

Priorgate Limited

Annual report and financial statements
for the year ended 31 March 2007

Registered number 4801068

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Priorgate Limited

Annual report and financial statements for the year ended 31 March 2007

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Priorgate Limited

Directors and advisors

Directors

A E Birch
P McCulloch
I R Gethin
S P Hornby

Secretary

Trillium Secretariat Services Limited

Registered office

140 London Wall
London
EC2Y 5DN

Auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Priorgate Limited

Directors' report for the year ended 31 March 2007

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

Results, principal activities and review of business

The company was formed as a special purpose vehicle to provide two serviced schools to Sheffield City Council. The project met the target date for education services to commence in April 2005.

The company's immediate parent undertaking is Priorgate Holdings Limited, which is registered in England and Wales. On 1 March 2007, Noble-SMIF GP Limited (acting as the General Partner of NOBLE-SMIF LP) acquired the remaining 40%, that it did not already own, of the issued ordinary share capital of Priorgate Holdings Limited. On 31 October 2007, Noble-SMIF LP (acting through its general partnership, Noble-SMIF GP Limited) transferred its entire shareholding to its fellow group undertaking, Trillium PPP Investment Partners No 2 Limited.

Dividends and transfers to reserves

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

The directors consider the performance of the company during the year, the financial position at the end of the year and the prospects for the future to be satisfactory.

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 and other 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 directors have 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 use of fixed funding rates, plus a margin. Details of these can be found on page 12.

Inflation risk

The funding to the company was agreed as part of the overall PFI contracts with lenders, clients and shareholders, and these act as a natural hedge of the inflation risk.

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 Sheffield City Council and is not exposed to significant credit risk. 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 PFI contract which stipulates key performance criteria on operational activities. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the performance or position of the business.

Priorgate Limited

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

Directors

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

A E Birch	(appointed 01/03/07)
C Rossiter	(resigned 01/03/07)
P E Hilton	(resigned 01/03/07)
G J Yardley	(resigned 01/03/07)
P McCulloch	(resigned 19/12/06, appointed 01/03/07)
I R Gethin	(appointed 01/03/07)
C G R Pratt	(resigned 01/03/07)
S P Hornby	(appointed 01/03/07)

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.


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

During the year, RSM Robson Rhodes LLP resigned as auditors and PricewaterhouseCoopers LLP were appointed to fill the casual vacancy. A resolution to appoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the board


On behalf of Trilium Secretariat Services Limited (formerly SMIF Secretariat Services Limited)
Secretary

01 FEBRUARY 2008

Independent auditors' report to the members of Priorgate Limited

We have audited the financial statements of Priorgate Limited for the year ended 31 March 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the 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 March 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
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

7 February 2008

Priorgate Limited

Profit and loss account for the year ended 31 March 2007

	Note	Year ended 31 March 2007 £	Year ended 31 March 2006 (as restated) £
Turnover	1	1,386,355	1,234,723
Cost of sales		(1,286,357)	(1,298,225)
Gross profit/(loss)		99,998	(63,502)
Operating expenses		(105,155)	(85,492)
Operating (loss)	2	(5,157)	(148,994)
Interest receivable and similar income	3	1,942,396	1,957,212
Interest payable and similar charges	4	(1,778,021)	(1,884,274)
Profit/(loss) on ordinary activities before taxation		159,218	(76,056)
Tax on profit/(loss) on ordinary activities	5	(47,764)	23,266
Profit/(loss) for the year	12	111,454	(52,790)

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom. There is no difference between the profit for the year as shown in the profit and loss account and its historical cost equivalent. The movements on reserves are shown in note 12 to the financial statements.

Statement of total recognised gains and losses for the year ended 31 March 2007

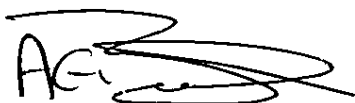
	Year ended 31 March 2007 £	Year ended 31 March 2006 (as restated) £
Profit/(loss) for the year	111,454	(52,790)
Prior year adjustment (note 1)	7,255	
Total gains and losses recognised since last annual report	118,709	

Priorgate Limited

Balance sheet as at 31 March 2007

	Note	31 March 2007	31 March 2006 (As restated)
		£	£
Current assets			
Debtors amounts falling due within one year	6	658,233	2,101,875
Debtors amounts falling due after more than one year	7	23,770,527	24,043,415
Cash at bank and in hand		1,093,260	1,471,466
Net current assets		25,522,020	27,616,756
Creditors, amounts falling due within one year	8	(1,264,638)	(2,995,842)
Total assets less current liabilities		24,257,382	24,620,914
Creditors: amounts falling due after more than one year	9	(24,188,718)	(24,663,704)
Net assets/(liabilities)		68,664	(42,790)
Capital and reserves			
Share capital	11	10,000	10,000
Profit and loss account	12	58,664	(52,790)
Total shareholder's funds/(deficit)	12	68,664	(42,790)

The financial statements on pages 5 to 15 were approved by the board on 01 FEBRUARY 2008 and signed on its behalf by



Director

Priorgate Limited

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

1 Principal accounting policies

A summary of the company's principal accounting policies, which have been consistently applied, except as indicated below, 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

Turnover

Turnover represents the value of work done and services rendered, excluding sales related taxes. All turnover originates in the United Kingdom

The company recognises income when it has fully fulfilled its contractual obligations. In accordance with Financial Reporting Standard (FRS) 5 – Application Note G, the company includes sales and purchase transactions related to variations under the original contract where the benefits and risks are retained by the company, within the financial statements as turnover and operating costs

Transactions to which the company does not have access to all the significant benefits and risks are excluded from the financial statements

Change in accounting policy

Following the acquisition of the company, as set out in note 13, the directors reconsidered the accounting treatments previously applied by the company

Following this review the methodology of amortisation of the finance debtor was changed to that considered to be the most appropriate, by the directors, in these accounts. Given the significance of the adjustment to date in relation to the profit for the year and the balance sheet, this change in accounting policy has been disclosed as a prior year adjustment within these accounts

The effect of the change is to increase turnover by £205,966 (2006 decrease of £212,173), increase cost of sales by £524,713 (2006 £531,670), decrease overheads by £190,060 (2006 £540,297), increase interest receivable in the year by £75,792 (2006 £151,080), to increase interest payable by £21,556 (2006 £58,627), to decrease tax by £15,847 (2006 increase of £2,468). The decrease in profit for the year to 31 March 2007 is £58,604 (2006 £113,561). The effect on profit and loss reserves as at 1 April 2005 is to increase reserves by £120,816. In addition the effect of this change, on the balance sheet at 31 December 2006, has been to increase the finance debtor by £57,985, increase prepayments and accrued income by £200,000, decrease unamortised issue costs by £18,340, increase accruals and deferred income by £229,922, decrease corporation tax payable by £10,511 and decrease the deferred tax asset by £12,979

In addition to the above the balance of the subordinated loan notes as disclosed in the comparative figures has been increased by £202,409, while that of accruals and deferred income has been reduced by a corresponding amount, in order to improve the consistency of the comparative numbers

Priorgate Limited

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

1 Principal accounting policies (continued)

Finance debtor and interest receivable

In accordance with Financial Reporting Standard (FRS) 5 - Application Note F, the costs incurred in constructing the assets have been treated as a finance debtor

This treatment arose from applying the guidance within the Application Note which indicated that the project's principal agreements transfer substantially all the risks and rewards relating to the property to the customer

The contract receivable represents the costs arising on the construction of the assets including initial tender costs. During asset construction, finance debtor interest income is recognised on an accruals basis equal to the interest expense of the operator and capitalised within the finance debtor receivable. Once the project reached its operational phase and was accepted by the customer the contract receivable was reclassified as a finance debtor, with a constant proportion of the planned net revenue arising from the project being allocated to remunerate the finance debtor. Imputed interest receivable is allocated to the finance debtor using a property specific rate to generate a constant rate of return over the life of the contract. Over the course of the contract term the finance debtor is expected to be fully repaid.

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.

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.

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.

Priorgate Limited

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

2 Operating profit

The company had no employees, other than the directors, during the year (2006 nil). 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 in respect of the company was £5,000 for the year (2006 £nil). Fees payable to the auditors for non-audit services were £nil (2006 £nil). The company also bore the audit fees of its immediate parent undertaking of £2,500 (2006 £nil) during the year.

The audit fee paid to RSM Robson Rhodes LLP in respect of the company's audit was £nil (2006 £12,500) and in respect of the audit fees of its immediate parent undertaking of £nil (2006 £2,000) during the year. Fees payable to RSM Robson Rhodes LLP for non-audit services were £5,800 (2006 £2,000).

3 Interest receivable and similar income

	Year ended 31 March 2007	Year ended 31 March 2006 (as restated)
	£	£
Imputed interest receivable on finance debtor	1,872,081	1,890,245
Interest receivable on bank deposits	70,315	66,967
	1,942,396	1,957,212

4 Interest payable and similar charges

	Year ended 31 March 2007	Year ended 31 March 2006 (as restated)
	£	£
Interest payable on debt	1,405,837	1,471,925
Interest on subordinated loan notes	349,415	355,167
Amortisation of debt issue costs	14,859	40,052
Other charges	7,910	17,130
	1,778,021	1,884,274

Priorgate Limited

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

5 Tax on profit/(loss) on ordinary activities

(a) Analysis of tax charge/(credit) for the year

	Year ended 31 March 2007	Year ended 31 March 2006 (as restated)
	£	£
Current tax:	24,498	-
Deferred tax:		
Origination and reversal of timing differences	23,266	(23,266)
Tax charge/(credit) on profit/(loss) on ordinary activities	47,764	(23,266)

(b) Factors affecting current tax charge

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

	Year ended 31 March 2007	Year ended 31 March 2006 (as restated)
	£	£
Profit/(loss) on ordinary activities before taxation	159,218	(76,056)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	47,764	(22,817)
Effects of		
Group relieved losses	-	(449)
Utilisation of tax losses	(23,266)	23,266
Current tax charge for the year (note 5(a))	24,498	-

(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. Further to a corporation tax rate change announced in the 2007 budget, deferred tax reversing after 1 April 2008 will be recognised at a rate of 28% as opposed to the existing rate of 30%.

Priorgate Limited

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

6 Debtors: amounts falling due within one year

	31 March 2007	31 March 2006 (as restated)
	£	£
Trade debtors	29,290	1,326,951
Finance debtor	283,956	253,161
Prepayments and accrued income	329,074	498,497
Corporation tax recoverable	15,913	-
Deferred tax asset (note 10)	-	23,266
	658,233	2,101,875

7 Debtors: amounts falling due after more than one year

	31 March 2007	31 March 2006 (as restated)
	£	£
Finance debtor	23,770,527	24,043,415

8 Creditors: amounts falling due within one year

	31 March 2007	31 March 2006 (as restated)
	£	£
Senior debt	684,322	675,572
Subordinated loan notes	17,379	23,118
Trade creditors	84,500	2,060,283
Other creditors	117,813	70,048
Accruals and deferred income	360,624	166,821
	1,264,638	2,995,842

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

9 Creditors: amounts falling due after more than one year

(a) Total

	31 March 2007	31 March 2006 (as restated)
	£	£
Debt (as analysed below)	23,411,628	24,275,159
Deferred income	777,090	388,545
	24,188,718	24,663,704

(b) Debt

Senior debt	21,711,244	22,401,674
Subordinated loan notes	2,593,460	2,778,409
	24,304,704	25,180,083
Less included in creditors falling due within one year	(701,701)	(698,690)
Less unamortised issue costs	(191,375)	(206,234)
	23,411,628	24,275,159

(c) Maturity of debt

Less than one year	716,104	713,547
Between one and two years	703,767	716,813
Between two and five years	2,354,998	2,230,564
In more than five years	20,529,835	21,519,159
	24,304,704	25,180,083
Less creditors falling due within one year	(701,701)	(698,690)
Less unamortised issue costs	(191,375)	(206,234)
	23,411,628	24,275,159

The senior debt is repayable in semi-annual instalments, by August 2028, with principal repayments having commenced in March 2006. The company has entered into an interest rate swap contract, at 5.3225%

The subordinated loan notes are repayable by 50 semi-annual instalments, which commenced in March 2006. These loan notes are subordinated to the right of payment of senior debt providers with an interest rate fixed at 13.29% per annum.

Priorgate Limited

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

10 Deferred tax asset

	31 March 2007	31 March 2006 (as restated)
	£	£
Deferred tax asset	-	23,266
The movements in deferred tax during the year and previous year are as follows		
At 1 April	23,266	-
(Charge)/credit to the profit and loss account (note 5 (a))	(23,266)	23,266
At 31 March	-	23,266
The deferred tax asset consists of		
Tax losses recognised	-	23,266

11 Share capital

	31 March 2007	31 March 2006
	£	£
Authorised		
10,000 Ordinary shares of £1 each	10,000	10,000
Allotted, called up and fully paid		
10,000 Ordinary shares of £1 each	10,000	10,000

Priorgate Limited

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

12 Reconciliation of movements on total shareholder's funds/(deficit) and reserves

	Share capital	Profit and loss account	Total shareholder's funds/(deficit)
	£	£	£
At 1 April 2005 as previously published	10,000	(120,816)	(110,816)
Prior year adjustment	-	120,816	120,816
At 1 April 2005 as restated	10,000	-	10,000
Profit for the year as previously published		60,771	60,771
Prior year adjustment	-	(113,561)	(113,561)
Loss for the year as restated	-	(52,790)	(52,790)
At 1 April 2006 as restated	10,000	(52,790)	(42,790)
Profit for the year	-	111,454	111,454
At 31 March 2007	10,000	58,664	68,664

13 Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Priorgate Holdings Limited, which is registered in England and Wales. On 1 March 2007, Noble-SMIF GP Limited (acting as the General Partner of NOBLE-SMIF LP) acquired the remaining 40%, that it did not already own, of the issued ordinary share capital of Priorgate Holdings Limited. At the year end, the ultimate parent undertaking and ultimate controlling party, was Land Securities Group PLC, which is registered in England and Wales. On 31 October 2007, Noble-SMIF LP (acting through its general partnership, Noble-SMIF GP Limited) transferred its entire shareholding to its fellow group undertaking, Trillium PPP Investment Partners No 2 Limited.

On 2 February 2007 LST SMIF Limited Partnership, acting through its general partnership, LST SMIF Partnership GP Limited, purchased the entire issued share capital of Star SMIF Investments Luxembourg Sàrl. The ultimate controlling party of LST SMIF Limited Partnership and LST SMIF Partnership GP Limited is Land Securities Group PLC.

Star SMIF Investments Luxembourg Sàrl changed its name to SMIF Investments Luxembourg Sàrl on 3 April 2007 and on 11 September 2007 to Trillium Investments Luxembourg Sàrl.

Priorgate Limited

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

14 Related party transactions

The following information is provided in accordance with Financial Reporting Standard No 8 as being transactions with related parties for the period

Year ended 31 March 2007

Name of related party	Relationship	Type of transaction	Charges for period £	Balance due to £
King Sturge	Prior shareholder of parent company	Employer's agent and other fees	39,600	-
King Sturge Financial Services Limited	Group undertaking of prior shareholder of parent company	Sponsors fee and management fee	40,198	18,272
M J Gleeson Group plc	Prior shareholder of parent company	Construction costs	27,728	27,728
Trillium Asset Management Limited	Subsidiary undertaking of controlling party	Management fee	5,000	-
Priorgate Holdings Limited	Parent company	Subordinated loan notes	-	2,593,460
		Interest on subordinated loan notes	349,415	145,033

Year ended 31 March 2006

Name of related party	Relationship	Type of transaction	Charges for period £	Balance due to £
King Sturge	Shareholder of parent company	Employer's agent and other fees	51,000	-
King Sturge Financial Services Limited	Group undertaking of shareholder of parent company	Sponsors fee and management fee	42,000	21,000
M J Gleeson Group plc	Shareholder of parent company	Construction costs	3,977,809	1,567,008
Trillium Asset Management Limited	Subsidiary undertaking of controlling party	Management fee	10,000	-
Priorgate Holdings Limited	Parent company	Subordinated loan notes	-	2,778,409
		Interest on subordinated loan notes	355,167	152,758