

SANDWELL LIFT PROJECT COMPANY (NO.2) LIMITED

**DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 MARCH 2011**

Registered Number 06746310

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SANDWELL LIFT PROJECT COMPANY (NO 2) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

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SANDWELL LIFT PROJECT COMPANY (NO 2) LIMITED

DIRECTORS AND ADVISORS

Directors

M G Heath	(resigned 31 December 2010)
S Murphy	
C A Reed	
T J Evans	(resigned 31 December 2010)
C H Dix	
J N Dicken	
A Fillis	(resigned 1 July 2010)
A S Williams	
S A Raper	(appointed 1 January 2011)
D Lane	(appointed 1 June 2011)

Company secretary and registered office

M Lewis
Allington House
150 Victoria Street
London
SW1E 5LB

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
Nottingham, UK

Solicitors

Denton Wilde Sapte LLP
One Fleet Place
London
EC4M 7WS

Principal bankers

Santander Plc
2 Triton Square
Regent's Place
London
NW1 3AN

SANDWELL LIFT PROJECT COMPANY (NO 2) LIMITED

DIRECTORS' REPORT

The Directors submit their Annual Report and the audited financial statements for the year ended 31 March 2011

The Directors' report has been prepared in accordance with the special provisions relating to small companies under section 417 of the Companies Act 2006

The Company is a wholly owned subsidiary of Sandwell LIFT Midco (No 2) Limited, which itself is a subsidiary of Sandwell LIFT Company 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 AND DIVIDENDS

All costs incurred in the year 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 year (2010 - no profit and loss account). Accordingly, no profit and loss account is presented.

The Directors do not recommend the payment of a dividend (2010-£nil).

DIRECTORS' REPORT (continued)

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is 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 auditor is aware of that information

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

DIRECTORS

The Directors who served throughout the year, 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

AUDITOR

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an AGM

On behalf of the Board



C H Dix
Director
27 June 2011

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 year. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent, 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 AUDITOR'S 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 year ended 31 March 2011 which comprise the balance sheet and the related notes 1 to 13. 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 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 auditor

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011
- 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 matter 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, or
- the Directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report



Mark Doleman, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Nottingham, United Kingdom

28 June 2011

SANDWELL LIFT PROJECT COMPANY (NO 2) LIMITED

BALANCE SHEET AS AT 31 MARCH 2011

	Notes	2011 £	2010 £
Fixed assets			
Tangible fixed assets	5	9,362,258	4,289,950
Current assets			
Debtors - due within one year	6	123,304	155,952
Cash at bank and in hand		<u>22,675</u>	<u>22,581</u>
		145,979	178,533
Current liabilities			
Creditors amounts falling due within one year	7	(511,813)	(488,513)
Net current liabilities		<u>(365,834)</u>	<u>(309,980)</u>
Total assets less current liabilities		8,996,424	3,979,970
Creditors amounts falling due after more than one year	7	(8,986,424)	(3,969,970)
Net assets		<u>10,000</u>	<u>10,000</u>
Capital and reserves			
Called up share capital	10	10,000	10,000
Shareholder's funds	11	<u>10,000</u>	<u>10,000</u>

The financial statements of Sandwell LIFT Project Company (No 2) Limited , registered number 06746310, were approved by the Board of Directors and authorised for issue on **27** June 2011 They were signed on its behalf by



C H Dix
Director
27 June 2011

Notes to the financial statements for the year ended 31 March 2011

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

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 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.

a) 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 FRS1 from preparing a cash flow statement on the basis that it qualifies as a small company.

b) 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, subject to RPI indexation.

c) 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.

d) 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.

e) 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.

f) 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.

g) Derivative Financial Instruments

The Company uses derivative financial instruments to reduce exposure in interest rate movements. Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. The Company does not hold or issue derivative financial instruments for speculative purposes. Interest rate instruments are not recorded at fair value as the Company has not adopted FRS 26 Financial Instruments. Recognition and Measurement. However, fair values of interest rate instruments are disclosed in the notes to the financial statements.

SANDWELL LIFT PROJECT COMPANY (NO 2) LIMITED

Notes to the financial statements for the year ended 31 March 2011 (continued)

2 OPERATING RESULTS

The audit fees for the Company amount to £5,000 (2010 - £3,000) These have been borne by Sandwell LIFT Company Limited (2011 - £1,250, 2010 - £3,000) and by Primary Plus Limited (2011 - £3,750, 2010 - £nil) These have been recovered from the Company through the various management services agreements

3 DIRECTORS' REMUNERATION

No Director received any remuneration for services to the Company during the year (2010 - £nil) The Company is managed by secondees from the shareholders

4 STAFF NUMBERS

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

5 TANGIBLE FIXED ASSETS

	Assets in the course of construction £
Cost	
At 1 April 2010	4,289,950
Additions	<u>5,072,308</u>
At 31 March 2011	<u>9,362,258</u>
Net book value	
At 31 March 2011	<u>9,362,258</u>
At 31 March 2010	<u>4,289,950</u>

6 DEBTORS

	2011 £	2010 £
Due within one year		
Amounts owed by parent undertaking	-	14,216
Other taxation and social security	123,304	135,069
Prepayments and accrued income	<u>-</u>	<u>6,667</u>
	<u>123,304</u>	<u>155,952</u>

7 CREDITORS

	2011 £	2010 £
Amounts falling due within one year		
Bank loans	43,316	-
Other creditors	97,394	-
Accruals and deferred income	<u>371,103</u>	<u>488,513</u>
	<u>511,813</u>	<u>488,513</u>
Amounts falling due after more than one year		
Amounts owed to parent undertaking	1,005,378	852,103
Bank loans	7,773,747	2,935,528
Other creditors	85,075	57,339
Accruals and deferred income	<u>122,224</u>	<u>125,000</u>
	<u>8,986,424</u>	<u>3,969,970</u>

SANDWELL LIFT PROJECT COMPANY (NO 2) LIMITED

Notes to the financial statements for the year ended 31 March 2011 (continued)

7 CREDITORS (continued)

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

	2011 £	2010 £
Analysis of debt		
Debt can be analysed as falling due		
In one year or less	48,840	-
Between one and two years	74,416	48,840
Between two and five years	243,935	239,325
In five years or more	8,567,663	3,616,936
	<u>8,934,854</u>	<u>3,905,101</u>
Less arrangement fees	(112,413)	(117,471)
	<u>8,822,441</u>	<u>3,787,630</u>

8 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 £1,005,378 for subordinated debt (2010 - £852,103), provided by Sandwell LIFT Midco (No 2) Limited. This loan is unsecured.

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 2011 of £446,480 (2010 - £310,568).

In addition, the company has entered into RPI swap agreements at of 3.24% to mitigate its risk in respect of inflation linked income which have a negative fair value at 31 March 2011 of £1,139,142 (2010 - £1,011,117).

9 CAPITAL COMMITMENTS, CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

Capital commitments

At 31 March 2011, the Company is committed to remaining design and construction costs of £398,297 (2010 - £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 2011, the Company is committed to an amount of £2,877,370 (2010 - £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 Services Limited.

Contingent Liabilities

There were no known contingencies at 31 March 2011.

10 CALLED UP SHARE CAPITAL

	2011 £	2010 £
Allotted, called up and fully paid		
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

SANDWELL LIFT PROJECT COMPANY (NO 2) LIMITED

Notes to the financial statements for the year ended 31 March 2011 (continued)

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2011 £	2010 £
Opening shareholder's funds	10,000	10,000
Closing shareholder's funds	<u>10,000</u>	<u>10,000</u>

12 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

	2011 £	2010 £
Loans to / from related parties at 31 March 2011		
Other Balances		
Intercompany debtor - Sandwell LIFT Company Limited	-	14,216
Intercompany creditor - Sandwell LIFT Midco (No 2) Limited	(1,005,378)	(852,102)

Purchase of assets and services from related parties during the year

Related Party	Nature	2011	2010
Sandwell LIFT Company Limited	Management services	158,850	1,483,454
John Laing Integrated Services Limited	FM services	87,749	-

13 ULTIMATE PARENT UNDERTAKING

The Company's immediate parent company is Sandwell LIFT Midco (No 2) Limited, a company incorporated in Great Britain

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 office at Allington House, 150 Victoria Street, London, SW1E 5LB