

6

**EQUITIX HOLDINGS LIMITED (previously PRECIS (2657) LIMITED)**

**DIRECTORS' REPORT  
AND  
FINANCIAL STATEMENTS FOR THE PERIOD FROM  
DATE OF INCORPORATION ON 19 OCTOBER 2006 TO 31 DECEMBER 2007**

THURSDAY



A22 \*A93VV1HU\* 187  
17/07/2008  
COMPANIES HOUSE

**Registered Number 05972500**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD FROM 19 OCTOBER 2006 TO  
31 DECEMBER 2007**

| <b>CONTENTS</b>   | <b>Page</b> |
|---|-------------|
| Directors and advisors  | 1           |
| Directors' report   | 2 - 3       |
| Statement of Directors' responsibilities                                | 4           |
| Independent auditors' report to the members of Equitix Holdings Limited | 5           |
| Consolidated Income Statement   | 6           |
| Consolidated Statement of Recognised Income and Expenditure             | 7           |
| Consolidated Balance sheet  | 8           |
| Consolidated Cash Flow Statement  | 9           |
| Notes to the consolidated financial statements                          | 10 - 25     |
| Principal subsidiaries and joint ventures                               | 26          |
| Company Balance Sheet   | 27          |
| Notes to the Company financial statements                               | 28 - 29     |

**DIRECTORS AND ADVISORS**

**Directors**

|  |  |
|--|--|
| H B Crossley                           | (appointed 19 March 2007)                              |
| J D Hams                               | (appointed 12 February 2007)                           |
| G A Jackson                            | (appointed 12 February 2007)                           |
| K J Maddin                             | (appointed 12 December 2006)                           |
| N G B Parker                           | (appointed 19 February 2007)                           |
| L J Small                              | (appointed 12 December 2006, resigned 19 March 2007)   |
| Peregrine Secretarial Services Limited | (appointed 19 October 2006, resigned 12 December 2007) |
| Office Organization & Services Limited | (appointed 19 October 2006, resigned 12 December 2007) |

**Company secretary and registered office**

H B Crossley  
Boundary House  
91-93 Charterhouse Street  
London  
EC1M 6HR

**Auditors**

Deloitte & Touche LLP  
Chartered Accountants  
London

**Principal bankers**

Barclays Bank Plc  
Level 28  
1 Churchill Place  
Canary Wharf  
London  
E14 5HP

**Principal legal advisor**

Lovells LLP  
Atlantic House  
Holborn Viaduct  
London  
EC1A 2FG

## **DIRECTORS' REPORT**

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditors' report, for the period from incorporation on 19 October 2006 to 31 December 2007

## **PRINCIPAL ACTIVITIES**

The principal activities of the Group are to bid and develop primary market opportunities available under the Private Finance Initiative, the Group also manages the process of secondary market acquisitions and provides operational support to all investments via management services agreements

The subsidiaries and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in the financial statements

The principal activity of the Company is to act as parent to Equitix Limited, Equitix Finance Limited and Equitix Investment Management Limited, all of which are subsidiaries of the Company

## **BUSINESS REVIEW**

The Company was incorporated in the United Kingdom on 19 October 2006 under the name Precis (2657) Limited

The Company changed its name to Equitix Holdings Limited on 12 December 2006

The Company acquired the entire issued share capital of Equitix Limited and Equitix Finance Limited on 12 December 2006. The Company acquired the entire issued share capital of Equitix Investment Management Limited on 7 June 2007

The Company is required by the Companies Act to include a business review in this report. The information that fulfils the requirements of the business review can be found on page 3, which is incorporated in this report by reference

## **RESULTS AND DIVIDENDS**

The retained loss before tax for the period was £1,863,188

The Directors do not recommend the payment of a dividend

## **CAPITAL STRUCTURE**

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 19. The Company has two classes of ordinary share, both of which carry no right to fixed income. Only "A" class shares carry voting rights at one vote per share at general meetings of the Company

## **DIRECTORS**

The Directors who served throughout the period, except as noted, are shown on page 1

## **AUDITORS**

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

- so 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 ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP were appointed auditors of the Company on 31 October 2007

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

## **DIRECTORS' REPORT (continued)**

### **BUSINESS REVIEW**

The review discusses the following areas

- Primary market activity
- Secondary market activity
- Supplier and customer payment policy
- Key performance indicators
- Financial risk review

### **PRIMARY MARKET ACTIVITY**

The Group targets resources towards creating and building a strong consortia with relevant skills and experience for primary market opportunities, by maintaining a dialogue with government clients we endeavour to ensure that our ideal solutions best meets the needs of the client and adds value to the surrounding project environment. Consortium partners are selected on their respective skill base, geographic location and project experience to ensure that our partnerships create synergistic value.

### **SECONDARY MARKET ACTIVITY**

Secondary market opportunities are targeted on terms of how well they will fit into the portfolio and add value to the overall Group. The Group performs rigorous due diligence checks of all project documents and sites utilising the expertise and knowledge of external consultants to ensure the price offered for acquisitions reflects a true value.

### **SUPPLIER PAYMENT POLICY**

The Group policy is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that all suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 31 December 2007 were equivalent to 40 days' purchases, based on the average daily amount invoiced by suppliers during the period.

### **KEY PERFORMANCE INDICATORS**

The key performance indicators for the Group are primarily client and financially focused, including those listed below:

- The progress of individual primary project bids,
- The comparison of actual bid costs to budget,
- The value of all secondary market acquisitions held in the Group portfolio, and
- That all operational projects are performing within the restrictions of all project documentation.

The Group has been shortlisted on eight of nine projects it attempted to pre-qualify for during the period, of which the Group is still actively bidding on five projects. The Group is forming strong consortia to progress on further primary opportunities in the future.

The Group has managed all bid costs effectively with all current live bids performing within budget.

The value of the secondary portfolio held by the Group, is constantly monitored, the latest operational models show the value of the current portfolio is at an anticipated level. Through feedback from the Group's operational staff and clients, all operational projects are performing in line with the project documentation with no unavailability deductions being suffered in 2007.

### **FINANCIAL RISK REVIEW**

The Group entered into a deep discounted loan note agreement with CS Capital Partners III LP, to draw-down loan capital on a monthly basis as necessary. The deep discounted loan notes accrue value on a daily compounded basis until redeemed or ultimately due at a fixed rate of 12%, therefore the Group is not exposed to risks of fluctuations in interest rates. The Group's other financial obligations including all non-recourse debt is disclosed under note 16.

The Group has adopted a policy of only dealing with credit worthy counterparties and PFI / PPP concessions are entered into with government or semi-government authorities. The Group insists on contractual agreements with bidding counterparties to share cost dependent upon project stakes and services provided prior to pursuing a bid.

Ultimate responsibility for liquidity risk management rests with the board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

### **POST BALANCE SHEET EVENTS**

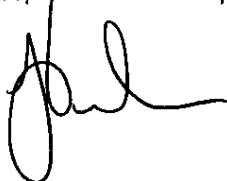
All post balance sheet events have been disclosed in note 27.

### **ACCOUNTING POLICIES**

All accounting policies adopted in the current period have been applied consistently throughout.

On behalf of the Board  
G A Jackson

14 July 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 group financial statements under IFRSs (IFRSs) as adopted by the European Union and the parent company financial statements under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the companies financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in International Accounting Standards Board's Framework for the preparation and presentation of financial statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the 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 judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent company 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.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EQUITIX HOLDINGS LIMITED**

We have audited the group and parent company financial statements (the "financial statements") of Equitix Holdings Limited for the period from incorporation on 19 October 2006 to 31 December 2007, which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, Consolidated Balance Sheet, Consolidated Cash Flow Statement, the related notes 1 to 26, the list of Principal Subsidiaries and Joint Ventures, Company Balance Sheet and the related Company notes 1 to 9. These financial statements have been prepared under accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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**

The Directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practices) 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).

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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the period then ended,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs at 31 December 2007,
- the group and parent company 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.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
14 July 2008

**EQUITIX HOLDINGS LIMITED (previously PRECIS (2657) LIMITED)**

**CONSOLIDATED INCOME STATEMENT**

**FOR THE PERIOD FROM 19 OCTOBER 2006 TO 31 DECEMBER 2007**

|   | Notes     | Period from 19<br>October 2006 to<br>31 December 2007<br>£ |
|---|-----------|--|
| Revenue   | 1         | -  |
| Cost of sales   |           | -  |
| <b>Gross profit</b>   |           | <b>-</b>   |
| Administrative expenses                                     |           | <b>(1,770,479)</b>   |
| <b>Operating loss</b>                                       | <b>4</b>  | <b>(1,770,479)</b>   |
| Investment revenues   | 8         | <b>164</b>   |
| Finance costs   | 9         | <b>(92,873)</b>  |
| <b>Loss on ordinary activities before taxation</b>          |           | <b>(1,863,188)</b>   |
| Tax on loss on ordinary activities                          | 10        | -  |
| <b>Retained loss for the year transferred from reserves</b> | <b>20</b> | <b>(1,863,188)</b>   |

All items in the consolidated income statement relate to continuing operations



**EQUITIX HOLDINGS LIMITED (previously PRECIS (2657) LIMITED)**

---

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

**FOR THE PERIOD FROM 19 OCTOBER 2006 TO 31 DECEMBER 2007**

**Period from 19  
October 2006 to  
31 December 2007  
£**

|   |                                  |
|---|----------------------------------|
| <b>Loss for the period</b>                                | <b><u>(1,863,188)</u></b>        |
| <b>Total recognised income and expense for the period</b> | <b><u><u>(1,863,188)</u></u></b> |

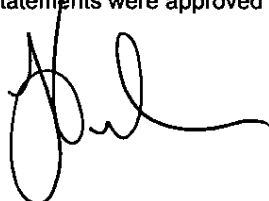
**EQUITIX HOLDINGS LIMITED (previously PRECIS (2657) LIMITED)**

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2007**

|  | Notes | 2007<br>£                 |
|--|-------|---------------------------|
| <b>Non-current assets</b>                    |       |                           |
| Intangible assets                            | 11    | 2,119,081                 |
| Investment property                          | 12    | 1,619,838                 |
| Property, plant and equipment                | 13    | 9,508,188                 |
| Trade and other receivables                  | 14    | <u>27,500</u>             |
|  |       | <b>13,274,607</b>         |
| <b>Current assets</b>                        |       |                           |
| Trade and other receivables                  | 14    | 327,579                   |
| Cash and cash equivalents                    | 14    | <u>1,180,922</u>          |
|  |       | <b>1,508,501</b>          |
| <b>Total assets</b>                          |       | <u><b>14,783,108</b></u>  |
| <b>Current liabilities</b>                   |       |                           |
| Trade and other payables                     | 15    | (941,497)                 |
| Borrowings                                   | 16    | (74,189)                  |
| Deferred revenue                             | 17    | (73,300)                  |
| Current tax                                  |       | <u>(55,918)</u>           |
|  |       | <b>(1,144,904)</b>        |
| <b>Net current assets</b>                    |       | <u><b>363,597</b></u>     |
| <b>Total assets less current liabilities</b> |       | <u><b>13,638,204</b></u>  |
| <b>Non-current liabilities</b>               |       |                           |
| Borrowings                                   | 16    | (4,684,126)               |
| Loans from related parties                   | 25    | (8,657,847)               |
| Deferred revenue                             | 17    | (1,172,800)               |
| Deferred tax                                 | 18    | (806,373)                 |
| Derivative financial instruments             | 23    | <u>(179,246)</u>          |
|  |       | <b>(15,500,392)</b>       |
| <b>Net liabilities</b>                       |       | <u><b>(1,862,188)</b></u> |
| <b>Capital and reserves</b>                  |       |                           |
| Called up share capital                      | 19    | 1,000                     |
| Profit and loss account                      | 20    | <u>(1,863,188)</u>        |
| <b>Shareholders' deficit</b>                 |       | <u><b>(1,862,188)</b></u> |

The financial statements were approved by the Board of Directors on 14 July 2008 and were signed on its behalf by

G A Jackson  
Director



**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE PERIOD FROM 19 OCTOBER 2006 TO 31 DECEMBER 2007**

|   | Notes | Period from 19<br>October 2006 to<br>31 December<br>2007<br>£ |
|---|-------|---|
| <b>Net cash used in operating activities</b>            | 22    | <b><u>(1,143,604)</u></b>                                     |
| <b>Investing activities</b>                             |       |   |
| Interest received                                       | 8     | 164   |
| Interest paid   | 9     | (92,873)  |
| Purchase of property, plant and equipment               | 13    | (112,001)   |
| Acquisition of subsidiaries                             | 21    | (6,129,611)   |
| <b>Net cash used in investing activities</b>            |       | <b><u>(6,334,321)</u></b>                                     |
| <b>Financing activities</b>                             |       |   |
| Proceeds on issue of deep discount loan notes           | 16    | 8,657,847   |
| Proceeds on issue of share capital                      | 19    | 1,000   |
| <b>Net cash from financing activities</b>               |       | <b><u>8,658,847</u></b>                                       |
| <b>Net increase in cash and cash equivalents</b>        |       | <b><u>1,180,922</u></b>                                       |
| <b>Cash and cash equivalents at beginning of period</b> |       | <b><u>-</u></b>   |
| <b>Cash and cash equivalents at end of period</b>       |       | <b><u>1,180,922</u></b>                                       |

**Notes to the financial statements for the period from 19 October 2006 to 31 December 2007**

**1 ACCOUNTING POLICIES**

**a) General information**

Equitix Holdings Limited is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the Director's report on page 2 inclusive of the business review on page 3.

These financial statements are presented in pounds sterling being the currency of the primary economic environment in which the Group operates.

**b) Basis of accounting**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

**c) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**d) Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are initially recognised at their fair value at the acquisition date.

**e) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related tax. Revenues associated to the availability and usage fees on PFI projects where the principal asset is accounted for as a fixed or intangible asset is recognised on a time basis in the income statement.

Interest income derived from shareholder loans in PFI project companies is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Interest income derived from financial assets is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**f) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets, which are the assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**1 ACCOUNTING POLICIES (continued)****g) Retirement benefit costs**

Staff employed by the Company who are entitled to retirement benefits, can choose to be members of a defined contribution stakeholder scheme sponsored by Equitix Limited in conjunction with Legal and General Assurance Society Limited

Retirement benefit costs are recognised as incurred

**h) Taxation**

The tax expense represents the sum of tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**i) Property, plant and equipment**

Land and buildings held for use in the production or supply of goods or services, or for administration purposes, are stated in the balance sheet at fair value on acquisition, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives using the straight-line method over the periods listed below,

|   |                 |
|---|-----------------|
| Fixtures and fittings                     | 5 years         |
| Computer and telecommunications equipment | 3 years         |
| Other office equipment                    | 3 years         |
| Land                                      | Not depreciated |
| Buildings                                 | 50 years        |

**j) PFI bid costs**

PFI bid costs are charged to the profit and loss account until such time as the Company is virtually certain that it will enter into contracts for the relevant PFI project.

Virtual certainty is generally achieved at the time the Company is selected as preferred bidder. From the point of virtual certainty, bid costs are capitalised and held in the balance sheet as a debtor prior to achieving financial close. On financial close of PFI projects and financing agreements, the Company recovers capitalised bid costs from the relevant project company. The recovery of bid costs from project companies is recognised in the period of financial close. As a mitigation of risk the Group will insist on a signed agreement to cover the recovery of all bid costs when the Group is appointed preferred bidder if the subsequent project is not fulfilled by the government.

**k) Investments**

Fixed asset investments are shown at cost less provision for impairment. Income from investments is included in the income statement as declared.

**l) Intangible assets**

An intangible asset is recognised on the acquisition of service concession arrangements and represents the rights to future profits on the service element of these concessions. This intangible is initially recognised at fair value and is subsequently amortised over the life of the underlying concessions.

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

**Notes to the financial statements for the period from 19 October 2006 to 31 December 2007**

**1 ACCOUNTING POLICIES (continued)**

**m) Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risk including interest rate swaps. Further details of derivative financial instruments are disclosed in note 23 to the financial statements. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the income statement immediately.

**n) Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**o) Acquisition costs**

Acquisition costs are those costs (predominantly financial and legal advisory costs, due diligence costs, stamp duty and investment advisory fees in respect of the acquisition) incurred by the Group in connection with acquisitions of investments. Acquisition costs are included in the price in determining the cost of the Group's investments.

**p) Cash and cash equivalents**

Cash and cash equivalents comprise on hand and demand deposits and other short-term highly liquid investments with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**q) Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities are classified as either fair value through profit and loss ("FVTPL") or as other financial liabilities, which are recognised at fair value and thereafter held at amortised cost. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

**r) 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 income statement using a straight-line method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**s) Financial risk management**

The Group's main activities expose it to the financial risks of changes in interest rates. The Group uses interest rate swap mechanisms to mitigate this risk and hedge exposure. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. The Group does not use derivative financial instruments for speculative purposes.

Due to the nature of PFI/PPP projects, it is important that key financial risks are hedged at the inception of the project, funders of projects insist upon this. Therefore each PFI/PPP project hedges their exposure to interest rate risk via fixed rate borrowings or by entering into a derivative financial instrument agreement to swap variable rate bank debt for fixed rate bank debt at the inception of the project.

**t) Impairment of tangible assets**

At each balance sheet date, the Group reviews the carrying amounts of all tangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

**u) Investment property**

Investment property, which is property held to earn rentals and for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**1 ACCOUNTING POLICIES (continued)**

**v) Assessable risks**

*Credit risk*

The Group is not exposed to significant credit risk as the Group derives revenue from PFI concessions with government departments, local authorities and other public sector clients

*Liquidity risk*

The Group adopts a prudent approach to liquidity management and maintains sufficient cash reserves to meet its obligations. The very nature of a PFI concession provides predictable long-term stable cash flows.

Loans in PFI project entities are non-recourse. Non-recourse loans are those which are secured solely in a specific asset and its future income. The terms of the finance agreements provide that the lender will not seek in any way to enforce repayment of either principal or interest from the rest of the Group and the Group is not obliged, nor does it intend, to support any losses.

*Inflation risk*

Typically a PFI concession will have some component of its revenue and expenditure linked to inflation and as a result these projects are insensitive to inflation.

*Foreign exchange risk*

The Group does not currently have any exposure to foreign currency exchange risk, nor does it have any immediate plans to geographically deviate its focus.

**w) Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as a lessee*

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign operating leases are similarly spread on a straight-line basis over the lease term.

**x) Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

*Investment Property / Land and Buildings Valuations*

As disclosed in notes 12 and 13, the Group acquired an investment property as part of the acquisition of Flagship Care (Surrey) Limited and land and buildings as part of the acquisition of Flagship Care (Lancaster) Limited. The value that the assets have been recorded at was derived from an independent valuation performed as part of the acquisition process; the Directors believe that this value reflects the fair value at the balance sheet date given the proximity of the acquisition date to the balance sheet date. The market value of the investment property will be valued on an annual basis.

*Depreciation policy - Land and Buildings*

As disclosed in note 13, buildings other than those defined as investment property are depreciated over a period of 50 years to an assumed residual value calculated using independent advisors when project documents are agreed; the Directors believe that this depreciation profile reflects a fair assumption given the term over which the assets will be held and the nature of the buildings themselves.

*Deep Discounted Bonds - Interest Rate*

As disclosed in note 23 the Group has undertaken an agreement with its immediate parent CS Capital Partners III LP to issue deep discounted loan notes until the redemption date as disclosed in note 16; the Directors believe that the interest rate attached to the deep discounted loan notes reflects the market value of similar instruments based on a similar business model as the Group; therefore the Directors believe that the deep discounted loan note value in note 23 reflects a fair value at the balance sheet date.

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**2 ADOPTION OF NEW AND REVISED STANDARDS**

In the current period, the Group has chosen to adopt early IFRS7 *Financial Instruments Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 23). Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 7 *Applying the Restatement Approach under IAS29, Financial Reporting in Hyperinflationary Economies*, IFRIC 8 *Scope of IFRS 2*, IFRIC 9 *Reassessment of Embedded Derivatives*, and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

|          |  |
|----------|--|
| IFRS 8   | <i>Operating Segments</i>                    |
| IFRIC 11 | <i>Group and treasury share transactions</i> |
| IFRIC 12 | <i>Service Concession Arrangements</i>       |
| IFRIC 13 | <i>Customer loyalty programmes</i>           |
| IFRIC 14 | <i>Defined benefit pension plans</i>         |

IFRS 8 would lead to further disclosure requirements in these financial statements. IFRIC 11 - 14 would not have any impact on these financial statements.

**3 BUSINESS AND GEOGRAPHICAL SEGMENTS***Geographical segmentation*

The Group trades solely within the United Kingdom and reports all primary and secondary market information on this basis.

*Business segmentation*

The Group trades in both the primary market and secondary market of the PFI industry as well as administering a private investment fund, thus activity is presented under these three headings as below,

**Income statement**

|                      | Primary market     | Secondary market | Private investment fund | Total              |
|----------------------|--------------------|------------------|-------------------------|--------------------|
|                      | £                  | £                | £                       | £                  |
| Segment result       | <u>(1,455,709)</u> | <u>(177,193)</u> | <u>(137,577)</u>        | <u>(1,770,479)</u> |
| Investment income    |                    |                  |                         | 164                |
| Finance costs        |                    |                  |                         | (92,873)           |
| Loss before taxation |                    |                  |                         | <u>(1,863,188)</u> |
| Loss after taxation  |                    |                  |                         | <u>(1,863,188)</u> |

**Balance sheet***Assets*

|                               |         |           |   |           |
|-------------------------------|---------|-----------|---|-----------|
| Intangible assets             | -       | 2,119,081 | - | 2,119,081 |
| Investment property           | -       | 1,619,838 | - | 1,619,838 |
| Property, plant and equipment | 87,089  | 9,421,099 | - | 9,508,188 |
| Trade and other receivables   | 82,142  | 272,937   | - | 355,079   |
| Cash and cash equivalents     | 634,523 | 546,399   | - | 1,180,922 |

*Liabilities*

|                                  |                    |           |          |                    |
|----------------------------------|--------------------|-----------|----------|--------------------|
| Trade and other payables         | 684,105            | 257,392   | -        | 941,497            |
| Current tax                      | -                  | 55,918    | -        | 55,918             |
| Borrowings                       | -                  | 4,758,315 | -        | 4,758,315          |
| Loans from related parties       | 1,981,837          | 6,676,010 | -        | 8,657,847          |
| Deferred revenue                 | -                  | 1,246,100 | -        | 1,246,100          |
| Deferred tax liabilities         | -                  | 806,373   | -        | 806,373            |
| Derivative financial instruments | -                  | 179,246   | -        | 179,246            |
| Net liabilities                  | <u>(1,862,188)</u> | <u>-</u>  | <u>-</u> | <u>(1,862,188)</u> |

The Group reports information in a format that best reflects the divisions and activities of the individual entities of the Group that best serves any informational needs and reflects any changes to the market or industry as a whole.

**4 LOSS FOR THE PERIOD**

Loss for the period has been arrived at after charging (all items included refer to continuing operations)

|   | 2007<br>£      |
|---|----------------|
| Depreciation of property, plant and equipment | 24,914         |
| Bidding costs                                 | 204,663        |
| Staff costs (see note (6))                    | <u>966,189</u> |



Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

5 AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows

|  | 2007<br>£     |
|--|---------------|
| • The audit of other group companies pursuant to legislation | 75,000        |
| • Other audit services pursuant to legislation               | 5,000         |
|  | <u>80,000</u> |

The audit fee for Equitix Holdings Limited of £15,000 has been borne by Equitix Limited, who will not seek any compensation from the Company

6 STAFF COSTS

The average number of persons employed by the Company during the period, including the Directors were as follows

2007  
No

8

The aggregate payroll costs of these persons were as follows

2007  
£

|                                 |                |
|---------------------------------|----------------|
| Salaries                        | 869,276        |
| Social security costs           | 81,265         |
| Other pension costs (see below) | 15,648         |
|                                 | <u>966,189</u> |

Staff employed by the Company who are entitled to retirement benefits, can choose to be members of a defined contribution stakeholder scheme sponsored by Equitix Limited in conjunction with Legal and General Assurance Society Limited

7 DIRECTORS' REMUNERATION

The Directors of the Company are remunerated for their services to the Group as a whole and it is not practicable to allocate their remuneration between group companies. One of the Directors, K J Maddin, is not compensated for his services to the Group

The remuneration of the Company Directors was as follows

2007  
£

|                       |                |
|-----------------------|----------------|
| <u>All Directors</u>  |                |
| Directors' emoluments | <u>623,720</u> |

|                              |                |
|------------------------------|----------------|
| <u>Highest Paid Director</u> |                |
| Director's emoluments        | <u>183,895</u> |

The highest paid Director is not a member of a defined benefit pension scheme

8 INVESTMENT REVENUE

Investment revenue earned on financial assets analysed by category of asset, is as follows

2007  
£

|                                      |            |
|--------------------------------------|------------|
| Interest on bank deposits - recourse | <u>164</u> |
|--------------------------------------|------------|

Non-recourse financial assets and bank deposits are those which held by a specific PFI project entity and are not readily available for transfer or use elsewhere within the Group

9 FINANCE COSTS

2007  
£

|  |               |
|--|---------------|
| Interest on deep discounted loan notes | <u>92,873</u> |
|--|---------------|

# EQUITIX HOLDINGS LIMITED (previously PRECIS (2657) LIMITED)

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

### 10 TAX

|  |           |
|--|-----------|
| All items refer to continuing operations | 2007<br>£ |
| Current tax                              |           |
| UK corporation tax - current year        | -         |
| Deferred tax (see note 18)               |           |
| UK - current year                        | -         |
|  | 2007<br>£ |

The charge for the period can be reconciled to the loss in the income statement as follows (all items refer to continuing operations)

|  |                    |
|--|--------------------|
| Loss before tax  | <u>(1,863,188)</u> |
| Tax at the UK corporation tax rate of 30%                                    | 558,956            |
| Tax effect of expenses that are not deductible in determining taxable profit | (10,430)           |
| Difference between depreciation and capital allowances                       | 316                |
| Losses not utilised  | (548,842)          |
| Tax expense for the period   | <u>-</u>           |

Deferred tax assets and liabilities recorded as a result of the acquisition of Flagship Care (Lancaster) Limited and Flagship Care (Surrey) Limited are explained in note 18

### 11 INTANGIBLE ASSETS

|   |                  |
|---|------------------|
| Cost                                    | £                |
| At 19 October 2006                      | -                |
| Acquired on acquisition of subsidiaries | <u>2,119,081</u> |
| At 31 December 2007                     | <u>2,119,081</u> |
| Carrying amount                         |                  |
| At 31 December 2007                     | <u>2,119,081</u> |

No impairment adjustment has been made to the intangible assets arising from the Group's acquisition of Flagship Care (Lancaster) Limited and Flagship Care (Surrey) Limited which were acquired on 28 December 2007. The intangible asset value is representative of the amount of consideration paid over and above the fair value of the subsidiaries' net assets, and represents the right to future profits on the service element of these concessions.

|  |                  |
|--|------------------|
| Intangible assets are allocated as follows                   | 2007<br>£        |
| Incurred on acquisition of Flagship Care (Lancaster) Limited | 2,013,713        |
| Incurred on acquisition of Flagship Care (Surrey) Limited    | <u>105,368</u>   |
|  | <u>2,119,081</u> |

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

## 12 INVESTMENT PROPERTY

| Fair value                | 2007<br>£ |
|---------------------------|-----------|
| At 19 October 2006        | -         |
| Acquisition of subsidiary | 1,619,838 |
| At 31 December 2007       | 1,619,838 |

The fair value of the Group's investment property at 31 December 2007 has been arrived at on the basis of a valuation carried out by GeraldEve, independent valuers not connected with the Group, on the basis of existing use, and based on recent market transactions on arm's length for similar properties held under similar circumstances

The Group has pledged all of its investment property to secure project specific bank funding. The Group is not allowed to pledge these assets as security for other borrowings or sell them to another entity.

Depreciation is not provided for in respect of investment properties. The Directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under IAS 40 *Investment Property*. The financial effect of this departure cannot be reasonably quantified.

## 13 PROPERTY, PLANT AND EQUIPMENT

| Cost or valuation                       | Land and<br>buildings<br>£ | Computer<br>equipment<br>£ | Fixtures<br>and fittings<br>£ | Total<br>£ |
|---|----------------------------|----------------------------|-------------------------------|------------|
| At 19 October 2006                      | -                          | -                          | -                             | -          |
| Additions                               | -                          | 70,920                     | 41,083                        | 112,003    |
| Acquisition of subsidiary               | 9,421,099                  | -                          | -                             | 9,421,099  |
| At 31 December 2007                     | 9,421,099                  | 70,920                     | 41,083                        | 9,533,102  |
| Accumulated depreciation and impairment |                            |                            |                               |            |
| At 19 October 2006                      | -                          | -                          | -                             | -          |
| Charge for the period                   | -                          | 18,567                     | 6,347                         | 24,914     |
| At 31 December 2007                     | -                          | 18,567                     | 6,347                         | 24,914     |
| Carrying amount                         |                            |                            |                               |            |
| At 31 December 2007                     | 9,421,099                  | 52,353                     | 34,736                        | 9,508,188  |

Land and buildings, and investment property (see note 12) with a carrying value of £11,040,937 have been pledged to secure specific borrowings of the Group (see note 16). The Group is not allowed to pledge these assets as security for other borrowings or sell them to another entity.

Freehold and long-term leasehold land and buildings acquired as part of subsidiary acquisitions were valued by GeraldEve, independent valuers not connected to the Group in any way, on the basis of existing use, and was based on recent market transactions on arm's length terms for similar properties held under similar circumstances.

At 31 December 2007, had the land and buildings other than investment property of the Group been consolidated at historical cost less accumulated depreciation and accumulated impairment losses, their carrying value would have been approximately £5,218,989.

## 14 OTHER FINANCIAL ASSETS

| Trade and other receivables | 2007<br>£ |
|-----------------------------|-----------|
| Receivable unitary income   | 11,616    |
| Other debtors               | 120,000   |
| Prepayments                 | 65,503    |
| Receivable indirect tax     | 15,452    |
| Accrued income              | 115,008   |
|                             | 327,579   |
| Due after one year          |           |
| Other debtor                | 27,500    |

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**14 OTHER FINANCIAL ASSETS (continued)**

The average credit period taken to receive unitary income is 30 days. Typically, project documents state that unitary income must be received within 20 business days from an invoice issue date, with financial penalties for payments received after this date. The Group does not make a provision for irrecoverable debt as all project related income is governed by relevant project documentation, and, typically project related income is received within the time parameters set out in these project documents.

|  |              |
|--|--------------|
| Ageing of past due but not impaired unitary income | 2007<br>£    |
| 30 - 60 days                                       | 9,714        |
| 90 - 120 days                                      | <u>1,155</u> |

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

**Cash and cash equivalents**

Cash and cash equivalents at 31 December 2007 was £1,180,922. This included £497,858 of restricted cash held by non-recourse PFI project entities.

|                           |                  |
|---------------------------|------------------|
|                           | 2007<br>£        |
| Cash and cash equivalents | <u>1,180,922</u> |

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity date of three months or less. The carrying amount of these assets approximates their fair value.

**15 TRADE AND OTHER PAYABLES**

|                              |                |
|------------------------------|----------------|
|                              | 2007<br>£      |
| Overdrafts                   | 48,541         |
| Trade creditors and accruals | 622,119        |
| Accrued liabilities          | <u>270,837</u> |
|                              | <u>941,497</u> |

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average period taken for trade purchases is disclosed in the business review section of the Directors' report. The Group has financial risk management policies in place to ensure that all payables are satisfied within the relevant credit timeframe.

**16 BORROWINGS**

|   |                   |
|---|-------------------|
|   | 2007<br>£         |
| <b>Unsecured borrowing at amortised cost</b>      |                   |
| Loans from related parties - deep discounted bond | <u>8,657,847</u>  |
| <b>Secured borrowing at amortised cost</b>        |                   |
| Bank loans  | <u>4,758,315</u>  |
| <b>Total borrowings</b>                           | <u>13,416,162</u> |
| Amount due for settlement within 12 months        | <u>74,189</u>     |
| Amount due for settlement after 12 months         | <u>13,341,973</u> |

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**16 BORROWINGS (continued)**

The Group's bank loans are broken down as follows

- (a) A loan of £3,975,962 is held by Flagship Care (Lancaster) Limited. Repayments will continue until December 2024 when the loan will be fully repaid. The loan is secured by a charge over certain assets of Flagship Care (Lancaster) Limited. The debt has a floating interest rate for which the company has an interest rate swap agreement to fix interest at 5.45%.
- (b) A loan of £782,355 is held by Flagship Care (Surrey) Limited. Repayments will continue until December 2024 when the loan will be fully repaid. The loan is secured by a charge of certain assets of Flagship Care (Surrey) Limited. The debt has a floating interest rate of LIBOR + 0.25%. An interest rate swap was not in place at the time of acquisition, it is the intention of the Directors to put an interest rate swap agreement in place as soon as practicable.

Bank loans listed above are all non-recourse loans in PFI project entities, the terms of the finance agreements provide that the lender cannot seek in any way to enforce repayment of either principal or interest from the rest of the Group.

Equitix Finance Limited (a group undertaking) has entered into a deep discounted loan note agreement with CS Capital Partners III LP, a related party, to draw capital as necessary up to a nominal value of £40 million. The drawing as at 31 December has a realisable value as shown above, if the drawings were held until ultimately payable in February 2014 the realisable value of this drawing would be £17,329,500.

**17 DEFERRED REVENUE**

During 2001 Flagship Care (Lancaster) Limited received £1,870,000 as a capital contribution to the project from the National Health Service Trust. The contribution is to be released over 25 years, representing the concession term of the project. The balance outstanding, including the amount due within one year as at 31 December 2007 was £1,246,100.

**18 DEFERRED TAX**

The following are the deferred tax liabilities / (assets) recognised by the Group during the period

|                                | Accelerated<br>capital<br>allowances | Intangible<br>asset | Fair value of<br>interest rate<br>swaps | Total   |
|--------------------------------|--------------------------------------|---------------------|---|---------|
|                                | 2007                                 | 2007                | 2007                                    | 2007    |
|                                | £                                    | £                   | £                                       | £       |
| At 19 October 2006             | -                                    | -                   | -                                       | -       |
| On acquisition of subsidiaries | 263,220                              | 593,342             | (50,189)                                | 806,373 |
| At 31 December 2007            | 263,220                              | 593,342             | (50,189)                                | 806,373 |

**19 SHARE CAPITAL**

|  | 2007<br>£    |
|--|--------------|
| Authorised                                       |              |
| 100,000 ordinary "A" class shares of £0.005 each | 500          |
| 100,000 ordinary "B" class shares of £0.005 each | 500          |
|  | <u>1,000</u> |
| Issued and fully paid up                         |              |
| 100,000 ordinary "A" class shares of £0.005 each | 500          |
| 100,000 ordinary "B" class shares of £0.005 each | 500          |
|  | <u>1,000</u> |

During the period the Company issued 100,000 "A" class shares and 100,000 "B" class shares which were fully paid up.

A resolution was passed on 12 February 2007 to alter the share capital structure of the Company from 100 ordinary shares at £1 each to reflect the share structure detailed above.

The company has two classes of ordinary share as outlined above, neither of which carry any right to fixed income.

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

## 20 RETAINED EARNINGS

2007  
£

Balance at 19 October 2006

Net loss for the period

(1,863,188)

Balance at 31 December 2007

(1,863,188)

## 21 ACQUISITION OF SUBSIDIARIES

On 28 December 2007 the Group acquired 100 per cent of the issued share capital of Flagship Care (Lancaster) Limited and Flagship Care (Surrey) Limited for cash consideration of £6,676,010 including the costs of acquisition of £267,010. Both subsidiaries are involved in the provision of maintained mental health facilities to the National Health Service in Lancashire and Surrey respectively.

This transaction has been accounted for by the purchase method of accounting.

|                                 | Flagship Care (Lancaster) Ltd |                         | Flagship Care (Surrey) Ltd |                       |
|---------------------------------|-------------------------------|-------------------------|----------------------------|-----------------------|
|                                 | Book value<br>£               | Fair value<br>£         | Book value<br>£            | Fair value<br>£       |
| <b>Net assets acquired</b>      |                               |                         |                            |                       |
| Intangible asset                | -                             | 2,013,713               | -                          | 105,368               |
| Property, plant and equipment   | 5,218,989                     | 9,421,099               | -                          | -                     |
| Investment property             | -                             | -                       | 1,619,838                  | 1,619,838             |
| Deferred tax assets             | -                             | -                       | 825                        | -                     |
| Trade and other receivables     | 146,516                       | 146,516                 | 141,472                    | 141,472               |
| VAT creditor                    | (15,049)                      | (15,049)                | -                          | -                     |
| Cash and cash equivalents       | 546,399                       | 546,399                 | -                          | -                     |
| Overdrafts                      | (30)                          | (30)                    | (48,511)                   | (48,511)              |
| Trade and other payables        | (236,340)                     | (236,340)               | (28,431)                   | (28,431)              |
| Bank loans                      | (3,975,960)                   | (3,975,960)             | (782,355)                  | (782,355)             |
| Deferred tax liabilities        | (264,981)                     | (777,695)               | -                          | (28,678)              |
| Derivative financial instrument | (179,246)                     | (179,246)               | -                          | -                     |
| Deferred income                 | (1,246,100)                   | (1,246,100)             | -                          | -                     |
|                                 | <u>(5,802)</u>                | <u>5,697,307</u>        | <u>902,838</u>             | <u>978,703</u>        |
| <b>Total consideration</b>      |                               | <u><u>5,697,307</u></u> |                            | <u><u>978,703</u></u> |
| <b>Satisfied by:</b>            |                               |                         |                            |                       |
| Cash outflow                    |                               | (5,150,908)             |                            | (978,703)             |
| Cash acquired at acquisition    |                               | 546,399                 |                            |                       |

No goodwill arose on the acquisition of the above named companies.

The intangible asset arising on the acquisition of both Flagship Care (Lancaster) Limited and Flagship Care (Surrey) Limited represents the assumed service value of the remaining concession term of their respective project agreements to provide maintained mental health facilities to the National Health Service, and will be amortised over this remaining timespan accordingly.

If the acquisition of Flagship Care (Lancaster) Limited had been completed on the first day of the Group's financial period, it would have contributed £1,232,706 to group revenue and £68,353 to group profit before tax.

If the acquisition of Flagship Care (Surrey) Limited had been completed on the first day of the Group's financial period, it would have contributed £115,876 to group revenue and £37,726 to group profit before tax.

Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**22 NOTES TO THE CASH FLOW STATEMENT**2007  
£

|   |                    |
|---|--------------------|
| <b>Loss for the period</b>                                      | <b>(1,863,188)</b> |
| Adjustments for   |                    |
| Investment revenues   | (164)              |
| Finance costs   | 92,873             |
| Depreciation of property, plant equipment                       | 24,914             |
| <b>Operating cash flows before movements in working capital</b> | <b>(1,745,565)</b> |
| Increase in receivables   | (83,144)           |
| Increase in payables  | 685,105            |
| <b>Net cash from operating activities</b>                       | <b>(1,143,604)</b> |

**23 FINANCIAL INSTRUMENTS***Capital risk management*

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of non-recourse debt, which includes the borrowing disclosed in note 16, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 19 and 20. The Group aims to deliver its objective by investing available cash and using financial leverage whilst maintaining sufficient liquidity to meet on-going expenses and dividend payments.

*Significant accounting policies*

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

*Categories of financial instruments*2007  
£**Financial assets****Loans and receivables**

|                             |           |
|-----------------------------|-----------|
| Trade and other receivables | 355,079   |
| Cash and cash equivalents   | 1,180,922 |

**Financial liabilities**

|   |             |
|---|-------------|
| Derivative instruments in designated hedges | (179,246)   |
| Trade and other payables                    | (941,497)   |
| Current tax liabilities                     | (55,918)    |
| Bank loans                                  | (4,758,315) |
| Deferred revenue                            | (1,246,100) |
| Loans from related parties                  | (8,657,847) |

**FINANCIAL RISK MANAGEMENT***Risk management objectives*

The Directors provide advice to the Company and Group on all risks faced and manages the financial risks relating to the operations of the Group through internal risk reports which analyse the exposures faced by degree and magnitude of risk consequences. These risks include market risk, credit risk and liquidity risk.

The Group seeks to minimise exposure to risk via the use of derivative financial instruments. The use of derivative financial instruments is governed by the Group's policies which provide written principles on interest rate risk, credit risk and the use of financial derivatives and non-financial derivatives, and the investment of excess liquidity. The Group does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes.

*Market risk*

The Group's activities expose it primarily to the financial risks of changes in interest rates in line with the lending requirements under project agreements for PFI/PPP type investments there is generally a requirement for the underlying project entity to enter into a fixed rate loan agreement for the life of the concession, or if a variable interest rate loan is agreed, an interest rate swap agreement will be entered into at the commencement of the loan.

The effect of the interest rate swap is to mitigate any interest rate risk that the underlying project entity may be exposed to. As a result, the group has a minimal exposure to any changes in interest rates.

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

## 23 FINANCIAL INSTRUMENTS (continued)

*Interest rate risk management*

The Group has limited exposure to interest rate risk as the underlying borrowings within the Group are either fixed rate loans or have a combined interest rate swap agreement to fix the interest on variable rate loans. It is generally a requirement of PFI concession borrowing agreements that any borrowings are matched against the life of the concession. Hedging activities are aligned with the period of the loan which also mirrors the concession period and are highly effective. Therefore the Group is not exposed to cash flow risk due to changes in interest rates over its variable rate borrowings. The fixed rate borrowings are carried at amortised cost and hence not exposed to fair value movements due to changes in interest rates.

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of £4,424,723 have fixed rate interest payments of 5.45% for periods up to 2025 and have floating interest receipts at LIBOR.

The net fair value of swaps entered into at 31 December 2007 is estimated at £179,246. These amounts are based on market values of equivalent instruments at the respective balance sheet dates. All of these interest rate swaps are designated and effective as cash flow hedges. The proximity of acquisition date of 28 December 2007 for Flagship Care (Lancaster) Limited to the balance sheet date means that any movement in fair value is immaterial and therefore has not been recorded.

*Interest rate sensitivity analysis*

A sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management assessment of the reasonably possible change in interest rates.

Group derivative financial instruments are potentially exposed to fair value movements due to changes in interest rates.

The Group considered a 0.5% increase and decrease in interest rates for all debt secured on floating rates and determined that due to the proximity of the acquisition date of 28 December 2007 for Flagship Care (Surrey) Limited, which is the only group undertaking which has floating rate debt, to the period end date of 31 December 2007 that the impact of any fluctuations in interest rate would be immaterial.

The impact of a 0.5% increase or decrease in interest rates would affect the fair value of the interest rate swap in Flagship Care (Lancaster) Limited, which is the only group undertaking to have a derivative financial instrument. The Directors consider that the impact of any fluctuations in interest rate would be immaterial at the Balance Sheet date.

*Interest rate swap agreements*

Under interest rate swap agreements, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate yield curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

Cash flow hedges (floating to fixed rate debt)

|   | Average<br>contract fixed<br>interest rate | Notional<br>principal<br>amount | Fair value       |
|---|--|---------------------------------|------------------|
|   | 2007                                       | 2007                            | 2007             |
|   | %  | £                               | £                |
| <b>Outstanding receive floating pay fixed contracts</b> |  |                                 |                  |
| <b>Total</b>  | <b>5.45%</b>                               | <b>4,424,723</b>                | <b>(179,246)</b> |

All interest rate swap contracts exchange floating rate interest amounts for fixed rate interest amounts. These are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the period that the floating interest payments on debt impact profit or loss.

*Credit risk management*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and PFI / PPP concessions are entered into with government or semi-government authorities.

Receivables consist of a small number of government or semi-government counterparties contractually obligated to meet all requirements of agreements held with the Group's project specific entities concerning payment and credit periods. The Group is currently exposed to credit risk associated with two government counterparties via PFI project entities that are currently subsidiaries of the Company. This risk will become more diverse as the Group grows to include more PFI project entities. The Group is not exposed to significant credit risk as all PFI project agreements have payment term mechanisms that financially incentivise government counterparties to meet all payment terms.

Credit risk with counterparties concerning financial derivative instruments has minimal risk exposure as counterparties are banks with high credit-ratings assigned by international credit-rating agencies.



## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

## 23 FINANCIAL INSTRUMENTS (continued)

*Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up on undiscounted cash flows of financial liabilities based on the earliest date the Group could be required to satisfy borrowing repayments. The table includes principal repayment and assumed interest cash flows.

**Liabilities**

|                                    | Less than 1<br>year | 1-2 years      | 3-5 years        | 5+ years          | Total             |
|------------------------------------|---------------------|----------------|------------------|-------------------|-------------------|
| 2007                               | £                   | £              | £                | £                 | £                 |
| Overdrafts                         | 48,541              | -              | -                | -                 | 48,541            |
| Loans from related parties         | -                   | -              | -                | 17,329,500        | 17,329,500        |
| Variable interest rate instruments | 35,077              | 69,073         | 215,767          | 980,819           | 1,300,736         |
| Fixed interest rate instruments    | 267,711             | 350,693        | 1,056,349        | 5,292,811         | 6,967,564         |
|                                    | <u>351,329</u>      | <u>419,766</u> | <u>1,272,116</u> | <u>23,603,130</u> | <u>25,646,341</u> |

The following table details the Group's expected maturity for its non-derivative financial assets. The table below has been drawn based on undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

**Assets**

|                           | Less than 1<br>year | 1-2 years     | 3-5 years | 5+ years | Total            |
|---------------------------|---------------------|---------------|-----------|----------|------------------|
| 2007                      | £                   | £             | £         | £        | £                |
| Cash and cash equivalents | 1,131,863           | 49,059        | -         | -        | 1,180,922        |
|                           | <u>1,131,863</u>    | <u>49,059</u> | <u>-</u>  | <u>-</u> | <u>1,180,922</u> |

The Group anticipates to meet its other obligations from existing cash balances, operating cash flows and proceeds of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows / outflows on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date.

|                           | Less than 1<br>year | 1-2 years       | 3-5 years       | 5+ years         | Total            |
|---------------------------|---------------------|-----------------|-----------------|------------------|------------------|
| 31 December 2007          | £                   | £               | £               | £                | £                |
| Net receipts / (payments) | 11,213              | (24,581)        | (49,671)        | (214,800)        | (277,839)        |
|                           | <u>11,213</u>       | <u>(24,581)</u> | <u>(49,671)</u> | <u>(214,800)</u> | <u>(277,839)</u> |

**Fair value of financial instruments**

The fair value of financial assets and liabilities are determined as follows:

Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The fair value of non-derivative financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**23 FINANCIAL INSTRUMENTS (continued)**

The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using current market data

|                              | Carrying<br>amount<br>2007<br>£ | Fair value<br>2007<br>£ |
|------------------------------|---------------------------------|-------------------------|
| <b>Financial assets</b>      |                                 |                         |
| Loans and receivables        | <u>355,079</u>                  | <u>355,079</u>          |
| <b>Financial liabilities</b> |                                 |                         |
| Bank loans                   | <u>4,758,315</u>                | <u>4,758,315</u>        |
| Loans from related parties   | <u>8,657,847</u>                | <u>8,657,847</u>        |

Loans from related parties comprise a deep discounted loan note agreement entered into between Equitix Finance Limited, a group undertaking, and CS Capital Partners III LP, a related party. The Group has determined that were a loan entered into by a group undertaking under similar conditions and circumstances that the loan principles would not materially deviate from current loan conditions, thus the carrying value of the loan notes represents the current fair value.

Bank loans, as disclosed in note 16 are secured on pledged assets and the value of concession agreements held by group undertakings. Given the business activities of the group as a whole, the Group believes that if bank debt were to be secured in a similar manner under similar conditions that the terms of debt would not differ materially from those currently held, therefore the carrying value of debt represents the fair value at the balance sheet date.

**24 OPERATING LEASE ARRANGEMENTS**

The Group as a lessee

|  | Land and<br>buildings<br>2007<br>£ | Other<br>2007<br>£ | Total<br>2007<br>£ |
|--|------------------------------------|--------------------|--------------------|
| Minimum lease payments under operating leases recognised as an expense during the period | <u>44,075</u>                      | <u>1,129</u>       | <u>45,204</u>      |

At the balance sheet date, the Group had outstanding annual commitments for future minimum lease payments under non-cancellable operating leases, expiring as follows

|  | Land and<br>buildings<br>2007<br>£ | Other<br>2007<br>£ | Total<br>2007<br>£ |
|--|------------------------------------|--------------------|--------------------|
| In the second to fifth years inclusive | <u>55,000</u>                      | <u>1,243</u>       | <u>56,243</u>      |

Operating lease payments include an element representing rentals payable by the Group for office properties. Leases are negotiated for an average term of five years and rentals are fixed for this period with an option to extend the lease term period at the prevailing market rate.

The Group has no operating lease arrangements where the Group serves as the lessor.

**25 RELATED PARTY TRANSACTIONS**

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

There were no trading transactions between the Group and any related parties who are not members of the Group during the period.

|                                       |                   |
|---------------------------------------|-------------------|
| <b>Loans from related parties</b>     | <b>2007<br/>£</b> |
| Loans from CS Capital Partners III LP | <u>8,657,847</u>  |

CS Capital Partners III LP is the immediate and ultimate parent of Equitix Holdings Limited, the loan from CS Capital Partners is part of a deep discounted loan note agreement between Equitix Finance Limited (a group undertaking and subsidiary of the Company) and CS Capital Partners III LP. The loan has a daily compounded interest coupon fixed at 12% and is recorded at the outstanding value at the balance sheet date. The loan notes are ultimately due in February 2014 when the current balance would be worth £17,329,500.

## Notes to the financial statements for the period from 19 October 2006 to 31 December 2007

**25 RELATED PARTY TRANSACTIONS (continued)****Remuneration of key management personnel**

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information about the remuneration of individual directors is provided in note 6

|                              | 2007           |
|------------------------------|----------------|
|                              | £              |
| Short-term employee benefits | 611,913        |
| Post employment benefits     | 11,807         |
|                              | <u>623,720</u> |

There are no other transactions with Directors or other members of key management personnel that meet the requirements of Schedule 6 of the Act and IAS 24

**26 SERVICE CONCESSION ARRANGEMENTS**

Under IAS 1 *Presentation of Financial Statements* the Group presents the following information concerning the concession agreements operated by group undertakings when two parties are joined by a service concession agreement to provide services that give the public access to major economic and social facilities

| Group company                     | Concession type     | Brief description                | Concession end date | Project stage | Changes in the period |
|-----------------------------------|---------------------|----------------------------------|---------------------|---------------|-----------------------|
| Flagship Care (Lancaster) Limited | Fixed asset         | Provision of mental health units | September 2025      | Operational   | None                  |
| Flagship Care (Surrey) Limited    | Investment property | Provision of mental health units | September 2025      | Operational   | None                  |

**27 EVENTS AFTER THE BALANCE SHEET DATE**

On 14 April 2008 Flagship Care (Lancaster) Limited declared and paid a dividend of £181,477

On 14 April 2008 Flagship Care (Surrey) Limited declared and paid a dividend of £76,000

On 29 April 2008 Equitix Investment Management Limited, a group undertaking, issued 999,999 ordinary shares at £0.01 each, all of which were acquired by Equitix Holdings Limited for a total consideration of £9,999.99

**EQUITIX HOLDINGS LIMITED (previously PRECIS (2657) LIMITED)**

**PRINCIPAL SUBSIDIARIES AND JOINT VENTURES AS AT 31 DECEMBER 2007**

| <b>Company name</b>                   | <b>Class and percentage of shares held</b> | <b>Principal activity</b>  | <b>Country of incorporation</b> |
|---------------------------------------|--|--|---------------------------------|
| Equitix Flagship Limited              | 100% 1,000 ordinary £1 shares              | Holding company for Flagship Care (Lancaster) Limited and Flagship Care (Surrey) Limited   | Great Britain                   |
| Equitix Limited                       | 100% 2 ordinary £1 shares                  | Bid and development of primary and secondary market PFI opportunities                      | Great Britain                   |
| Equitix Finance Limited               | 100% 2 ordinary £1 shares                  | Financing company of Equitix Group   | Great Britain                   |
| Equitix Investment Management Limited | 100% 10,000 ordinary £1 shares             | FSA regulated entity serving as administrative body of potential Equitix Group fund launch | Great Britain                   |
| Flagship Care (Lancaster) Limited     | 100% 100 ordinary £1 shares                | Provision of maintained mental health facilities to Lancashire Primary Care Trust          | Great Britain                   |
| Flagship Care (Surrey) Limited        | 100% 100 ordinary £1 shares                | Provision of mental health facilities to Surrey Primary Care Trust                         | Great Britain                   |

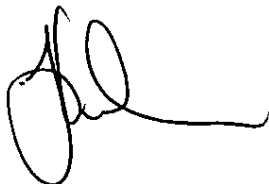
**EQUITIX HOLDINGS LIMITED (previously PRECIS (2657) LIMITED)**

**COMPANY BALANCE SHEET AS AT 31 DECEMBER 2007**

|   | Notes | 2007<br>£       |
|---|-------|-----------------|
| <b>Fixed assets</b>                           |       |                 |
| Investments                                   |       | 5               |
| <b>Current assets</b>                         |       |                 |
| Debtors                                       |       | 10,945          |
| - due within one year                         | 4     | <u>10,945</u>   |
| Cash at bank and in hand                      |       | 46              |
|   |       | <u>10,991</u>   |
| <b>Current liabilities</b>                    |       |                 |
| Creditors amounts falling due within one year | 5     | <u>(10,000)</u> |
| <b>Net current assets</b>                     |       | <u>991</u>      |
| <b>Total assets less current liabilities</b>  |       | <u>996</u>      |
| <b>Net assets</b>                             |       | <u>996</u>      |
| <b>Capital and reserves</b>                   |       |                 |
| Called up share capital                       | 6     | 1,000           |
| Profit and loss account                       |       | (4)             |
| <b>Shareholders' funds</b>                    | 7     | <u>996</u>      |

The financial statements were approved by the Board of Directors on 14 July 2008 and were signed on its behalf by

G A Jackson  
Director



**Notes to the Company financial statements for the period from 19 October 2006 to 31 December 2007**

**1 ACCOUNTING POLICIES**

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. A summary of the principal accounting policies adopted by the Directors, which have been applied consistently in the current period, is shown below.

b) Investments

Fixed asset investments are shown at cost less provision for impairment. Income from investments is included in the profit and loss account as declared.

**2 LOSS FOR THE PERIOD**

In accordance with section 230 of the Companies Act 1985, no separate profit and loss account has been prepared for the Company. For the period from incorporation on 19 October 2006 to 31 December 2007 the Company reported a loss of £4. The Directors do not recommend the payment of a dividend for the period.

**3 STAFF NUMBERS**

The Company had no employees during the current period.

**4 DEBTORS**

**2007  
£**

Due within one year

Amounts owed by group undertakings

**10,945**

---

**5 CREDITORS**

Due within one year

Amounts owed to group undertakings

**10,000**

---

**6 CALLED UP SHARE CAPITAL**

**2007  
No.**

**Authorised:**

"A" class ordinary shares at £0.005 each

**100,000**

"B" class ordinary shares at £0.005 each

**100,000**

**200,000**

---

**£**

**Allotted, called up and fully paid:**

100,000 "A" class ordinary shares at £0.005 each

**500**

100,000 "B" class ordinary shares at £0.005 each

**500**

**1,000**

---

During the period the Company issued 100,000 "A" class shares and 100,000 "B" class shares which were fully paid up.

A resolution was passed on 12 February 2007 to alter the share capital structure of the Company from 100 ordinary shares at £1 each to reflect the share structure detailed above.

The company has two classes of ordinary share as outlined above, neither of which carry any right to fixed income.

**Notes to the Company financial statements for the period from 19 October 2006 to 31 December 2007**

**7 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

|                               | <b>2007</b>  |
|-------------------------------|--------------|
|                               | <b>£</b>     |
| Loss for the financial period | <b>(4)</b>   |
| New shares issued             | <b>1,000</b> |
| Opening shareholders' funds   | <b>-</b>     |
| Closing shareholders' funds   | <b>996</b>   |

**8 TRANSACTIONS WITH RELATED PARTIES**

The Company has provided a loan to its subsidiary Equitix Limited for £944 and has received an upstream loan of £10,000 from Equitix Limited during the period. Both transactions have been provided at zero interest coupon and can be redeemed on demand by either party.

**9 ULTIMATE PARENT UNDERTAKING**

The Company's parent and controlling entity is CS Capital Partners III LP who own 89% of the issued share capital. The remaining shares are owned evenly by H B Crossley, J D Harris, G A Jackson and N G B Parker.