CHESTNUTBAY LIMITED

Annual report

for the 6 months ended 28 February 2002

Registered Number: 04134749

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COMPANIES HOUSE 19/12/02

CHESTNUTBAY LIMITED

Annual report

for the 6 months ended 28 February 2002

Contents

CHESTNUTBAY LIMITED

Directors' report
for the 6 months ended 28 February 2002

The directors present their report and the audited financial statements of the company and the group for the 6 months ended 28 February 2002.

Principal activities
The principal activity of the group is the operation of private schools and nurseries.

The consolidated profit and loss account for the year is set out on page 4.

Review of business and future developments
The board are pleased with the continued progress of the group. The board is confident of further progress in the coming year.

Dividends and transfers to reserves
The directors do not recommend the payment of a dividend. The retained loss of the group for the financial period of £1,053,000 (2001: £1,967,000 restated) will be transferred to reserves.

Changes in fixed assets
The movements in fixed assets during the period are set out in notes 8 and 9 to the financial statements.

Directors
The directors of the company during the period, are listed below:

P B Rhodes
J Hand
P Aughterson
R A Ring
J Cross

Directors' interests
The following directors of the company at the balance sheet date had interests in the shares of the company during the period.

	'A' ordinary shares of £1 each Number	'B' ordinary shares of 1p each Number
PB Rhodes	28,000	5,208
P Aughterson	280,000	102,114
R Ring	20,000	-
J Cross	20,000	-

P Aughterson also holds £7,715,870 guaranteed unsecured loan notes redeemable in 2006 and £2,289,779 10% subordinated unsecured loan notes redeemable in 2010 issued by Acorndrive Limited, the company's subsidiary undertaking.

Employees
The group's policy is to ensure that all employees are fully trained and aware of all matters likely to affect employees' interests. Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the company as a whole.

There is no employee share scheme or profit sharing scheme at present.

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitude and abilities.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 28 February 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors
The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

R Ring
Secretary

Independent auditors report to the members of CHESTNUTBAY LIMITED

We have audited the financial statements which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the group and company balance sheets, the cash flow statement and the related notes.

Respective responsibilities of the directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

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 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 at 28 February 2002 and of the loss and cash flows of the group for the 6 months ended 28 February 2002 and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London 18 December 2002.

CHESTNUTBAY LIMITED

Consolidated profit and loss account for the 6 months ended 28 February 2002

	Note	2002 Operations before goodwill amortisation £'000	2002 Goodwill amortisation £'000 (Note 8)	2002 Total £'000	8 months ended 31 August 2001 Total (restated) £'000
Turnover	2	16,593	-	16,593	10,836
Less: share of joint venture's turnover		(653)	-	(653)	(473)
Group turnover		15,940	-	15,940	10,363
Cost of sales		(8,825)	-	(8,825)	(5,827)
Gross profit		7,115	-	7,115	4,536
Administrative expenses		(4,287)	(951)	(5,238)	(4,200)
Operating profit		2,828	(951)	1,877	336
Share of profit in joint venture		112	-	112	60
Group operating profit		2,940	(951)	1,989	396
Net interest payable	5	(3,197)	-	(3,197)	(2,082)
Loss on ordinary activities before taxation	6	(257)	(951)	(1,208)	(1,686)
Tax on ordinary activities	7	155	-	155	(281)
Retained loss for the period	18	(102)	(951)	(1,053)	(1,967)

The results above all arise from continuing operations.

There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above, and their historical cost equivalents.

CHESTNUTBAY LIMITED

Statement of total recognised gains and losses for the six months ended 28 February 2002

	6 months ended 28 February 2002 £'000	8 months ended 31 August 2001 (restated) £'000
Loss for the period	**(1,053)**	(1,967)
Total recognised gains and losses relating to the period	**(1,053)**	(1,967)
Prior period adjustment (see note 1)	**(267)**	
Total gains and losses recognised since last annual report	**(1,320)**	

CHESTNUTBAY LIMITED

Balance sheets
at 28 February 2002

	Note	**Group 28 February 2002**	**Company 28 February 2002**	Group 31 August 2001 (restated)	Company 31 August 2001
		£'000	***£'000***	*£'000*	*£'000*
Fixed assets					
Intangible assets	8	**36,459**	-	37,410	-
Tangible assets	9	**31,722**	-	31,853	-
		68,181	-	69,263	-
Investment in joint venture:					
Share of gross assets		**623**	-	688	-
Share of gross liabilities		**(562)**	-	(532)	-
	10	**61**	-	156	-
Other investments	10	-	**1,950**	-	1,950
Total fixed assets		**68,242**	**1,950**	69,419	1,950
Current assets					
Stocks	11	**11**	-	11	-
Debtors	12	**877**	**1,281**	3,731	1,453
Cash at bank and in hand	14	**9,527**	-	8,190	-
		10,415	**1,281**	11,932	1,453
Creditors: amounts falling due within one year	13	**(14,994)**	**(1,593)**	(17,405)	(1,568)
Net current liabilities		**(4,579)**	**(312)**	(5,473)	(115)
Total assets less current liabilities		**63,663**	**1,638**	63,946	1,835
Creditors: amounts falling due after more than one year	14	**(64,580)**	-	(63,632)	-
Provisions for liabilities and charges	15	**(94)**	-	(272)	-
Net (liabilities)/assets		**(1,011)**	**1,638**	42	1,835
Capital and reserves					
Called up share capital	17	**394**	**394**	394	394
Share premium account	18	**1,556**	**1,556**	1,556	1,556
Warrant reserve	18	**59**	-	59	-
Profit and loss account	18	**(3,020)**	**(312)**	(1,967)	(115)
Equity shareholders' funds	19	**(1,011)**	**1,638**	42	1,835

The financial statements on pages 4 to 20 were approved by the board directors on 12 December 2002

and were signed on its behalf by:

P Aughterson
Director

CHESTNUTBAY LIMITED

Consolidated cash flow statement for the 6 months ended 28 February 2002

	Note	**6 months ended 28 February 2002 £'000**	8 months ended 31 August 2001 £'000
Net cash inflow from operating activities	20	**4,044**	1,387
Dividends received from joint venture		**190**	-
Returns on investment and servicing of finance			
Cost of issue of debt		-	(1,646)
Interest paid		**(1,301)**	(560)
		(1,301)	(2,206)
Taxation			
UK corporation tax paid		-	(358)
Capital expenditure			
Purchase of tangible fixed assets		**(442)**	(302)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(50,586)
Net cash acquired with subsidiary undertakings		-	1,249
Repayment of loan on acquisition		-	(16,682)
Net cash outflow from acquisitions and disposals		-	(66,019)
Cash inflow/(outflow) before financing		**2,491**	(67,498)
Financing			
Issue of ordinary share capital		-	1,568
New bank loans		-	30,000
Issue of unsecured loan notes		-	35,250
Net cash inflow from financing		-	66,818
Increase/(Decrease) in cash	21	**2,491**	(680)

CHESTNUTBAY LIMITED

Notes to the financial statements for the 6 months ended 28 February 2002

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting
The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation
The consolidated financial statements include the company and its subsidiary and joint venture undertakings. The results of subsidiary undertakings acquired or disposed of during the period are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. The joint venture is accounted for under the gross equity method of accounting.

Intangible fixed assets
Goodwill arising on consolidation represents the excess of the fair value of the consideration given, including incidental costs of acquisition, over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries is eliminated by amortisation through the profit and loss account over a period of twenty years, being its estimated useful economic life.

Stock
Stock is valued at the lower of cost and net realisable value, after making allowance for obsolete and slow-moving items.

Tangible fixed assets
The cost of land and buildings is their purchase cost, including the goodwill inherent in a building as a consequence of its being used as a school or nursery, plus any incidental costs of acquisition. Purchases and disposals are included in the financial statements once exchange of contract has taken place and completion is expected.

The cost of other fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold properties	2% on cost
Leasehold properties	over the life of the lease
Motor vehicles	25% on cost
Fixtures, fittings and equipment	10% to 33% on cost

Pension scheme arrangements
The group participates in a number of pension schemes.

The group pays contributions to the personal pension funds of certain individual employees, and to the Teachers Superannuation Scheme. These are charged to the profit and loss account in the year in which they are incurred.

The group provides no other post retirement benefits to its employees.

Taxation
The charge for taxation is based on the profit for the period as adjusted for disallowable items. Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Foreign currencies
Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

Leased assets
Assets held under finance leases and hire purchase contracts are capitalised at the estimated fair value at the date of inception of each lease or contract. The assets are depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease on a straight line basis over the lease term. Costs in respect of operating leases are charged on a straight line basis over the lease term.

Treatment of costs and expenses relating to the capital instruments
In accordance with the provisions of FRS4 'Capital Instruments', finance costs associated with capital instruments are recognised in the profit and loss account on a systematic basis taking into consideration the company's outstanding obligations.

Debt issue costs are accounted for as a reduction in the proceeds of the related instrument and are charged to the profit and loss account over the period to the earliest redemption date.

Changes in accounting policies
The group has adopted FRS 19 'Deferred tax' in these financial statements. The impact of adopting FRS19 is to recognise a net deferred tax liability of £272,000 and £94,000 at 31 August 2001 and 28 February 2002, respectively. A credit to the profit and loss account of £178,000 arose in the six months ended 28 February 2002, representing the movement in the deferred tax liability in the period. The comparative figures have been restated accordingly.

2 Turnover

Turnover represents fees receivable for the provision of Nursery and School education and associated goods and services. Turnover also includes fees receivable for the management of various nurseries and creches on behalf of third parties. Fees invoiced in advance are carried forward as deferred income. All turnover is derived from goods and services provided in the United Kingdom.

3 Directors' emoluments

	Period ended 28 February 2002 £'000	Period ended 31 August 2001 £'000
Aggregate emoluments (excluding pensions)	**174**	103
Pension contributions to money purchase schemes	**3**	5
	177	108

Retirement benefits accrue to one director (2001: two directors) under a money purchase scheme.

Fees and other emoluments include amounts paid to:

	Period ended 28 February 2002 £'000	Period ended 31 August 2001 £'000
The highest paid director		
- aggregate emoluments	**54**	37
- personal money purchase pension contributions	**-**	4
	54	41

4 Employee information

The average monthly number of persons (including executive directors) employed by the group during the period was as follows:

	Period ended 28 February 2002 Number	Period ended 31 August 2001 Number
Teaching	**2,175**	1,909
Marketing and administration	**212**	186
	2,387	2,095

	Period ended 28 February 2002 £'000	Period ended 31 August 2001 £'000
Staff costs:		
For the above persons:		
Wages and salaries	**7,738**	5,198
Social security costs	**511**	376
Other pension costs	**177**	57
	8,426	5,631
Agency staff costs	**399**	196
Total staff costs	**8,825**	5,827

5 Net interest payable and similar charges

	Period ended 28 February 2002 £'000	Period ended 31 August 2001 £'000
Interest payable		
Bank overdraft interest	**7**	142
Bank loan interest payable	**1,425**	853
Interest payable on other loan notes	**1,642**	1,089
Amortisation of warrant cost	**4**	3
Amortisation of facility fees and finance costs	**119**	124
	3,197	2,211
Less interest receivable	**-**	(129)
	3,197	2,082

6 Loss on ordinary activities before taxation

	Period ended 28 February 2002 £'000	Period ended 31 August 2001 £'000
Loss on ordinary activities before taxation is stated after charging:		
Goodwill amortisation	**951**	587
Depreciation charge:		
- tangible owned assets	**573**	382
Auditors' remuneration – group (Company £3,000 (2000: £3,000))	**35**	46
Hire of assets		
- land and buildings	**321**	199

7 Tax on ordinary activities

Analysis of charge for the period	**Period ended 28 February 2002 £'000**	Period ended 31 August 2001 £'000 (restated)
Current tax		
United Kingdom corporation tax at 30% (2001: 30%) - group	-	-
- joint venture	**23**	9
	23	9
Deferred tax		
Origination and reversal of timing differences	**(178)**	272
Tax on ordinary activities	**(155)**	281

8 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 1 September 2001	37,997
Additions	-
At 28 February 2002	**37,997**
Depreciation	
At 1 September 2001	587
Charge for the period	951
At 28 February 2002	**1,538**
Net book value	
At 28 February 2002	**36,459**
Net book value	
At 31 August 2001	37,410

Company

The company has no intangible fixed assets.

9 Tangible fixed assets

Group	Freehold land and buildings	Short leasehold land and buildings	Fixtures, fittings and equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 September 2001	28,192	2,342	1,538	163	32,235
Additions	30	-	412	-	442
At 28 February 2002	**28,222**	**2,342**	**1,950**	**163**	**32,677**
Depreciation					
At 1 September 2001	201	45	121	15	382
Charge for the period	293	78	180	22	573
At 28 February 2002	**494**	**123**	**301**	**37**	**955**
Net book amount					
At 28 February 2002	**27,728**	**2,219**	**1,649**	**126**	**31,722**
Net book value					
At 31 August 2001	27,991	2,297	1,417	148	31,853

Company

The company has no tangible fixed assets.

10 Fixed asset investments

Group	**28 February 2002 £'000**	31 August 2001 £'000 (restated)
Group interest in joint venture:		
Share of net assets at 1 September 2001	**156**	-
Acquired with subsidiary	-	91
Share of joint venture's (loss)/profit in the period	**(95)**	65
Share of net assets at 28 February 2002	**61**	156

The group has a 50% interest in the issued share capital of St Nicholas Preparatory School Limited (formerly Montessori Centre International Limited), a company incorporated in the UK and involved in the operation of a private school and a teacher training college.

Company	**28 February 2002 £'000**	31 August 2001 £'000
Cost of interests in group undertakings		
At 1 September 2001	**1,950**	-
Additions,	-	1,950
At 28 February 2002	**1,950**	1,950

The following information relates to the group undertakings:

Group undertaking	Country of incorporation	Proportion of voting rights and share capital	Nature of business
Acorndrive Limited	UK	100%	Intermediate holding company
Acorndrift Limited*	UK	100%	Intermediate holding company
Asquith Court Holdings Limited*	UK	100%	Holding company
Asquith Court Schools Limited*	UK	100%	Operation of private schools and nurseries
Asquith Court Schools Management Services Limited*	UK	100%	Management of nurseries & crèches
Asquith Court St Nicholas Limited (formerly London Montessori Centre Limited)*	UK	100%	Holding company

* These investments are held indirectly by the company.

11 Stocks

Group	**28 February 2002 £'000**	31 August 2001 £'000
Finished goods and goods for resale	**11**	11

The company has no stocks.

12 Debtors

	Group 28 February 2002	**Company 28 February 2002**	Group 31 August 2001	Company 31 August 2001
	£'000	**£'000**	£'000	£'000
Amounts falling due after more than one year				
Amount due from group undertakings	**-**	**1,148**	-	1,404
Amounts falling due within one year				
Trade debtors	**494**	**-**	3,351	-
Other debtors	**64**	**133**	-	49
Prepayments and accrued income	**319**	**-**	380	-
	877	**1,281**	3,731	1,453

13 Creditors: amounts falling due within one year

	Group 28 February 2002	Company 28 February 2002	Group 31 August 2001	Company 31 August 2001
	£'000	**£'000**	£'000	£'000
Bank overdraft	-	-	1,154	-
Bank loan (see note 14)	**2,000**	-	1,000	-
Amounts due to group undertakings	-	**1,568**	-	1,568
Trade creditors	**319**	-	804	-
Corporation tax	**548**	-	545	-
Other taxation and social security	**287**	-	333	-
Other creditors	**8,519**	-	8,437	-
Accruals and deferred income	**2,928**	**25**	4,753	-
Deposits	**393**	-	379	-
	14,994	**1,593**	17,405	1,568

The group has an overdraft facility of £3 million. The overdraft is secured by fixed and floating charges over certain assets of the group.

14 Creditors: amounts falling due after more than one year

	Group 28 February 2002	Company 28 February 2002	Group 31 August 2001	Company 31 August 2001
			£'000	£'000
Unsecured loan notes	**37,173**	-	35,491	-
Bank loans	**27,407**	-	28,141	-
	64,580	-	63,632	-

The bank loan and unsecured loan notes are repayable as follows:

	28 February 2002	31 August 2001
	£'000	£'000
Within one year	**2,000**	1,000
More than one year but not more than two years	**2,500**	2,250
More than two years but not more than five years	**16,524**	8,250
More than five years	**47,011**	54,710
Less unamortised finance costs	**(1,455)**	(1,578)
	66,580	64,632

Bank loans
A loan of £7 million is repayable on 30 September 2009 and 31 March 2010 in equal instalments. Of this amount £6.94 million has been included in the above loans. An amount of £0.06 million had been recognised as a capital amount attributable to warrants attached to the loan. This capital amount has been included in a special warrant reserve (see note 18). The £0.06 million represents an additional cost of raising this finance and is being written off to the profit and loss account in accordance with FRS4 over the period to earliest redemption. The entire loan of £7 million attracts interest at a rate of LIBOR plus 7.5% per annum.

Also included in bank loans are loans of £23 million which are repayable by instalments before 31 March 2009. The instalments commence on 31 March 2002. These loans carry interest at rates of between LIBOR plus 2.25% and LIBOR plus 2.75% per annum.

Bank loans are secured by a guarantee and debenture over all of the assets of each member of the group.

Unsecured loan notes
£35,250,000 of loan notes were issued on 10 May 2001 at par. £7,715,870 of these loan notes have been guaranteed by Dresdner Bank AG. The guaranteed loan notes are redeemable in full on or before 10 October 2006. The unguaranteed loan notes are redeemable in full on 31 August 2010. Interest of 10% per annum on the unguaranteed loan notes and 4.875% per annum on the guaranteed loan notes is compounded and accumulated and will be paid in full on redemption.

At 28 February 2002, cash balances with banks include £7,715,870 of cash deposits which are held as security in respect of the guarantee given by Dresdner Bank AG on these loan notes.

15 Provisions for liabilities and charges

Deferred tax provided in these financial statements is as follows:

	Provided	
	28 February 2002 £'000	31 August 2001 £'000 (restated)
Unredeemed finance charges	**(103)**	(130)
Accelerated capital allowances	**197**	402
	94	272
Prior year adjustment for FRS19		
Charge to profit and loss account		272
At 1 September 2001		272
Credit to profit and loss account		(178)
Deferred tax provided at 28 February 2002		94

No provision has been made in the group financial statements for deferred tax on a revaluation surplus arising in respect of properties in a subsidiary undertaking as it is not that company's intention to dispose of the properties in the foreseeable future. The company has no deferred taxation.

16 Pension and similar obligations

The group participates in a number of pension schemes, including the payment of contributions to personal pension funds of certain individual employees, and to the Teachers Superannuation Scheme. These schemes are of a defined contribution type. The total pension cost for the group was £177,000 (2001: £57,000).

17 Called up share capital

	28 February 2002 £'000	31 August 2001 £'000
Authorised		
428,000 'A' ordinary shares of £1 each	**428**	428
1,633,856 'B' ordinary shares of 1p each	**16**	16
1 'C' ordinary shares of £3 each	**-**	-
	444	444
Issued, allotted and fully paid		
378,000'A' ordinary shares of £1 each	**378**	378
1,572,000 'B' ordinary shares of 1p each	**16**	16
1 'C' ordinary shares of £3 each	**-**	-
	394	394

Rights of shares

The 'A' and 'B' shares rank pari passu in regard to voting, income and distributions on winding up. From 31 August 2006 the 'A' and 'B' shareholders are entitled to a dividend of at least 25% of the year's net profits.

'A' shareholders are restricted from transferring any shares without the written consent of at least 50% of the 'B' shareholders.

The 'C ' shareholder has no entitlement to vote or receive dividends. No director can be appointed to the board without the consent of the 'C' shareholder.

18 Reserves

	Company and group share premium account £'000	Group warrant reserve £'000	Group profit and loss account £'000 (restated)	Company profit and loss account £'000
At 1 September 2001	1,556	59	(1,700)	(115)
Prior year adjustment – deferred tax	-	-	(267)	-
At 1 September 2001 as restated	1,556	59	(1,967)	(115)
Loss for the period	-	-	(1,053)	(197)
At 28 February 2002	**1,556**	**59**	**(3,020)**	**(312)**

As permitted by section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. The company's loss for the financial period was £197,000.

19 Reconciliation of movements in shareholders' funds

	28 February 2002	31 August 2001
	£'000	£'000
Group		
Opening shareholders' funds	309	-
Prior year adjustment – deferred tax	(267)	-
Opening shareholders' funds as restated	42	-
Loss for the period	(1,053)	(1,967)
New share capital issued	-	1,950
Warrants issued	-	59
Closing shareholders' funds	(1,011)	42

20 Reconciliation of operating profit to net cash inflow from operating activities

	28 February 2002	31 August 2001
	£'000	£'000
Operating profit	1,877	336
Amortisation of goodwill	951	587
Depreciation of tangible fixed assets	573	382
Decrease/(Increase) in debtors	2,854	(745)
(Decrease)/Increase in creditors	(2,211)	827
Net cash inflow from operating activities	4,044	1,387

21 Reconciliation of net cash flow to movement in net debt

	28 February 2002 £'000	31 August 2001 £'000
(Increase)/Decrease in cash in period	(2,491)	680
Cash inflow from debt finance	-	65,250
Non cash movement	1,948	(618)
Net debt at 1 September 2001	65,312	-
Net debt at 28 February 2002	64,769	65,312

22 Analysis of net debt

	At 31 August 2001	Cash flow	Other non-cash changes	**At 28 February 2002**
	£'000	£'000	£'000	**£'000**
Cash at bank and in hand	474	1,337	-	**1,811**
Overdraft	(1,154)	1,154	-	**-**
Decrease in cash in period	(680)	2,491	-	**1,811**
Loan – due within one year	(1,000)	-	(1,000)	**(2,000)**
Loans – due after one year	(63,632)	-	(948)	**(64,580)**
Net debt	(65,312)	2,491	(1,948)	**(64,769)**

23 Capital commitments and contingent liabilities

At 28 February 2002, a composite guarantee by each of the group companies exists in favour of Dresdner Bank AG as security for the group's loan of £30 million.

24 Financial commitments

At 28 February 2002, the group had annual commitments under non-cancellable operating leases as follows:

Land and buildings	**28 February 2002 £'000**	**31 August 2001 £'000**
Expiring within one year	-	-
Expiring between two and five years	**20**	**20**
Expiring in over five years	**622**	**622**
	642	**642**

25 Post balance sheet events

Refinancing

On 13 June 2002, the group repaid its bank loans which amounted to £29.4 million at the balance sheet date. These loans were replaced with new bank loans of £37 million, the main elements of which were:

Term A Loan - A £22 million facility repayable in quarterly instalments from 30 November 2002 to 31 August 2009. Interest on this loan is payable at LIBOR plus a margin of between 1.25% and 1.75% per annum.

Term B Loan - A £10 million facility repayable in quarterly instalments from 30 November 2002 to 31 August 2009. Interest on this loan is payable at LIBOR plus a margin of between 1.50% and 2.25% per annum.

Term C Loan - A £5 million facility repayable in full on 31 August 2010. Interest on this loan is payable at LIBOR plus a margin of between 2.00% to 2.75% per annum.

In addition, the new financing includes revolving facilities of £6 million which have not been drawn down.

Acquisition of Downsend School

On the same day that the bank loans were refinanced, the group acquired 100% of the issued share capital of Downsend Parent Company Limited and its subsidiary undertakings, Downsend Limited and Downsend School Limited, for cash consideration of £7.3 million. The principal activity of the Downsend Group is the operation of one private school and three nurseries.