Sandwell LIFT Project Company (No.2) Limited

DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE 17 MONTH PERIOD ENDED
31 MARCH 2010

Registered Number 06746310

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DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE 17 MONTH PERIOD ENDED 31 MARCH 2010

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DIRECTORS AND ADVISORS

Directors

J Cassidy	(appointed 27 January 2009, resigned 12 May 2009)
B Balfour	(appointed 11 March 2009, resigned 11 September 2009)
M G Heath	(appointed 27 January 2009)
P Jones	(appointed 27 January 2009, resigned 27 September 2009)
S Murphy	(appointed 27 January 2009)
C A Reed	(appointed 27 January 2009)
R Price	(appointed 27 January 2009, resigned 1 May 2009)
T J Evans	(appointed 27 January 2009)
C H Dix	(appointed 12 May 2009)
J N Dicken	(appointed 27 September 2009)
A Fillis	(appointed 25 January 2010)
A S Williams	(appointed 27 September 2009)
M J Bonass	(appointed 11 November 2008, resigned 27 January 2009)
DWS Directors Limited	(appointed 11 November 2008, resigned 27 January 2009)
M Findlay	(appointed 27 January 2009, resigned 11 March 2009)

Company secretary and registered office

DWS Secretaries Limited	(appointed 11 November 2008, resigned 27 January 2009)
R K Miller	(appointed 27 January 2009, resigned 1 March 2009)
M Lewis	(appointed 1 March 2009)

Allington House
150 Victoria Street
London SW1E 5LB

Auditors
Deloitte LLP
Chartered Accountants and Statutory Auditors
Nottingham

Solicitors
Denton Wilde Sapte LLP
One Fleet Place
London EC4M 7WS

Principal bankers
Santander plc
2 Triton Square
Regent's Place
London
NW1 3AN

DIRECTORS' REPORT

The Directors present the annual report and the audited financial statements for the 17 month period ended 31 March 2010

The company was incorporated on 11th November 2008 as DWSCO 2768 LIMITED The company's name was changed to Sandwell LIFT Project Company (No 2) Limited on 6th January 2009

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption

The Company is a wholly owned subsidiary of Sandwell LIFT Midco (No 2) Limited

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activity of the company is the provision of primary healthcare accommodation and the servicing thereof under a 30 year Local Improvement Finance Trust agreement with the local NHS Primary Care Trusts The Company has commenced the £10m development of the Glebefields Health Campus The scheme is under construction with practical completion programmed for May 2011

GOING CONCERN

Within Sandwell Project Company (No 2) Ltd, there is only one scheme, Glebefields, which is in its construction phase The scheme is financed with a combination of bank debt of £10m plus subordinated debt from the company's shareholders
The company's forecasts are based upon the financial close model and, once in operation, upon half yearly financial models which are submitted to and approved by the company's funders in accordance with the company's senior debt facility agreements These indicate a positive return for shareholders over the concession period, with costs and revenues that are mainly determined by long term contractual commitments RPI swaps are in place for the majority of costs and revenues, meaning variability of returns is limited provided that the company manages its operating budgets in accordance with the Financial Close models The company does not have exposure to movements in interest rates on its debt due to the use of interest rate swap contracts
The directors believe that the business is able to manage any business risks despite the current economic situation and have the resources to operate in the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual accounts

FUTURE DEVELOPMENTS

Following the completion of the Glebefields scheme in May 2011, the company will receive lease plus rental income on a monthly basis from tenants, under arm's length commercial agreements, for 30 years

RESULTS

All costs incurred in the period have been capitalised into the construction cost of the Glebefields scheme and therefore, the company has neither made a profit nor a loss in the period Accordingly, no profit and loss account is presented

The Directors do not recommend the payment of a dividend

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks The company does not use derivative financial instruments for speculative purposes

Cash flow risk
The Company's activities expose it primarily to the financial risks of changes in interest rates The company uses interest rate swap contracts to hedge these exposures

Interest bearing assets and liabilities are held at fixed rate to ensure certainty of cash flows

Credit risk
Whilst in construction, the Company's principal financial assets are bank balances and cash

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses long-term debt finance

DIRECTORS' REPORT (continued)

AUDIT INFORMATION

Each of the persons who is a director at the date of approval of this report confirms that

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

DIRECTORS

The Directors who served throughout the period and to the date of this report, except as noted, are shown on page 1

EMPLOYEES

Details of the number of employees and related costs can be found in note 4 to the financial statements on page 8

AUDITORS

The company has appointed Deloitte LLP as auditors in the period A resolution to re-appoint Deloitte LLP as auditors will be proposed at the forthcoming Annual General Meeting

On behalf of the Board

C H Dix
Director
24 June 2010

Allington House
150 Victoria Street
London, SW1E 5LB

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 They 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SANDWELL LIFT PROJECT COMPANY (No 2) LIMITED

We have audited the financial statements of Sandwell LIFT Project Company (No 2) Limited for the 17 month period ended 31 March 2010 which comprise the Balance Sheet and the related notes 1 to 14 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its result for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors report

Mark Doleman

29 June 2010

Mark Doleman, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants & Statutory Auditors
Nottingham, UK

BALANCE SHEET AS AT 31 MARCH 2010

	Notes	31 March 2010 £
Fixed assets		
Tangible fixed assets	5	**4,289,950**
Current assets		
Debtors due within one year	6	**155,952**
Cash at bank and in hand		**22,581**
		178,533
Creditors amounts falling due within one year	7	**(488,513)**
Net current liabilities		**(309,980)**
Total assets less current liabilities		**3,979,970**
Creditors amounts falling due after more than one year	8	**(3,969,970)**
Net assets		**10,000**
Capital and reserves		
Called up share capital	10	**10,000**
Profit and loss account		**-**
Shareholder's funds	11	**10,000**

The financial statements of Sandwell LIFT Project Company (No 2) Limited, registered number 06746310 were approved and authorised for issue by the Board of Directors on 24 June 2010 and were signed on its behalf by



C H Dix
Director

Notes to the financial statements for the 17 month period ended 31 March 2010

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the current period in dealing with items which are considered material in relation to the Company's financial statements

a) Within Sandwell Project Company (No 2) Ltd, there is only one scheme, Glebefields, and this is currently in its construction phase The senior lender has provided a drawdown facility of £10m to finance the project during this period
The company's forecasts are based upon the half yearly financial models which are submitted to and approved by the company's funders in accordance with the company's senior debt facility agreements These generate a positive return for shareholders over the concession period, with costs and revenues that are mainly determined by long term contractual commitments RPI swaps are in place for the majority of costs and revenues, meaning variability of returns is limited provided that the company manages its operating budgets in accordance with the Financial Close models The company does not have exposure to movements in interest rates on its debt due to the use of interest rate swap contracts
The directors believe that the business is able to manage any business risks despite the current economic situation and have the resources to operate in the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual accounts

b) Basis of preparation of accounts
The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards

The company is exempt under FRS 1 from preparing a cash flow statement on the basis that it qualifies as a small

c) Turnover
Turnover represents lease plus rentals and third party revenue receivable for periods of tenancy net of VAT and arises in the United Kingdom Operating lease rentals are recognised on a straight line basis over the lease term

d) Interest and fees
Interest costs and fees on borrowings used to fund the construction of the facilities are included within assets in the course of construction during the construction period

e) Operating costs
Operating costs incurred during the construction of the accommodation are included within assets in the course of construction during the construction period Following practical completion, operating costs are charged to the profit and loss account based on the final construction costs of each building

f) Taxation
Current tax, including United Kingdom Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

In accordance with FRS 19 'Deferred Tax', deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the period in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax assets are not discounted

g) Bank Borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account

Notes to the financial statements for the 17 month period ended 31 March 2010 (continued)

2 RESULT ON ORDINARY ACTIVITIES BEFORE INTEREST

Sandwell LIFT Company Limited has incurred the audit fees of the Company of £3,000 (2009 - £nil), which have been recovered from this Company as part of the wider management services recharges

3 DIRECTORS' REMUNERATION

No Director received any remuneration for services to the Company during the period The Company is managed by secondees from the shareholders

4 STAFF NUMBERS

There are no employees in the current or prior period The Directors are shown on page 1

5 TANGIBLE FIXED ASSETS

	Assets in the course of construction £
Cost	
At incorporation	-
Additions in the period	4,289,950
As at 31 March 2010	4,289,950
Net book value	
As at 31 March 2010	4,289,950

6 DEBTORS DUE WITHIN ONE YEAR

	31 March 2010 £
Amounts owed by parent undertaking	14,216
Other taxation and social security	135,069
Prepayments and accrued income	6,667
	155,952

7 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2010 £
Accruals and deferred income	488,513

8 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 March 2010 £
Bank loans	2,935,528
Amounts owed to parent undertaking	852,103
Other creditors	57,339
Deferred income	125,000
	3,969,970

Other creditors falling due after more than one year relate to retentions for the Glebefields scheme

Debt (including amounts owed to parent undertaking) can be analysed as falling due

	31 March 2010 £
Between one and two years	48,840
Between two and five years	239,325
In five years or more	3,616,936
	3,905,102
Arrangement fees	(117,471)
	3,787,631

Notes to the financial statements for the 17 month period ended 31 March 2010 (continued)

9 LOANS

Interest on the senior loan facilities from Santander Plc of £9 399 million is charged at LIBOR plus a margin of 2 25% The company does not hold or issue derivative financial instruments for speculative purposes

The loans with repayment due beyond five years currently attract interest between 0 54% above LIBOR to 13 00% and the final repayment will be made in May 2041 The repayments profile involves payments every six months based on an increasing percentage of the original loan as the age of the loan increases

The senior bank loans are secured by a first floating charge over the assets of the company under a debenture agreement dated 26 November 2009 Amounts owed to the parent undertaking include the sum of £852,103 for subordinated debt, provided by Sandwell LIFT Midco (No 2) Limited This loan is

The company has entered into fixed interest rate swaps at rates of 4 45% to mitigate its interest exposure which have a negative fair value at 31 March 2010 of £310,568

In addition, the company has entered into RPI swap agreements at rates of 3 24% to mitigate its risk in respect of inflation linked income which have a negative fair value at 31 March 2010 of £1,011,117

10 CALLED UP SHARE CAPITAL

	31 March 2010 £
Authorised	
10,000 Ordinary "A" Share at £1 each	10,000
	10,000

	£
Opening allotted and called up at £1 each	
Ordinary "A" share at £1 each	-
Allotted and called up in the year	
10,000 Ordinary "A" shares at £1 each	10,000
Closing allotted and called up at £1 each	
10,000 Ordinary "A" share at £1 each	10,000

On the 25 November 2009 the company issued 10,000 Ordinary £1 shares for cash at par

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	31 March 2010 £
Opening shareholder's funds	-
Issue of share capital	10,000
Closing shareholder's funds	10,000

12 CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

At 31 March 2010, the Company is committed to remaining design and construction costs of £4,559,489 payable to Thomas Vale Construction Limited under the Design and Construction Contract relating to the Sandwell LIFT Project between Sandwell LIFT Project Company (No 2) Limited and Thomas Vale Construction Limited

At 31 March 2010, the Company is committed to an amount of £2,962,036 payable to John Laing Integrated Service Limited, under Facilities Provision Contracts dated 26 November 2009 relating to the Sandwell LIFT project between Sandwell LIFT Project Company (No 2) Limited and John Laing Integrated Service Limited

Contingent Liabilities

There were no known contingencies at 31 March 2010

Notes to the financial statements for the 17 month period ended 31 March 2010 (continued)

13 TRANSACTIONS WITH RELATED PARTIES

The following party is a related party as it is the shareholder of Sandwell LIFT Project Co (No 2) Limited Sandwell LIFT Midco (No 2) Limited

The following are related parties as they are indirect shareholders or fellow subsidiary undertakings Bank of Scotland plc, John Laing Social Infrastructure Limited, Sandwell LIFT Company Limited, Sandwell LIFT Project Co (No 1) Limited, Primary Plus (Holdings) Limited, Primary Plus Limited, Community Health Partnerships Limited and Sandwell Primary Care Trust

There were related party transactions with the following parties

Loans to / from related parties at 31 March 2010

Other Balances	**31 March 2010 £**
Intercompany debtor - Sandwell LIFT Company Limited	**14,216**
Intercompany creditor - Sandwell LIFT Midco (No 2) Limited	**(852,102)**

Purchase of assets and services from related parties during the year

Related Party	**Nature**	**31 March 2010 £**
Sandwell LIFT Company Limited	Services	**1,483,454**

14 ULTIMATE AND IMMEDIATE PARENT UNDERTAKING

Sandwell LIFT Midco (No 2) Limited is the immediate parent undertaking The Company's ultimate parent and controlling party, and the largest and smallest group in which its results are consolidated, is Primary Plus (Holdings) Limited, a company incorporated in Great Britain and registered in England and Wales Copies of the consolidated accounts of Primary Plus (Holdings) Limited are available from its registered offices at Allington House, 150 Victoria Street, London, SW1E 5LB