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BHFS Two Limited

Report and Accounts
31 December 2004

Rees Pollock
Chartered Accountants



BHFS Two Limited

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors	M A Tocio S Dreier E Boland S C Hay D Lissy
Company Secretary	I J M Stocks
Registered Office	2 Crown Court Rushden Northamptonshire NN10 6BS
Auditors	Rees Pollock 35 New Bridge Street London EC4V 6BW
Solicitors	Osborne Clarke One London Wall London EC2Y 5EB Tods Murray LLP Edinburgh Quay 133 Fountainbridge Edinburgh EH3 9AG
Registered Number	3943326

DIRECTORS' REPORT

The directors present their report and the accounts of the company for the year ended 31 December 2004.

Principal activities and business review

The principal activity of the company was that of a holding company until 30 April 2002, at which point it acquired the trade and assets of the Aardmillan Red Apple Nursery which provides nursery care.

Results and dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached accounts.

The directors have not recommended a dividend.

Directors

The directors who served the company during the year were as follows:

M A Tocio
S Dreier
E Boland
S C Hay
D Lissy

The company is a wholly owned subsidiary and the interests of group directors are disclosed in the accounts of the ultimate parent company.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies, as described on page 7, 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 accounts; and
- 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. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint Rees Pollock as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



E Boland
Director

13 April 2006



REES POLLOCK

Chartered Accountants

35 New Bridge Street
London EC4V 6BW
Telephone 020 7778 7200
Fax 020 7329 6408

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BHFS TWO LIMITED

We have audited the accounts on pages 5 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders 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 on page 2, the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 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 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Rees Pollock
Chartered Accountants
Registered Auditors

24 April 2006

BHFS Two Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

	Note	2004 £	2003 £
TURNOVER	2	—	166,612
Administrative expenses		5,750	177,562
OPERATING LOSS	3	(5,750)	(10,950)
Interest receivable		—	10,150
Interest payable and similar charges	5	—	(13,550)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,750)	(14,350)
Tax on loss on ordinary activities	6	—	—
LOSS FOR THE FINANCIAL YEAR		(5,750)	(14,350)
Balance brought forward		(9,978)	4,372
Balance carried forward		(15,728)	(9,978)

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

The notes on pages 7 to 12 form part of these accounts.

BHFS Two Limited
BALANCE SHEET
at 31 December 2004

	Note	£	2004 £	2003 £
FIXED ASSETS				
Tangible assets	7		208,706	215,658
Investments	8		24,016,569	12,082,881
			<u>24,225,275</u>	<u>12,298,539</u>
CURRENT ASSETS				
Debtors	9	885,489		596,290
Cash at bank		—		5,430
		<u>885,489</u>		<u>601,720</u>
CREDITORS: amounts falling due within one year	10	<u>325,351</u>		<u>12,703</u>
NET CURRENT ASSETS			<u>560,138</u>	<u>589,017</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>24,785,413</u>	<u>12,887,556</u>
CREDITORS: amounts falling due after more than one year	11		<u>23,441,191</u>	<u>11,537,584</u>
			<u>1,344,222</u>	<u>1,349,972</u>
CAPITAL AND RESERVES				
Called-up equity share capital	12		1	1
Share premium account	13		1,359,949	1,359,949
Profit and loss account			(15,728)	(9,978)
SHAREHOLDERS' FUNDS	14		<u>1,344,222</u>	<u>1,349,972</u>

The financial statements on pages 5 to 12 were approved by the board of directors on 13 April 2006 and signed on its behalf by:



E Boland
Director

The notes on pages 7 to 12 form part of these accounts.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2004

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

Consolidation

The company was, at the end of the year, a wholly-owned subsidiary of another company incorporated in the EEC and in accordance with section 228 of the Companies Act 1985, is not required to produce, and has not published, consolidated accounts.

Cash flow statement

The company is a wholly owned subsidiary of BHFS One Limited, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 1 from preparing its own cash flow statement.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of value added tax.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold Property	- 2.5% on a straight line basis
Fixtures & Fittings	- over 4 years

Deferred taxation

Deferred taxation is provided on all timing differences, without discounting, calculated at the rate at which it is estimated that tax will be payable, except where otherwise required by accounting standards.

Consolidation

The company was, throughout the year, a wholly-owned subsidiary of another company incorporated in the EEC and in accordance with section 228 of the Companies Act 1985, is not required to produce, and has not published, consolidated accounts.

2. TURNOVER

The company's turnover relates solely to its principal activity and is wholly generated within the United Kingdom.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2004

3. OPERATING LOSS

Operating loss is stated after charging:

	2004	2003
	£	£
Depreciation of owned fixed assets	5,750	15,944

Auditors' remuneration is borne by the ultimate UK parent company.

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	2004	2003
	No	No
Nursery staff	—	21

The aggregate payroll costs of the above were:

	2004	2003
	£	£
Wages and salaries	—	108,241
Social security costs	—	5,280
	—	113,521

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£	£
Interest payable on bank borrowing	—	2,465
Finance charges	—	1,085
Other similar charges payable	—	10,000
	—	13,550

6. TAXATION ON ORDINARY ACTIVITIES

There is no charge to corporation tax due to the availability of losses.

NOTES TO THE ACCOUNTS

for the year ended 31 December 2004

6. TAXATION ON ORDINARY ACTIVITIES *(continued)*

Factors affecting current tax charge

	2004 £	2003 £
Loss on ordinary activities before taxation	(5,750)	(14,350)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax of 30%	(1,725)	(4,305)
Effects of:		
Movement in unprovided deferred tax asset	—	1
Depreciation on assets with no capital allowances	1,725	5,413
Group relief	—	(1,109)
Total current tax	—	—

7. TANGIBLE FIXED ASSETS

	Freehold Property £	Fixtures & Fittings £	Total £
Cost			
At 1 January 2004	230,000	1,873	231,873
Transfers	—	(1,873)	(1,873)
At 31 December 2004	230,000	—	230,000
Depreciation			
At 1 January 2004	15,544	671	16,215
Charge for the year	5,750	—	5,750
Transfers	—	(671)	(671)
At 31 December 2004	21,294	—	21,294
Net book value			
At 31 December 2004	208,706	—	208,706
At 31 December 2003	214,456	1,202	215,658

NOTES TO THE ACCOUNTS

for the year ended 31 December 2004

8. INVESTMENTS

Investment in subsidiaries

£

Cost	
At 1 January 2004	12,082,881
Additions	11,933,688
At 31 December 2004	<u>24,016,569</u>
Net book value	
At 31 December 2004	<u>24,016,569</u>
At 31 December 2003	<u>12,082,881</u>

Details of the investments in which the company holds 20% or more of the nominal value of the ordinary share capital are as follows:

Subsidiary undertaking	Country of incorporation or registration	Percentage holding	Nature of business
Nurseryworks Associates Limited	England	100%	Nursery Services
Nurseryworks Limited*	England	100%	Nursery Services
Staffquest Group Holdings Limited			Holding
Bright Horizons Support Services Limited	England	100%	Company
			Early Years
	England	100%	Training
Staffquest Limited	England	100%	Staff Placement
Bright Horizons Family Solutions Limited	England	100%	Staff Placement
Rutland Red Apple Nursery Limited	Scotland	100%	Nursery Services
Elsie Inglis Red Apple Nursery Limited	Scotland	100%	Nursery Services
Bright Horizons Livingston Limited	Scotland	100%	Nursery Services
Child & Co (Oxford) Limited	England	100%	Nursery Services
The Birrell Collection Limited	Scotland	100%	Nursery Services

* Held by a subsidiary undertaking

9. DEBTORS

	2004	2003
	£	£
Trade debtors	—	410
Amounts owed by group undertakings	533,579	586,129
Other debtors	351,910	9,751
	<u>885,489</u>	<u>596,290</u>

NOTES TO THE ACCOUNTS

for the year ended 31 December 2004

10. CREDITORS: amounts falling due within one year

	2004	2003
	£	£
Amounts owed to group undertakings	105,910	—
PAYE and social security	—	1,389
Other creditors	167,288	8,342
Accruals and deferred income	52,153	2,972
	<u>325,351</u>	<u>12,703</u>

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

	2004	2003
	£	£
Amounts owed to group undertakings	23,441,191	11,121,560
Amounts owed to associates	—	416,024
	<u>23,441,191</u>	<u>11,537,584</u>

12. SHARE CAPITAL

Authorised share capital:

	2004	2003
	£	£
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	2004		2003	
	No	£	No	£
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

13. SHARE PREMIUM ACCOUNT

There was no movement on the share premium account during the financial year.

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004	2003
	£	£
Loss for the financial year	(5,750)	(14,350)
Opening equity shareholders' funds	<u>1,349,972</u>	<u>1,364,322</u>
Closing equity shareholders' funds	<u>1,344,222</u>	<u>1,349,972</u>

NOTES TO THE ACCOUNTS

for the year ended 31 December 2004

15. ULTIMATE PARENT COMPANY

The company's immediate parent undertaking is BHFS One Limited. BHFS One Limited is the head of the smallest group for which consolidated accounts are available. Copies of these consolidated accounts can be obtained from The Secretary, BHFS One Limited, 7th Floor, Hillgate House, 26 Old Bailey, London EC4M 7HS. The ultimate holding company and controlling party is Bright Horizons Family Solutions Inc. a company registered in the United States of America.