
Cash in hand, at bank	637,215	654,537	-	-	**1,291,752**
Debt due after one year	(15,994,101)	(3,305,951)	(429,277)	389,263	**(19,340,066)**
Debt due within one year	(179,849)	-	-	(396,913)	**(576,762)**
Total	(15,536,735)	(2,651,414)	(429,277)	(7,650)	**(18,625,076)**

18 Commitments

Capital commitments at the end of the financial period for which no provision has been made, are as follows:

	Group		Company	
	2003 **£**	2002 £	2003 £	2002 £
Outstanding amounts due under contract with MJ Gleeson Group plc (financed by senior and subordinated debt facilities)	-	2,669,602	-	-

Notes *(continued)*

19 Related party disclosures

Community Schools (Highlands) Limited has sub-contracted the construction of four schools to MJ Gleeson Group plc, a 50% shareholder of Community Schools Holdings Limited. The value of the construction contract is £16,660,779, plus variations. The amount invoiced to 31 July 2003 is £16,228,044 *(2002: £13,911,167)*. Retention balances due to MJ Gleeson Group plc of £429,735 *(2002: £667,419)* are included within other creditors due within one year *(2002: due in more than one year)*.

The Royal Bank of Scotland plc, the ultimate parent company of Royal Bank Project Investments Limited and a 50% shareholder of Community Schools Holdings Limited, is providing the senior debt facility to Community Schools (Highlands) Limited. The value of the facility is £18,359,012 *(2002: £18,359,012)*. The amount drawn down to 31 July 2003 is £17,345,109 *(2001: £14,445,109)*. £18,157,063 *(2002: £14,841,662)* (including interest) is due to The Royal Bank of Scotland plc at 31 July 2003.

Royal Bank Project Investments Limited, a subsidiary of The Royal Bank of Scotland plc, and MJ Gleeson Group plc, are providing a subordinated debt facility to Community Schools (Highlands) Limited. The value of each facility is £975,478. The amount drawn down from MJ Gleeson at 31 July 2003 is £964,748 *(2002: £701,225)* and from the Royal Bank of Scotland £963,308 *(2002: £807,003)*.

Community Schools (Highlands) Limited has entered into a 25 year Swap Agreement with The Royal Bank of Scotland plc which has the effect of fixing the payments due under the loan agreement referred to in Note 11.

Other related party transactions are as follows:

Name of related party	Relationship	Transaction	Amounts payable/(receivable) during year	Associated balance due to / (from) related party at 31 July 2003
MJ Gleeson Group plc	Shareholder of Community Schools Holdings Limited	Construction costs	£4,125,379	£429,735
MJ Gleeson Group plc	Shareholder of Community Schools Holdings Limited	Administration fee	£22,914	£nil
MJ Gleeson Group plc	Shareholder of Community Schools Holdings Limited	Interest charges	£143,575	£nil
Royal Bank Project Investments Limited, a subsidiary of The Royal Bank of Scotland plc	Shareholder of Community Schools Holdings Limited	Interest charges	£995,361	£nil
Royal Bank Project Investments Limited, a subsidiary of The Royal Bank of Scotland plc	Shareholder of Community Schools Holdings Limited	Interest from the Royal Bank of Scotland	£(37,017)	£nil
Royal Bank Project Investments Limited, a subsidiary of The Royal Bank of Scotland plc	Shareholder of Community Schools Holdings Limited	Interest rate SWAP fees	£379,442	£nil

Notes *(continued)*

19 Related party disclosures *(continued)*

Name of related party	Relationship	Transaction	Amounts payable/(receivable) during year	Associated balance due to / (from) related party at 31 July 2003
Royal Bank Project Investments Limited, a subsidiary of The Royal Bank of Scotland plc	Shareholder of Community Schools Holdings Limited	Commitment fee payable in respect of senior debt facility	£18,211	£nil
Royal Bank Project Investments Limited, a subsidiary of The Royal Bank of Scotland plc	Shareholder of Community Schools Holdings Limited	Technical advice	£25,263	£nil
Royal Bank Project Investments Limited, a subsidiary of The Royal Bank of Scotland plc	Shareholder of Community Schools Holdings Limited	Charges	£425	£nil

20 Ultimate parent company

The company is controlled by its two equal shareholders MJ Gleeson Group plc and Royal Bank Project Investments Limited.

MJ Gleeson Group plc is incorporated in England. The consolidated accounts of this company are available to the public and may be obtained from MJ Gleeson Group, Haredon House, London Road, North Cheam, Sutton, Surrey, SM3 9BS.

Royal Bank Project Investments Limited is a wholly owned subsidiary of The Royal Bank of Scotland Group plc, a company incorporated in Scotland. The consolidated accounts are available to the public and may be obtained from 42 St Andrew Square, Edinburgh, EH2 2YE.