

Agecroft Properties (No. 2) Limited
Annual report and financial statements
for the year ended
31 December 2007

Co Registration No. 04167343

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Agecroft Properties (No. 2) Limited

Report and financial statements for the year ended 31 December 2007

	Page
Directors and advisors	1
Directors' report for the year ended 31 December 2007	2
Independent auditors' report to the members of Agecroft Properties (No. 2) Limited	4
Profit and loss account for the year ended 31 December 2007	5
Balance sheet as at 31 December 2007	6
Notes to the financial statements for the year ended 31 December 2007	7

Agecroft Properties (No. 2) Limited

Directors and advisors

Directors

P McCulloch
A Rhodes

Secretary

Trillium Secretariat Services Limited

Registered office

140 London Wall
London
EC2Y 5DN

Independent auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Agecroft Properties (No. 2) Limited

Directors' report for the year ended 31 December 2007

The directors present their report and the audited financial statements for the year ended 31 December 2007

Results, principal activities and review of the business

The principal activity of the company is the leasing of commercial properties and is likely to remain so for the foreseeable future

The profit for the year attributable to shareholders which has been dealt with in the financial statements is £886,857 (2006 £386,009) The directors consider that both the level of business and the year end financial position were satisfactory

Dividends and transfers to reserves

No dividend is proposed (2006 £nil) The result for the financial year is set out in the profit and loss account on page 5

Principal risks and uncertainties

The company has taken on the activity as detailed above and is risk averse in its trading relationships with its customer, funders and sub-contractors as determined by the terms of their respective detailed PFI contracts In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations The financial risks and the measures taken to mitigate them are as detailed in the following section

Financial risk management

The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance The board has policies for managing each of these risks and they are summarised below

Interest rate risk

The senior and subordinated debt interest have been fixed through the use of fixed funding rates, plus a margin Details of these can be found on page 12

Inflation risk

The income and cost base of the company are not directly impacted by the effects of inflation

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due

Credit risk

The company receives the bulk of its revenue from Agecroft Prison Management Limited and is not exposed to significant credit risk as it ranks as senior lender to this company Cash investments are with institutions of a suitable credit quality

Key performance indicators ('KPIs')

The company's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the contract which stipulates key performance criteria For this reason, the company's director believes that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business

Agecroft Properties (No. 2) Limited

Directors' report for the year ended 31 December 2007 (continued)

Directors

The directors of the company during the year and subsequently, are set out below:

W R Doughty	(resigned 2 January 2008)
P McCulloch	(appointed 1 November 2007)
A Rhodes	(appointed 2 January 2008)

Statement of directors' responsibilities

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). The financial statements are required by law to 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

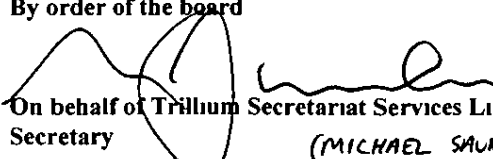
Statement of disclosure of information to auditors

In the case of each director in office at the date the directors' report is approved, so far as the directors are aware, there is no relevant audit information of which PricewaterhouseCoopers LLP ('PwC') are unaware, and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that PwC are aware of that information.

Auditors

Having passed elective resolutions of the shareholders at an extraordinary general meeting, the company is exempt from the obligation to annually reappoint auditors and to hold annual general meetings. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly the board recommends that PricewaterhouseCoopers LLP continue in office as auditors to the company.

By order of the board


On behalf of Trillium Secretariat Services Limited
Secretary (MICHAEL SAUNDERS)
30 MAY 2008

Independent auditors' report to the members of Agecroft Properties (No. 2) Limited

We have audited the financial statements of Agecroft Properties (No. 2) Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with the applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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

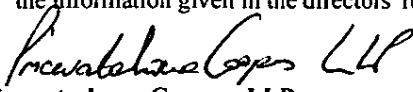
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
23 June 2008

Agecroft Properties (No. 2) Limited

Profit and loss account for the year ended 31 December 2007

	Note	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Gross rentals receivable under finance leases		5,084,004	5,084,004
Less amounts allocated to the repayment of finance leases		(738,760)	(582,651)
Gross earnings under finance leases		4,345,244	4,501,353
Administrative expenses		(116,588)	(124,813)
Operating profit	2	4,228,656	4,376,540
Interest receivable and similar income	3	165,496	138,070
Interest payable and similar charges	4	(3,087,458)	(3,173,027)
Profit on ordinary activities before taxation		1,306,694	1,341,583
Tax on profit on ordinary activities	5	(419,837)	(955,574)
Retained profit for the year	12	886,857	386,009

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom

There are no material differences between the profit as shown in the profit and loss account above and its historical cost equivalent

The company has no recognised gains and losses other than those included in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented


The movement on reserves is shown in note 12 to the financial statements

Agecroft Properties (No. 2) Limited

Balance sheet as at 31 December 2007

	Note	31 December 2007 £	31 December 2006 £
Current assets			
Debtors amounts falling due within one year	6	1,384,536	755,973
Debtors amounts falling due after more than one year	7	43,838,907	44,725,634
Cash at bank and in hand		2,544,292	2,486,884
		47,767,735	47,968,491
Creditors: amounts falling due within one year	8	(2,550,250)	(1,912,082)
Net current assets		45,217,485	46,056,409
Creditors: amounts falling due after more than one year	9	(36,828,966)	(38,624,267)
Provisions for liabilities and charges	10	(6,975,773)	(6,906,253)
Net assets		1,412,746	525,889
Capital and reserves			
Called up share capital	11	1	1
Profit and loss account	12	1,412,745	525,888
Total shareholder's funds	12	1,412,746	525,889

The financial statements on pages 5 to 14 were approved by the board on 28 MAY 2008 and signed on its behalf by

Director 
30 MAY 2008 (A. RHODES)

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007

1 Principal accounting policies

A summary of the company's principal accounting policies, which have been consistently applied, is set out below

Basis of preparation of accounts

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting and financial reporting standards in the United Kingdom

Equipment leased to customers

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases

The net investment in finance leases is included in debtors and represents total minimum lease payments less gross earnings allocated to future years and non refundable rents in advance. Income from finance leases is credited to the profit and loss account, as 'Gross rentals receivable under finance leases' using the actuarial after tax method to give a constant periodic rate of return on the net cash investment

Deferred taxation

Deferred tax 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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted

Debt issue costs

Debt issue costs directly incurred have been offset against the related debt and will be charged to the profit and loss account at a constant rate on the carrying value of the debt

Interest rate swaps

Interest rate swaps are used to hedge the company's exposure to movements on interest rates. The interest payable on such swaps is accrued in the same way as interest arising on the related borrowings

Cash flow statement

Under Financial Reporting Standard 1(revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company qualifies as a small entity as defined in sections 247 and 247a of the Companies Act 1985

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

2 Operating profit

The company had no employees during the year (2006: none). The remuneration of the directors is paid by the controlling parties and their services to the company are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the controlling parties. The controlling parties charged £nil (2006: £nil) to the company in respect of these services.

The audit fee has been paid on the company's behalf by a group company, Trillium Asset Management Limited, for which no recharge has been made (2006: £nil).

3 Interest receivable and similar income

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Interest receivable on bank deposits	165,496	138,070

4 Interest payable and similar charges

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Interest payable on senior debt	2,653,153	2,733,458
Interest payable on subordinated debt	324,872	324,872
Amortisation of debt issue costs	109,433	114,697
	3,087,458	3,173,027

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

5 Tax on profit on ordinary activities

a) Analysis of tax charge for the year

	Year ended 31 December 2007 £	Year ended 31 December 2006 £
Current tax	(350,317)	(233,907)
Deferred tax (note 10)		
Capital allowances on net investment in finance lease	(41,690)	(55,054)
Tax effect of finance lease asset not qualifying for capital allowances	(526,099)	(500,475)
Adjustment in respect of prior years	-	(166,138)
Rate change from 30% to 28%	498,269	-
Tax on profit on ordinary activities	(419,837)	(955,574)

As a consequence of a corporation tax rate change announced in the 2007 Finance Act, deferred tax reversing after 1 April 2008 will be recognised at a rate of 28% as opposed to the existing rate of 30%. The effect of this change is release a credit of £498,269 to the profit and loss accounts for the year.

b) Factors affecting current tax charge

The tax assessed for the year is lower (2006 lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

Profit on ordinary activities before taxation	1,306,694	1,341,583
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(392,008)	(402,476)
Effect of capital allowances on net investment in finance lease	41,691	172,966
Adjustment in respect of prior periods	-	(4,397)
	(350,317)	(233,907)

c) Factors that may affect future tax charges

The current tax charge will continue to be affected by timing differences on the project asset, although these timing differences will have an opposite impact on the deferred tax charge so there should be no overall impact on the tax charge.

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

6 Debtors: amounts falling due within one year

	31 December 2007	31 December 2006
	£	£
Net investment in finance lease	886,727	738,760
Trade debtors	497,809	-
Prepayments and accrued income	-	17,213
	1,384,536	755,973

7 Debtors: amounts falling due after more than one year

	31 December 2007	31 December 2006
Finance lease	£	£
Gross finance lease receivable	86,696,249	91,780,253
Less future interest	(41,970,615)	(46,315,859)
Net investment in finance lease	44,725,634	45,464,394
Less amounts falling due within one year	(886,727)	(738,760)
	43,838,907	44,725,634

8 Creditors: amounts falling due within one year

	31 December 2007	31 December 2006
	£	£
Senior debt	1,638,863	1,487,719
Amounts due to other group undertakings	163,771	163,771
Trade creditors	-	32,159
Accruals	185,628	-
Corporation tax	487,846	156,916
VAT payable	74,142	71,517
	2,550,250	1,912,082

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

9 Creditors: amounts falling due after more than one year

a) Total

	31 December 2007	31 December 2006
	£	£
Senior debt	33,948,454	35,496,560
Subordinated debt	2,320,512	2,320,512
Amounts due to other group undertakings	560,000	807,195
	36,828,966	38,624,267

b) Debt

Senior debt	36,532,464	38,038,859
Subordinated debt	2,320,512	2,320,512
	38,852,976	40,359,371
Less unamortised issue costs	(945,147)	(1,054,580)
Less included in creditors falling due within one year	(1,638,863)	(1,487,719)
	36,268,966	37,817,072

c) Maturity of debt:

Less than one year	1,743,602	1,597,152
Between one and two years	1,732,480	1,652,843
Between two and five years	5,651,850	5,415,691
In more than five years	29,725,044	31,693,685
	38,852,976	40,359,371
Less unamortised issue costs	(945,147)	(1,054,580)
Less amounts falling due within one year	(1,638,863)	(1,487,719)
	36,268,966	37,817,072

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

9 Creditors: amounts falling due after more than one year (continued)

Senior debt

The senior debt is repayable in semi-annual instalments with a final payment date of 30 June 2023. Interest is calculated semi-annually in arrears. Interest on the debt is fixed at a rate of 6.973%, through the use of an interest swap.

The loan is secured under a debenture deed. Under the terms of the debenture, the finance provider has security by way of a first legal mortgage over all estates or interests in any freehold or leasehold properties held by the company and buildings and fixtures on those properties. The finance provider also has security over all other assets of the company by way of fixed and floating charges.

The only derivative financial instrument held is the interest rate swap which converts the variable rate linked to LIBOR to a fixed rate of 6.973%. The fair value of this class of derivative financial instruments at 31 December 2007 is (£2,359,361).

Unsecured subordinated debt

The subordinated debt, which is due to the immediate parent undertaking, is repayable in semi-annual instalments, whenever the company has sufficient funds to do so, with the final repayment date being 30 June 2023. Interest on the debt is fixed at a rate of 14% per annum.

10 Provisions for liabilities and charges

Deferred tax

Deferred taxation provided in the accounts is as follows:

	31 December 2007	31 December 2006
	Amount provided	
	£	£
Tax effect of timing differences	6,975,773	6,906,253
The deferred tax liability consists of	£	£
Accelerated capital allowances	3,641,863	3,860,306
Other timing differences	3,333,910	3,045,947
	6,975,773	6,906,253
	£	£
Provision at 1 January	6,906,253	6,184,586
Charge to the profit and loss account (note 5)	69,520	721,667
Provision at 31 December 2007	6,975,773	6,906,253

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

11 Called up share capital

	31 December 2007	31 December 2006
	£	£
Authorised		
20,000 Ordinary shares of £1 each	20,000	20,000
Allotted, called up and fully paid		
1 Ordinary share of £1 each	1	1

12 Reconciliation of movement on total shareholder's funds and reserves

	Share capital	Profit & loss account	Total shareholder's funds
	£	£	£
At 1 September 2006	1	139,879	139,880
Retained profit for the period	-	386,009	386,009
At 31 December 2006	1	525,888	525,889
Retained profit for the year	-	886,857	886,857
At 31 December 2007	1	1,412,745	1,412,746

13 Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is API HoldCo Limited which is registered in England and Wales. The ultimate parent undertaking and ultimate controlling party, at the year end, was Land Securities Group PLC, a company incorporated in England and Wales.

On 2 February 2007, the ultimate controlling party became Land Securities Group PLC, when LST SMIF Limited Partnership acting through its general partner, LST SMIF Partnership GP Limited, purchased the entire issued share capital of Trillium Investments Luxembourg Sàrl (formerly Starsmif Investments Luxembourg Sàrl) the former ultimate parent undertaking. The ultimate controlling party of LST SMIF Limited Partnership and LST SMIF Partnership GP Limited is Land Securities Group PLC.

On 31 October 2007, Trillium PPP Investment Partners No 2 Limited became the immediate parent undertaking of API HoldCo Limited, which is wholly owned by Trillium PPP Investment Partners Ltd, and in turn Trillium PPP Investment Partners LP, acting through its general partner Trillium PPP Investment Partners GP Limited. On 14 December 2007 Land Securities Group PLC disposed of 40.2% of its interest in Trillium PPP Investment Partners LP, on 31 January 2008 it disposed of a further 11.496% of its interest and on 14 March 2008 it disposed of a further 38.3% and as a result ceased to be the ultimate parent undertaking and ultimate controlling party. The company considers that Trillium PPP Investment Partners LP became the ultimate parent undertaking and ultimate controlling party at this date.

Agecroft Properties (No. 2) Limited

Notes to the financial statements for the year ended 31 December 2007 (continued)

14 Related party disclosures

The following information is provided in accordance with Financial Reporting Standard No 8 – ‘Related Party Transactions’ as being transactions with related parties for the period

Year ended 31 December 2007

Name of related party	Relationship	Type of transaction	Transactions in the year £	Balance due at year end £
API HoldCo Limited	Parent company	Subordinated debt	-	(2,320,512)
		Interest on subordinated debt	(324,872)	(163,771)
		Amounts due	-	(560,000)
Trillium Asset Management Limited	Subsidiary undertaking of controlling party	Management fee	(86,814)	-

Year ended 31 December 2006

Name of related party	Relationship	Type of transaction	Transactions in the year £	Balance due at year end £
API HoldCo Limited	Parent company	Subordinated debt	-	(2,320,512)
		Interest on subordinated debt	(324,872)	(163,771)
		Amounts due	-	(807,195)
Trillium Asset Management Limited	Subsidiary undertaking of controlling party	Management fee	(83,907)	-