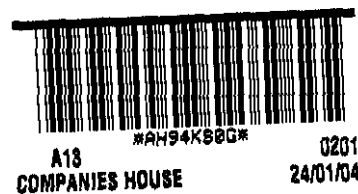


394 5336

## **BHFS Two Limited**

Report and Accounts  
*31 December 2002*

Rees Pollock  
Chartered Accountants



---

OFFICERS AND PROFESSIONAL ADVISERS

**The Board of Directors**

M A Tocio  
S Dreier  
E Boland  
S C Hay

**Company Secretary**

I J M Stocks

**Registered Office**

7th Floor  
Hillgate House  
26 Old Bailey  
London  
EC4M 7HS

**Auditors**

Rees Pollock  
7 Pilgrim Street  
London  
EC4V 6DR

**Solicitors**

Osborne Clarke  
Hillgate House  
26 Old Bailey  
London  
EC4M 7HW

**Registered Number**

3943326

The directors present their report and accounts of the company for the year ended 31 December 2002.

**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:

R H Brown  
M A Tocio  
S Dreier

R H Brown resigned on 29 August 2003.

E Boland and S C Hay were appointed on 29 August 2003.

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 at the end of the year and of the profit or loss for the year then ended.

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

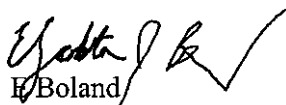
prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

15 January 2004



# REES POLLOCK

Chartered Accountants

7 Pilgrim Street

London EC4V 6DR

Telephone 020 7329 6404

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 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 the directors and the auditors**

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable United Kingdom law and Accounting Standards are set out in the Statement of Directors' Responsibilities on page 2.

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. Our responsibilities do not extend to any other information.

### **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 of the state of the company's affairs as at 31 December 2002 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

15 January 2004

BHFS Two Limited

**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 2002

	Note	2002 £	2001 £
<b>TURNOVER - Acquisitions</b>	<b>2</b>	120,419	—
Administrative expenses - Acquisitions		121,622	—
<b>OPERATING LOSS - Acquisitions</b>	<b>3</b>	(1,203)	—
Interest receivable		10,075	10,000
Interest payable	<b>5</b>	(12,000)	(10,000)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(3,128)	—
Tax on loss on ordinary activities	<b>6</b>	—	—
<b>LOSS FOR THE FINANCIAL YEAR</b>		(3,128)	—
Balance brought forward		7,500	7,500
Balance carried forward		4,372	7,500

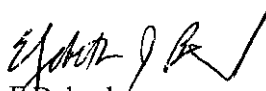
The company has no recognised gains or losses other than the results for the year as set out above.

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

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

BHFS Two Limited  
**BALANCE SHEET**  
at 31 December 2002

	Note	£	2002 £	2001 £
<b>FIXED ASSETS</b>				
Tangible assets	7		233,385	—
Investments	8		12,082,881	1,534,950
			<u>12,316,266</u>	<u>1,534,950</u>
<b>CURRENT ASSETS</b>				
Debtors	9	581,341		127,550
Cash at bank		2,231		—
		<u>583,572</u>		<u>127,550</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>268,845</u>		<u>295,050</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			<u>314,727</u>	<u>(167,500)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>12,630,993</u>	<u>1,367,450</u>
<b>CREDITORS: amounts falling due after more than one year</b>				
	11		<u>11,266,671</u>	<u>—</u>
			<u>1,364,322</u>	<u>1,367,450</u>
<b>CAPITAL AND RESERVES</b>				
Called-up equity share capital	12		1	1
Share premium account			1,359,949	1,359,949
Profit and loss account			<u>4,372</u>	<u>7,500</u>
<b>SHAREHOLDERS' FUNDS</b>	13		<u>1,364,322</u>	<u>1,367,450</u>

  
E Boland  
Director

15 January 2004

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

---

NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

**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, 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.

**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:

Fixtures & fittings	-	over 4 years
Freehold property	-	over 50 years

The directors have not provided for depreciation on freehold property as they believe the residual value is such that any depreciation charge would be immaterial. They have also carried out an impairment review of the value of the property and are satisfied that the asset is not impaired.

**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.

**2. TURNOVER**

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

**3. OPERATING LOSS**

Operating loss is stated after charging:

	2002	2001
	£	£
Depreciation	271	—



## NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

**4. PARTICULARS OF EMPLOYEES**

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

	<b>2002</b>	<b>2001</b>
	<b>No.</b>	<b>No.</b>
Nursery staff	<u>15</u>	<u>—</u>

The aggregate payroll costs of the above were:

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Wages and salaries	77,472	—
Social security costs	<u>3,117</u>	<u>—</u>
	<u>80,589</u>	<u>—</u>

**5. INTEREST PAYABLE**

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Interest payable on bank borrowing	2,000	—
Interest payable on loans financed by group companies	<u>10,000</u>	<u>10,000</u>
	<u>12,000</u>	<u>10,000</u>

**6. TAX ON LOSS OR PROFIT ON ORDINARY ACTIVITIES**

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

## a) Analysis of charge in the period

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Corporation tax	<u>—</u>	<u>—</u>

## b) Factors affecting current tax charge

	<b>2002</b>	<b>2001</b>
	<b>£</b>	<b>£</b>
Loss on ordinary activities before taxation	<u>(3,128)</u>	<u>—</u>
Loss on ordinary activities multiplied by standard rate of corporation tax of 30%	(938)	—
Capital allowances in advance of depreciation	(5)	—
Movement in unprovided deferred tax asset	<u>943</u>	<u>—</u>
Total current tax	<u>—</u>	<u>—</u>

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

## 7. TANGIBLE FIXED ASSETS

	Freehold property £	Fixtures & fittings £	Total £
Cost			
Additions	—	1,156	1,156
Acquired on acquisition	232,500	—	232,500
At 31 December 2002	<u>232,500</u>	<u>1,156</u>	<u>233,656</u>
Depreciation			
Charge for the year	—	271	271
At 31 December 2002	<u>—</u>	<u>271</u>	<u>271</u>
Net book value			
At 31 December 2002	<u>232,500</u>	<u>885</u>	<u>233,385</u>
At 31 December 2001	<u>—</u>	<u>—</u>	<u>—</u>

## 8. INVESTMENTS

## Investment in subsidiaries

	£
Cost	
At 1 January 2002	1,534,950
Additions	10,547,931
At 31 December 2002	<u>12,082,881</u>
Net book value	
At 31 December 2002	<u>12,082,881</u>
At 31 December 2001	<u>1,534,950</u>

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

## 8. INVESTMENTS (continued)

On 30 April, BHFS Two Limited purchased the entire share capital of Rutland Red Apple Nursery Limited, Elsie Inglis Red Apple Nursery Limited and School Minus 5 Limited. The consideration due to the vendors was £82,846, £205,226 and £887,298 respectively. Deferred consideration for these companies is £180,000 due within one year.

On 14 June, the company purchased the entire share capital of Staffquest Group Holdings Limited, which itself owns Kinderquest Limited, Kinderquest Support Services Limited and Staffquest Limited. The consideration payable to the vendors was £9,147,648.

The results of the subsidiary undertakings were as follows:

	2002 £	2001 £
<b>Aggregate capital and reserves</b>		
Nurseryworks Associates Limited	167,953	188,286
Nurseryworks Limited	175,732	176,612
<b>Profit/(loss) for the year</b>		
Nurseryworks Associates Limited	(20,333)	53,510
Nurseryworks Limited	(880)	118,790
	<b>Aggregate capital and reserves</b>	<b>Profit/(loss) for the year</b>
<b>Acquired during the year</b>	<b>£</b>	<b>£</b>
Staffquest Group Holdings Limited	54	—
Kinderquest Support Services Limited	53,741	(9,283)
Kinderquest Limited	218,017	138,978
Staffquest Limited	161,493	15,600
Rutland Red Apple Nursery Limited	(8,274)	(6,523)
Elsie Inglis Red Apple Nursery Limited	17,159	(2,574)
School Minus 5 Limited	271,589	(8,980)

Under the provision of section 228 of the Companies Act 1985 the company is exempt from preparing consolidated accounts and has not done so, therefore the accounts show information about the company as an individual entity.

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	England	100%	Holding Company
Kinderquest Support Services Limited*	England	100%	Early Years Training

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

8. INVESTMENTS *(continued)*

Subsidiary undertaking	Country of incorporation or registration	Percentage holding	Nature of business
Kinderquest Limited*	England	100%	Nursery Services
Staffquest Limited*	England	100%	Staff Placement
Rutland Red Apple Nursery Limited	Scotland	100%	Nursery Services
Elsie Inglis Red Apple Nursery Limited	Scotland	100%	Nursery Services
School Minus 5 Limited	Scotland	100%	Nursery Services

\* Held by a subsidiary undertaking

## 9. DEBTORS

	2002 £	2001 £
Trade debtors	5,264	—
Amounts owed by group undertakings	572,189	127,550
Other debtors	3,888	—
	<u>581,341</u>	<u>127,550</u>

## 10. CREDITORS: amounts falling due within one year

	2002 £	2001 £
Amounts owed to group undertakings	—	220,050
Other taxation and social security	1,641	—
Other creditors	267,204	75,000
	<u>268,845</u>	<u>295,050</u>

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

	2002 £	2001 £
Amounts owed to group undertakings	11,045,647	—
Amounts owed to related undertakings	221,024	—
	<u>11,266,671</u>	<u>—</u>

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

**12. SHARE CAPITAL**

Authorised share capital:

	2002	2001
	£	£
1,000 Ordinary shares of £1 each	1,000	1,000

Allotted, called up and fully paid:

	2002	2001
	£	£
Ordinary share capital	1	1

**13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	2002	2001
	£	£
Loss for the financial year	(3,128)	—
Opening equity shareholders' funds	1,367,450	1,367,450
Closing equity shareholders' funds	1,364,322	1,367,450

**14. 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.