

EQUITIX CAPITAL EUROBOND LIMITED

**DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2013**

Registered Number: 06741074

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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DIRECTORS AND ADVISERS

Directors

H B Crossley
G A Jackson
K J Maddin
N G B Parker

Company secretary and registered office

H B Crossley
Welken House
10 -11 Charterhouse Square
London
EC1M 6EH

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London

Principal bankers

Royal Bank of Scotland plc
9th Floor, 280 Bishopsgate
London
EC2M 4RB

STRATEGIC REPORT

BUSINESS MODEL

The Company's principal activities relate to investment in long-term PPP/PFI contracts held with local authorities in the UK. The Company, through its subsidiary investments, currently holds contracts to develop and operate schools, hospitals, leisure centres and street lighting assets throughout the United Kingdom.

REVIEW OF THE PERIOD

The Company continued to hold the Equitix Fund I LP PPP/PFI assets.

On 27 August the Company increased its investment in Equitix Healthcare Limited to facilitate the acquisition of an additional 15% interest in Roehampton Hospital Holdings Ltd and its wholly owned subsidiary, Roehampton Hospital Limited for £3,013k. The consideration was split between £491k subordinated loan notes bearing an interest rate of 10.5% and £2,522k equity. On the same date the Company entered into a 12% interest bearing loan with its parent entity, Equitix Fund I LP for £60k and subscribed to £2,953k of 15% interest bearing Eurobond loan notes for the purpose of acquiring the additional 15% interest in Roehampton Hospital Ltd.

On 4 September the Company increased its investment in Equitix Leisure Limited to facilitate the acquisition of an additional 50% interest in Waterfront Leisure (Crosby) Limited for £1,656k. The consideration was split between £330k subordinated loan notes bearing an interest rate of 13.75% and £1,326k equity. On the same date the Company entered into an interest bearing loan with its parent entity, Equitix Fund I LP for £1,656k for the purpose of acquiring the additional 50% interest in Waterfront Leisure (Crosby) Ltd. The interest-bearing loan has an interest rate of 12%.

The Company has transitioned to International Financial Reporting Standards (IFRSs) and undertaken the early adoption of IFRS 10 (May 2011): Consolidated Financial Statements, IFRS 11 (May 2011): Joint Arrangements, IFRS 13 (May 2011): Fair Value Measurement, IAS 27 (May 2011): Separate Financial Statements and IAS 28 (May 2011): Investments in Associates and Joint Ventures.

The company's direct subsidiaries are held at fair value on the Statement of Financial Position with movements recorded through the Income Statement, as explained in note 1. In order to determine the fair value of these investments, the company takes into consideration the fair value of all the underlying portfolio companies and intermediate holding companies.

The Directors note that the International Financial Reporting Council ("IFRIC") have proposed that IASB should clarify its position on these standards and the accounting for Investments Entities and there is therefore a risk that certain subsidiaries should be consolidated. In such circumstances, the Company would compile consolidated financial statements, consolidating holding company subsidiaries and accounting for investments in project company subsidiaries, joint ventures and associates at fair value under the IFRS 10 and IAS 31 respectively, by virtue of the Company meeting the definition of a Fund Management Company.

KEY PERFORMANCE INDICATORS

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

- tracking the performance and delivery of the services in conjunction with the KPIs set by the local authorities;
- the progress of the individual project companies;
- the comparison of actual cash flows costs to those that have been forecast;
- the value of investments held in the company portfolio in association with the expected future cash flows; and
- that all operational projects are performing within the restrictions of all project documentation.

The latest operational models show the values of the current portfolio of projects are performing in line with expectations and the project documentation with no material or significant unavailability deductions being suffered in the year.

The results for the year are shown on page 7 in the statement of comprehensive income. This shows a profit before tax of £4,274k (2012 restated: £14,569k) and a net finance expense amounting to £15,966k (2012 restated: £14,563k), both current and prior year financial statements have been restated to reflect that the Company meets the definition of an Investment Entity, as defined by IFRS 10, with investments held at fair value. The profit for the year includes an increase in the fair value of the investments of £13,076k (2012 restated: £22,153k). The Directors do not recommend the payment of a dividend (2012 restated: £nil).

FUTURE DEVELOPMENTS

The Directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease; the Company will continue to act as holding company for the Equitix Fund I LP PFI / PPP assets.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has entered into inter-company loan agreements with its parent entity and into loan arrangements with its investments. A principal risk is the Company not receiving interest payments in order to make interest payments to its parent entity. Therefore, the Company's main concerns are attributable to the sound operation of the underlying PFI/PPP infrastructure assets, ensuring that the modelled cash flows, made up of, but not limited to, subordinated debt principal repayments, subordinated debt interest payments, dividends and other fees are indeed received. The Company will monitor actual and projected cash flows to ensure that the returns are as expected. In addition, the Company will also look to optimise returns from the underlying PFI/PPP local authority infrastructure assets through achieving efficiencies at project level and by maximising synergies at portfolio level.

By order of the Board

H B Crossley
30 April 2014

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the year ended 31 December 2013.

DIRECTORS

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

RESULTS AND DIVIDENDS

The Company's performance reflects the position under the various inter-company and inter-group agreements that have been put in place during the year, and the ongoing performance and value of the investment portfolio. See Strategic Report for further detail.

FINANCIAL RISK REVIEW

Interest rate risk

The Company has Eurobonds listed on the Channel Islands Securities Exchange with a fixed interest rate which have been purchased by Equitix Fund I LP, the ultimate parent of the Company. These form the primary source of funding for the Company. During the year the Company obtained an external debt facility of £11m from the Royal Bank of Scotland Plc which introduces some interest rate exposure. On 31 December 2013, the Company drew £10m on the facility which was the total outstanding on the facility at year end. Interest on the loan is calculated as a margin over libor. To manage interest rate risk the Company can use interest rate swaps to hedge drawings under the Company's debt facility. During the year the Company did not utilise any interest rate swaps due to the limited period during which the Company was a net borrower under the facility.

The Company investments have various senior debt agreements to fund project construction and operations. These loans are non-recourse to Company and are typically raised with a floating interest rate and interest rate swap agreements are used to fix senior debt interest rates to obtain the desired interest profile and to manage the Company's exposure to interest rate fluctuations.

Market risks

The Company has adopted a policy of only dealing with creditworthy counterparties and PFI/PPP concessions are entered into with government or semi-government authorities, thereby protecting income streams over the course of long term contracts. The characteristics of these long-term contracts mean that income and cost is typically fixed or capped throughout the life of the project and therefore the Group has very limited exposure to market risks.

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows stemming from the underlying projects and matching maturity profiles of financial assets and liabilities. The Company's policy throughout the year and preceeding periods has been to ensure continuity of funding using the various facilities outlined in the interest rate section above. Senior bank loans are matched in duration to the life of the project concession and are non-recourse to the Company, while the Eurobond facility matures on 12 November 2033.

Currency risk

The Company only deals in sterling and therefore have no exposure to foreign exchange risk.

GOING CONCERN

The Company's forecasts and projections taking account of reasonably possible changes in trading performance, and the net current liability position of the Company, show that the Company should be able to operate within the level of its current resources. The Company's going concern is dependent upon performance of the entities within the Equitix Fund I LP group. The Company has obtained a letter of support from its parent entity, Equitix Fund I LP. After making enquiries, the Directors have a reasonable expectation that the Company and its parent have adequate resources to continue in operational existence for the foreseeable future, and for a minimum of 12 months from the date of signing of this report, despite any economic uncertainties. In forming this conclusion, the following has been taken into consideration:

- all committed investments of the Company and its subsidiaries holding companies are covered by commitments from the partners of Equitix Fund I LP;
- the Company has limited other outgoings and funding can be drawn down from the Fund's partners if required to meet these obligations;
- the Fund financial model, which consolidates the returns from the Company's investment portfolio

AUDITOR

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte 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.

By order of the Board



H B Crossley
30 April 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statement in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EQUITIX CAPITAL EUROBOND LIMITED

We have audited the financial statements of Equitix Capital Eurobond Ltd for the year ended 31 December 2013, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or



Jacqueline Holden FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
30 April 2014

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

| | | Year ended 31 December 2013 £'000 | Year ended 31 December 2012 restated* £'000 |
|---------------------------------|-------|--------------------------------------------|------------------------------------------------------|
| | Notes | | |
| Interest income | 7 | 6,905 | 6,752 |
| Other income | | 347 | 247 |
| Fair value gains on investments | 11 | 13,076 | 22,153 |
| Profit from operations | | 20,328 | 29,152 |
| Finance cost | 8 | (15,966) | (14,563) |
| Administrative expenses | | (87) | (20) |
| Profit before tax | | 4,274 | 14,569 |
| Tax | 9 | 1,084 | (276) |
| Profit after tax | | 5,359 | 14,293 |

All the above items relate to continuing operations.

The Company has no recognised gains or losses other than reported above and hence no separate statement of comprehensive income is presented.

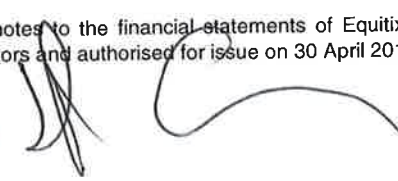
* The Company adopted IFRS for the first time for year ended 31 December 2013 having previously prepared its financial statements in accordance with United Kingdom generally accepted accounting principles (UK GAAP).

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

| | Notes | As at 31 December 2013 £'000 | As at 31 December 2012* £'000 | As at 1 January 2012* £'000 |
|--------------------------------|-------|---------------------------------------|----------------------------------------|--------------------------------------|
| Non-current Assets | | | | |
| Investments held at fair value | 11 | <u>167,549</u> | <u>151,319</u> | <u>109,138</u> |
| | | 167,549 | 151,319 | 109,138 |
| Current assets | | | | |
| Cash and cash equivalents | | 10,001 | 1 | 1 |
| Loans and receivables | 13 | <u>2,298</u> | <u>2,067</u> | <u>1,840</u> |
| | | 12,299 | 2,068 | 1,841 |
| | | <u>179,848</u> | <u>153,387</u> | <u>110,979</u> |
| Total assets | | | | |
| Current liabilities | | | | |
| Interest payable to parent | | (23,869) | (17,333) | (11,638) |
| Other payables | 14 | <u>(170)</u> | <u>(272)</u> | <u>(19)</u> |
| | | (24,039) | (17,605) | (11,657) |
| | | <u>(11,740)</u> | <u>(15,537)</u> | <u>(9,816)</u> |
| Net current liabilities | | | | |
| Non-current liabilities | | | | |
| Borrowings | 15 | <u>(119,524)</u> | <u>(104,855)</u> | <u>(82,688)</u> |
| | | (119,524) | (104,855) | (82,688) |
| | | <u>(143,563)</u> | <u>(122,459)</u> | <u>(94,345)</u> |
| Total liabilities | | | | |
| Net assets | | <u>36,286</u> | <u>30,927</u> | <u>16,634</u> |
| Equity | | | | |
| Share capital | 16 | - | - | - |
| Retained earnings | 17 | <u>36,286</u> | <u>30,927</u> | <u>16,634</u> |
| | | 36,286 | 30,927 | 16,634 |
| | | <u>36,286</u> | <u>30,927</u> | <u>16,634</u> |
| Total equity | | | | |

* The Company adopted IFRS for the first time for year ended 31 December 2013 having previously prepared its financial statements in accordance with United Kingdom generally accepted accounting principles (UK GAAP).

The notes to the financial statements of Equitix Capital Eurobond Limited, registered number 06741074, were approved by the Board of Directors and authorised for issue on 30 April 2014 and were signed on its behalf by:



H B Crossley
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

| | Share capital £'000 | Retained earnings £'000 | Total £'000 |
|-------------------------------------|------------------------|-------------------------------|----------------|
| Balance as at 1 January 2012 | - | 16,634 | 16,634 |
| Profit for the year | - | 14,293 | 14,293 |
| Dividend payable to parent company | - | - | - |
| Balance as 31 December 2012 | - | 30,927 | 30,927 |
| Profit for the year | - | 5,359 | 5,359 |
| Dividend payable to parent company | - | - | - |
| Balance as 31 December 2013 | - | 36,286 | 36,286 |

EQUITIX CAPITAL EUROBOND LIMITED

| CASH FLOW STATEMENT | 2013 | 2012 |
|-----------------------------------------------------------|----------------|-----------------|
| | £'000 | £'000 |
| FOR THE YEAR ENDED 31 DECEMBER 2013 | | |
| Cash flows from operating activities | | |
| Profit before tax | 4,274 | 14,569 |
| Fair value gains on investments | (13,076) | (22,153) |
| Investment revenue | (6,905) | (6,752) |
| Finance cost | 15,966 | 14,563 |
| Increase in other receivables | (388) | 30 |
| (Increase) / decrease in other payables | (101) | 250 |
| Cash (outflow) / inflow from operations | (229) | 507 |
| Income tax credit / (charge) | 859 | (276) |
| Investment revenue | 7,286 | 6,497 |
| Interest paid | (9,430) | (8,868) |
| Net cash flows generated from operating activities | (1,514) | (2,139) |
| Investing activities | | |
| Purchase of investments held at fair value | (3,154) | (20,028) |
| Net cash (used) in investing activities | (3,154) | (20,028) |
| Financing activities | | |
| Repayment of loans from parent company | | |
| Borrowings from parent company | 4,669 | 22,167 |
| Revolving credit facility borrowings | 10,000 | - |
| Net cash from financing activities | 14,669 | 22,167 |
| Net increase in cash and cash equivalents | 10,001 | - |
| Cash and cash equivalents from beginning of year | 1 | 1 |
| Cash and cash equivalents from end of year | 10,001 | 1 |

Notes to the financial statements for the year ended 31 December 2013

1 GENERAL INFORMATION

Equitix Capital Eurobond Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operations and its principle activities are set out in the Directors' report on page 2. These financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the company operates.

2 ACCOUNTING POLICIES

For all periods up to and including the year ended 31 December 2012, the Company prepared its financial statements in accordance with United Kingdom generally accepted accounting principles (UK GAAP). These financial statements, for the year ended 31 December 2013, are the first the Company has prepared in accordance with IFRSs as adopted by the European Union (EU).

Accordingly, the Company has prepared financial statements which comply with IFRSs applicable for periods beginning on or after 1 January 2012 and the significant accounting policies meeting those requirements are described in the relevant notes. The policies have been applied consistently throughout the period unless otherwise stated.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2012, the Company's date of transition to IFRSs, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRSs.

As such, this note explains the principle adjustments made by the Company in restating its UK GAAP balance sheet as at 1 January 2012 and its previously published financial statements for the year ended 31 December 2012.

Under UK GAAP the Company produced consolidated accounts. The Company has considered the need to prepare consolidated financial statements under IFRS. Equitix Capital Eurobond Limited meets the definition of an Investment Entity under International Financial Reporting Standard (IFRS) 10 and is required to account for its investments at fair value through profit and loss and only consolidates those entities within the Group that provide investment activity services. All subsidiaries of the Company are classified as investments under IFRS 10 and, accordingly, the Company has not produced consolidated accounts under IFRS.

These financial statements, for the year ended 31 December 2013, are the first the Company is required to prepare in accordance with the amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements incorporating accounting for Investment Entities. The Company is undertaking the early adoption of IFRS 10.

a) Basis of preparation

In the current period, the Company has adopted the following accounting standards:

IFRS 10 (May 2011): Consolidated Financial Statements
 IFRS 11 (May 2011): Joint Arrangements
 IFRS 13 (May 2011): Fair Value Measurement
 IAS 27 (May 2011): Separate Financial Statements
 IAS 28 (May 2011): Investments in Associates and Joint Ventures

With the exceptions of the following, the adoption of these standards did not have a material impact on the financial statements.

Investment Entities (Amendments to IFRS10, IFRS 12 and IAS 27)

The Investment Entities standard introduced an exception to the principle that all subsidiaries should be consolidated. The amendments define an investment entity and require a parent entity that is an investment entity to measure its subsidiaries at fair value through profit or loss, in accordance with IAS 39 Financial Instruments: Recognition and Measurement and IFRS 13 Fair Value Measurement instead of consolidating those subsidiaries. The Company meets the definition of an investment entity on the basis of the following criteria.

- (i) the Company obtains funds from multiple investors for the purpose of providing those investors with investment
- (ii) the Company commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (iii) the Company measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments to IFRS 10 for Investment Entities are effective for periods commencing on or after 1 January 2014, are permitted to be early adopted.

To determine if the Company meets the definition of an Investment Entity, further consideration is given to the following characteristics of an investment entity that are demonstrated by the Company.

- (i) it has more than one investment;
- (ii) it has more than one investor;
- (iii) it has investors that are not related parties;
- (iv) it has ownership interests in the form of equity or similar interest; and
- (v) it holds investments for a limited period only i.e. it has an exit strategy for its investments.

Notes to the financial statements for the year ended 31 December 2013

2 ACCOUNTING POLICIES (CONTINUED)

Following the adoption of the amendments and determination that the Company is an investment entity, the company recognises them as investments at fair value through profit or loss.

a) Basis of preparation (continued)*Investments*

Under UK GAAP fixed asset investments were shown at cost less provision for impairment on the company only balance sheet. Income from investments was included in the profit and loss account as declared with a previous UK GAAP carrying amount of £116k.

IFRS 10 requires the Company to measure its interests in subsidiary investments at fair value in accordance with IFRS 13. The investments are valued at fair value with gains or losses on measurement of investments accounted for through profit or loss (see note

Sub debt debtors

Subsequent to the transition to IFRS, sub debt debtors of amounts owed by investments have been included within the fair value of the investments to which they relate. Under IFRS the debtor has been reclassified to investments (January 2012: £72,591k; December 2012: £73,122k).

b) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Director's Report on page 3.

c) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. In relation to the fair value exercise interest revenue is adjusted to remove any double counting of cash flows.

Income from participating interests is recognised when the shareholders' rights to receive payment have been established.

Other income associated with the provision of services is accrued on a time basis over the period to which the delivery of the service is set, net of VAT and other sales related tax.

d) Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

e) Accruals and provisions

Accruals and provisions are recognised in the statement of comprehensive income in the period in which they are incurred.

f) Taxation

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

Current

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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 base 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 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. Such assets and liabilities are not recognised if the temporary differences arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affect neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable difference arising on investments, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of a deferred tax asset 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.

Notes to the financial statements for the year ended 31 December 2013

2 ACCOUNTING POLICIES (CONTINUED)**f) Taxation (continued)***Deferred tax (continued)*

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 based on tax laws and the rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on the same taxable company, and the Company intends to settle its current tax assets and liabilities on a net basis.

g) Financial Instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of an instrument. Financial assets are derecognised when the contractual rights to the cash flows from the instrument expire or the asset is transferred and the transfer qualifies for derecognition in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Financial assets, are classified in the following categories: fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(i) Investments at fair value through profit or loss

Investments at fair value through profit or loss are designated upon initial recognition as financial assets at fair value through profit or loss. The Company's policy is to fair value both the equity and subordinated debt investments in PPP assets together. Subsequent to initial recognition, the investments are measured on a combined basis at fair value with changes recognised within operating income statement.

Investments in subsidiaries

The Company is required under Investment Entities (Amendments to IFRS 10, IFRS 12, IAS 27) to measure its investments in subsidiaries at fair value through profit or loss, except where the subsidiary provides investment related services or activities. The Company measures its investments in PPP assets that are subsidiaries at fair value in accordance with IAS39 'Financial Instruments: Recognition and Measurement' and IFRS 13 Fair Value Measurement.

Equitix Capital Eurobond Limited holds 100% of the issued share capital and debt of four subsidiaries, Equitix Highways Limited, Equitix Leisure Limited, Equitix Healthcare Limited, and Equitix Education Limited, which own a portfolio of investee companies and their associated intermediate holding companies. The fair value of investments is determined by valuing the underlying portfolio investee companies and intermediate holding companies. Investments are designated as "financial assets at fair value through profit and loss" as these assets are managed on a fair value basis for capital gain. The investments are initially recognised at fair value and are subsequently re-measured at fair value, which is determined by the General Partner in accordance with the Limited Partnership Agreement. Recognised gains and losses and unrealised gains and losses arising from the revaluation of investments at the period end are taken directly to the Income Statement.

The current portfolio of investments held by the Company are valued using discounted cash flow analysis based on financial models that form part of the project documents. Future forecast shareholder cash flows are discounted at a rate which allows for influences of individual project attributes and general economic conditions to reflect a value as at the balance sheet date; these values are then compared against recent, similar market transactions as a gauge of estimations and uncertainties.

(ii) Loans and receivables

Trade receivables, loans and other receivables that are non derivative financial assets and that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and other receivables'. Loans and other receivables are measured at amortised cost using the effective interest method, less any impairment. They are include in current assets, except where maturities are in greater than 12 months after the balance sheet date which are classified as non current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Notes to the financial statements for the year ended 31 December 2013

2 ACCOUNTING POLICIES (CONTINUED)**g) Financial Instruments (continued)***Impairment of financial assets*

Financial assets, other than those through profit or loss, are assessed for indicators or impairment at each balance sheet date. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on the asset. Significant financial assets are tested for impairment on an individual basis. All impairment losses are recognised in the income statement. An impairment loss can be reversed if the reversal can be related objectively to an event occurring after the impairment loss was

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Fair value estimation

The fair value of financial instruments that are not traded in an active markets is derived the following ways:

- (i) Investments at fair value through profit or loss
Fair value is calculated by discounting future cash flows, from investments in both equity and subordinated loans (interest and repayments), the Company at an appropriate discount rate. In determining the discount rate, regard has been given to risk free rates and risk premia that are specific to the individual concessions. The discount rates that have been applied to the financial assets at 31 December 2013 were in the range 6.9% to 8.7% (December 2012: 7.1% to 8.7%).
- (ii) Loans and receivables
Loans and borrowings are held at amortised cost.
The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

Financial liabilities and equity

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities, including borrowings, are classified as 'other financial liabilities' and are initially measured at fair value. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

h) Financial risk management

The Company has loans from Equitix Fund I LP, the Company's immediate parent, with fixed interest rates. These loans, including accrued interest, are repayable when the Group has sufficient surplus cash. The value of the loan shown on the balance sheet represents the value of the loan as at the balance sheet date.

The Company obtained external debt from the Royal Bank of Scotland Plc which introduces some interest rate exposure. At 31 December 2013, the Company drew £10m on the facility which was the total outstanding on the facility at year end. Interest on the loan is calculated as a margin over libor. To manage interest rate risk the Company can use interest rate swaps to hedge drawings under the Company's debt facility. During the year the Company did not utilise any interest rate swaps due to the limited period during which the Company was a net borrower under the facility.

*Assessable risks**Credit risk*

The Company is not exposed to significant credit risk as the Company derives interest from subsidiaries which are PFI concessions with government departments, local authorities and other public sector clients.

Liquidity risk

The Company adopts a prudent approach to liquidity management and maintains sufficient cash reserves to meet its obligations.

Foreign exchange risk

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

j) Share capital

Ordinary shares are classified as equity.

Notes to the financial statements for the year ended 31 December 2013

2 ACCOUNTING POLICIES (CONTINUED)**k) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

l) Expenses

All expenses are accounted for on an accruals basis. The Company's fees, finance costs and all other expenses are charged through the statement of comprehensive income.

m) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment in infrastructure which is currently in private finance initiatives and public private partnership companies in one geographical area, the United Kingdom.

3 RECONCILIATION BETWEEN UK GAAP AND IFRS FINANCIAL STATEMENTS

As discussed in note 2, for all periods up to and including the year ended 31 December 2012, the Group and Company prepared its financial statements in accordance with United Kingdom generally accepted accounting principles (UK GAAP). These financial statements, for the year ended 31 December 2013, are the first the Group has prepared in accordance with IFRSs as adopted by the European Union (EU). Under UK GAAP the Company produced accounts which consolidated the income, expense, assets and liabilities of underlying group companies on a line by line basis. Under IFRS, Equitix Capital Eurobond Limited meets the definition of an Investment Entity under IFRS 10 and account for its investments at fair value through profit and loss and only consolidates those entities within the Group that provide investment activity services.

The following tables summarise the key adjustments made to the financial statements on adoption of IFRS.

Net assets

The restated Net Assets at 1 January 2012 and 31 December 2012 reflect the fair value of the underlying assets and liabilities held within the investments. Prior to restatement, assets and liabilities were not held at fair value for two reasons:

1. Consolidated assets and liabilities held from inception were held at amortised cost rather than fair value and no subsequent increase in fair value was recognised
2. Consolidated assets and liabilities acquired by the Group were initially brought into the Group accounts at fair value with any premium paid by the Group over and above the identifiable value of the net assets acquired booked as an intangible. Assets and liabilities, including the intangible, were subsequently amortised with no changes in fair value reflected in the accounts unless impairments were required.

Therefore, increases in fair value, including movements in bank margins, prospective movements in interest rates, movements in property markets and operational efficiencies within the underlying companies, have not historically been reflected in the accounts. Under IFRS, the fair value of the investments, including their underlying assets and liabilities, are revalued to fair value at year end which has increased the net asset value on the balance sheet.

Profit after tax

Prior to adoption of IFRS and the Investment Entities standard, the fair value gains on the intangible assets, tangible assets and liabilities, which were recorded at fair value on acquisition and subsequently accounted for at amortised cost, were not recognised. The restated profit after tax for the year ended 31 December 2012 reflects the change in fair value of the entire PPP asset Portfolio.

Notes to the financial statements for the year ended 31 December 2013

3 RECONCILIATION BETWEEN UK GAAP AND IFRS FINANCIAL STATEMENTS (CONTINUED)

a) Reconciliation of comprehensive income for the year ended 31 December 2012

| | | UK GAAP £'000 | IFRS adjustment £'000 | IFRS £'000 |
|-------------------------------------------------|----|------------------|-----------------------------|---------------|
| Turnover: Group and share of Joint Ventures | | 109,136 | (109,136) | - |
| Less: share of Joint Venture turnover | | (19,734) | 19,734 | - |
| Group cost of sales | | (70,170) | 70,170 | - |
| Group administrative expenses | | (11,478) | 11,478 | - |
| Interest income | 7 | - | 6,752 | 6,752 |
| Other income | | - | 247 | 247 |
| Fair value gains on investments | 10 | - | 22,153 | 22,153 |
| Profit from operations | | 7,754 | 21,398 | 29,152 |
| Share of operating profit from joint ventures | | 3,510 | (3,510) | - |
| Share of operating profit from associates | | 3,461 | (3,461) | - |
| Net Interest Payable - Group | | (19,104) | 19,104 | - |
| Net Interest Payable - Joint Ventures | | (1,696) | 1,696 | - |
| Net Interest Payable - Associates | | (3,325) | 3,325 | - |
| Finance cost | 8 | - | (14,563) | (14,563) |
| Administrative expenses | | - | (20) | (20) |
| (Loss) / Profit before tax | | (9,401) | 23,968 | 14,568 |
| Tax | 9 | (22) | (254) | (276) |
| (Loss) / Profit after tax | | (9,422) | 23,714 | 14,293 |
| Minority interest | | 9 | (9) | - |
| (Loss) / Profit for the financial period | | (9,413) | 23,705 | 14,293 |

b) Reconciliation of consolidated equity as at 31 December 2012

| | | UK GAAP £'000 | IFRS adjustment £'000 | IFRS £'000 |
|-------------------------------------------|----|------------------|-----------------------------|------------------|
| Non-current assets | | | | |
| Intangible assets | | 41,193 | (41,193) | - |
| Tangible assets | | 111,418 | (111,418) | - |
| Investment in joint ventures | | 8,685 | (8,685) | - |
| Investment in associates | | 8,478 | (8,478) | - |
| Loans and receivables | | 102,414 | (102,414) | - |
| Investments held at fair value | 11 | - | 151,319 | 151,319 |
| | | 272,188 | (120,869) | 151,319 |
| Current assets | | | | |
| Cash and cash equivalents | | 24,806 | (24,805) | 1 |
| Loans and receivables | 13 | 8,478 | (6,411) | 2,067 |
| | | 33,284 | (31,216) | 2,068 |
| Total assets | | 305,472 | (152,085) | 153,387 |
| Current liabilities | | | | |
| Bank loan borrowings | | (5,208) | 5,208 | - |
| Interest payable on bank loans | | (1,334) | 1,334 | - |
| Interest payable to parent entity | 14 | (17,350) | 18 | (17,333) |
| Trade and other payables | 14 | (32,829) | 32,557 | (272) |
| | | (56,721) | 39,117 | (17,605) |
| Net current assets / (liabilities) | | (23,437) | 7,900 | (15,537) |
| Non-current liabilities | | | | |
| Bank loan borrowings | | (174,555) | 174,555 | - |
| Provisions for liabilities | | (2,015) | 2,015 | - |
| Loan from parent entity | 15 | (105,337) | 482 | (104,855) |
| Amounts owed to related parties | | (1,744) | 1,744 | - |
| | | (283,651) | 178,796 | (104,855) |
| Total liabilities | | (340,372) | 217,912 | (122,460) |
| Net (liabilities) / assets | | (34,900) | 65,827 | 30,927 |
| Equity | | | | |
| Share capital | 16 | - | - | - |
| Retained (losses) / earnings | 17 | (34,630) | 65,557 | 30,927 |
| Minority interests | | (270) | 270 | - |
| | | (34,900) | 65,827 | 30,927 |
| Total equity | | (34,900) | 65,827 | 30,927 |

3 RECONCILIATION BETWEEN UK GAAP AND IFRS FINANCIAL STATEMENTS (CONTINUED)

c) Reconciliation of equity as at 1 January 2012

| | UK GAAP | IFRS adjustment | IFRS |
|-------------------------------------------|------------------|--------------------|-----------------|
| | £'000 | £'000 | £'000 |
| Non-current assets | | | |
| Intangible assets | 33,078 | (33,078) | - |
| Tangible assets | 82,940 | (82,940) | - |
| Investment in joint ventures | 8,356 | (8,356) | - |
| Investment in associates | 7,736 | (7,736) | - |
| Loans and receivables | 88,295 | (88,295) | - |
| Investments held at fair value | 11 - | 109,138 | 109,138 |
| | <u>220,405</u> | <u>(111,268)</u> | <u>109,138</u> |
| Current assets | | | |
| Cash and cash equivalents | 21,967 | (21,966) | 1 |
| Loans and receivables | 13 9,575 | (7,735) | 1,840 |
| | <u>31,542</u> | <u>(29,702)</u> | <u>1,841</u> |
| Total assets | <u>251,947</u> | <u>(140,968)</u> | <u>110,979</u> |
| Current liabilities | | | |
| Bank loan borrowings | (3,660) | 3,660 | - |
| Interest payable on bank loans | (848) | 848 | - |
| Interest payable to parent entity | 14 (11,638) | - | (11,638) |
| Trade and other payables | 14 (25,292) | 25,273 | (19) |
| | <u>(41,438)</u> | <u>29,781</u> | <u>(11,657)</u> |
| Net current assets / (liabilities) | <u>(9,895)</u> | <u>80</u> | <u>(9,816)</u> |
| Non-current liabilities | | | |
| Bank loan borrowings | (149,888) | 149,888 | - |
| Loan from parent entity | 15 (82,688) | - | (82,688) |
| Amounts owed to related parties | (1,159) | 1,159 | - |
| Provisions for liabilities | (1,844) | 1,844 | - |
| Trade and other payables | (416) | 416 | - |
| | <u>(235,995)</u> | <u>153,307</u> | <u>(82,688)</u> |
| Total liabilities | <u>(277,433)</u> | <u>183,088</u> | <u>(94,345)</u> |
| Net (liabilities) / assets | <u>(25,486)</u> | <u>42,120</u> | <u>16,634</u> |
| Equity | | | |
| Share capital | 16 - | - | - |
| Retained (losses) / earnings | 17 (25,207) | 41,841 | 16,634 |
| Minority interests | (279) | 279 | - |
| | <u>(25,486)</u> | <u>42,120</u> | <u>16,634</u> |
| Total equity | <u>(25,486)</u> | <u>42,120</u> | <u>16,634</u> |

Notes to the financial statements for the year ended 31 December 2013

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, 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.

a) Eurobond Loan Notes - Interest Rate

The Company has listed Eurobonds on the Channel Islands Securities Exchange with a fixed interest rate of 15% which have been purchased by Equitix Fund I LP, the ultimate parent of the Company. These form the primary source of funding for the Company. The debt terms are comparable to the applicable terms for similar listed debt instruments in the current market so, therefore, the Directors believe that the loan note value in these financial statements reflects fair value at the balance sheet date.

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in certain circumstances that affect reported amounts. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

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.

b) Investments at fair value through profit or loss

By virtue of the Company's status as an investment entity under IFRS 10, investments in subsidiaries are designated upon initial recognition, and subsequently accounted for, at fair value through profit or loss.

The fair values of unlisted investments, which are not traded in an active market, are determined using valuation techniques. As disclosed in note 2 to the financial statements, the Directors principally use discounted cash flow analysis to make their best estimation of the fair value. The estimate of fair value may vary from the price achieved in an actual sale as potential acquirers may use different valuation criteria for their own strategic reasons.

The principal drivers of internally prepared valuations are therefore:

- i) expected future net cash flows; and
- ii) the discount rate to be applied.

The fair value estimation takes into account the future distributions to be received by the Company from its investments.

Future distributions involve a degree of uncertainty in terms of their amount and timing. Cash flows in the underlying investments are exposed to risks in relation to deductions that may be made by the relevant Government Authority in relation to performance conditions and inflation.

If the expected future net cash flows were decreased or increased by 10%, with all other variables held constant, the impact on the value of financial assets would be £16,785k (2012: £11,252) loss / gain respectively.

The discount rate is determined in relation to the particular risks for each investment. All relevant risks such as interest rate risk, credit risk and liquidity risk are incorporated in the fair value of the investments by adjusting the expected cash flows or discount rate used for the valuation of investments. The discount rates used for the 2013 valuation were in a range between 6.9% and 8.7% (2012: 7.1% and 8.7%). If the discount rate used in the valuation were increased or decreased by 100 bps, the impact on the value of the financial assets would be a loss of £16,471k (2012: £13,135k) or a gain of £18,726k (2012: £15,527k) respectively.

A significant portion of the fair value of investments shown on the balance sheet is attributed to the future disposal proceeds of project assets. The value ascribed to these assets has been independently verified by a recognised industry expert, and is based upon the current asset use continuing at the point of realisation and beyond.

c) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in active markets is derived in one of the following ways:

- i) Financial assets at fair value through profit and loss
Financial assets are recognised initially at fair value. Subsequent to initial recognition, the financial assets are measured at fair value using the discounted cash flow methodology. In determining the discount rate, regard is had to risk free rates and risk premia that are specific to the individual concession.
- ii) Loans, receivables, and payables
The carrying value less impairment provision of trade receivables and payables are assumed to approximate to their fair values.
- iii) Borrowings
Intercompany loans are held at amortised cost.

Notes to the financial statements for the year ended 31 December 2013

4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") - ADOPTION OF NEW AND REVISED STANDARDS

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 (and in some cases had not yet been adopted by the EU):

- Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 7 (December 2011): Offsetting of assets and liabilities
- Amendments to IFRS 1 (May 2012): Borrowing costs
- Amendments to IAS 1 (May 2012): Comparative information
- Amendments to IAS 32 (May 2012): Tax effect of equity distributions

The Directors do not expect that the adoption of the other standards listed above will have a material impact on the Company in future periods.

5 OPERATING PROFIT

The operating profit of the Company is attributable to the principal activity of the Company, all of which was carried out in the United Kingdom.

The audit fee for Equitix Capital Eurobond Limited totalled £9k (2012: £9k).

6 DIRECTORS' REMUNERATION

No staff were directly employed by the company (2012: none).

No Directors received any remuneration for services to the Company during the year (2012: none). The Company is managed by secondees from other Equitix companies. No recharge for services rendered has been made during the year (2012: £nil).

7 INVESTMENT REVENUE

| | 2013 £'000 | 2012 £'000 |
|-----------------------------------------|---------------|---------------|
| Investment revenue | | |
| Interest income on loans to investments | 6,905 | 6,752 |
| Total investment revenue | <u>6,905</u> | <u>6,752</u> |

8 FINANCE COSTS

| | 2013 £'000 | 2012 £'000 |
|----------------------------------------------|-----------------|-----------------|
| Finance cost | | |
| Interest expense on loans from parent entity | (15,966) | (14,563) |
| Total finance cost | <u>(15,966)</u> | <u>(14,563)</u> |

9 TAX CREDIT/(CHARGE) ON PROFIT FROM ORDINARY ACTIVITIES

Taxation is based on the profit for the period and comprises:

The charge for the year can be reconciled to the result per the income statement as follows:

| | 2013 £'000 | 2012 £'000 |
|------------------------------------------------------|---------------|---------------|
| UK corporation tax at a rate of 23.25% (2012: 24.5%) | | |
| Current period | 682 | 7 |
| Adjustments in respect of prior years | 403 | (283) |
| Tax credit / (expense) | <u>1,084</u> | <u>(276)</u> |

The differences between the total current tax shown above and the amount calculated by applying the average rate of UK corporation tax to the profit/(loss) before tax are as follows:

| | 2013 £'000 | 2012 £'000 |
|--------------------------------------------------------------------------------------------------------------------|----------------|---------------|
| Profit on ordinary activities before tax | <u>4,274</u> | <u>14,569</u> |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%) | 994 | 3,569 |
| Tax effect of expenses that are not deductible in determining taxable profit | 739 | 683 |
| Tax effect of income not taxable in determining taxable profit | (3,040) | (5,427) |
| Losses not utilised in the period | 625 | 1,168 |
| Tax effect of prior year adjustment - losses surrendered to Consortium Companies | (403) | 283 |
| Total current tax (credit) / expense for the period | <u>(1,084)</u> | <u>276</u> |

Notes to the financial statements for the year ended 31 December 2013

9 TAX CREDIT/(CHARGE) ON PROFIT FROM ORDINARY ACTIVITIES (CONTINUED)

A deferred tax asset has not been recognised in respect of timing differences relating to excess management expenses for the period as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £1,990k (2012 restated: £785k).

10 FAIR VALUE MOVEMENTS ON INVESTMENTS

The gain on investments of £13,076k (2012: £22,153k) has been included in the statement of comprehensive income.

The Directors have satisfied themselves as to the methodology used, the discount rates applied and the valuation. Further detail is given in note 11.

11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2013 £'000 | 2012 £'000 | 2011 £'000 |
|-------------------------------|----------------|----------------|----------------|
| Opening net book value | 151,319 | 109,138 | 91,313 |
| Net acquisition of investment | 3,154 | 20,028 | 1,414 |
| Fair value gains | 13,076 | 22,153 | 16,411 |
| Closing net book value | <u>167,549</u> | <u>151,319</u> | <u>109,138</u> |

The following economic assumptions were used in the discounted cash flow valuations:

| | 2013 | 2012 | 2011 |
|---------------------------|------|------|------|
| UK inflation rates | 3.0% | 3.0% | 3.0% |
| UK deposit interest rates | 0.5% | 0.5% | 0.5% |

Investments are generally restricted on their ability to transfer funds to the Group under the terms of the senior funding arrangement for that investment. Significant restrictions include:

- Historic and projected debt service and loan life cover ratios exceed a given threshold;
- Required cash reserve account levels are met;
- Senior lenders have agreed the current financial model that forecasts the economic performance of the company;
- Project performance is in compliance with the terms of its senior funding arrangements; and
- Senior lenders have approved the annual budget for the Company.

A list of principal subsidiaries and joint ventures of the Company can be found on page 30 of these financial statements.

12 ACQUISITION OF FAIR VALUE THROUGH PROFIT AND LOSS INVESTMENTS

On 27 August the Company increased its investment in Equitix Healthcare Limited to facilitate the acquisition of an additional 15% interest in Roehampton Hospital Holdings Ltd and its wholly owned subsidiary, Roehampton Hospital Limited for £3,013k. The consideration was split between £491k subordinated loan notes bearing an interest rate of 10.5% and £2,522k equity. The new investment increased the Group's interest from 50% to 65%.

On 4 September the Company increased its investment in Equitix Leisure Limited to facilitate the acquisition of an additional 50% interest in Waterfront Leisure (Crosby) Limited for £1,656k. The consideration was split between £330k subordinated loan notes bearing an interest rate of 13.75% and £1,326k equity. This investment increased the equity and subordinated debt holding from 50% to 100%.

Notes to the financial statements for the year ended 31 December 2013

| 13 RECEIVABLES | 2013 | 2012 | 2011 |
|-------------------------------------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 |
| Interest receivable from investments | 1,326 | 1,707 | 1,453 |
| Other receivables | 972 | 360 | 387 |
| | <u>2,298</u> | <u>2,067</u> | <u>1,840</u> |
| Included on the balance sheet as follows: | | | |
| Current | 2,298 | 2,067 | 1,840 |
| Non-current | - | - | - |
| | <u>2,298</u> | <u>2,067</u> | <u>1,840</u> |

The carrying value of these assets approximates their fair value. There are no past due or impaired receivable balances.

Interest receivable from investments in the current and prior year represents accrued interest on subordinated debt loans to the investments listed in the list of investments (note 22).

| 14 PAYABLES | 2013 | 2012 | 2011 |
|-------------------------------------------|-----------------|-----------------|-----------------|
| | £'000 | £'000 | £'000 |
| Interest payable to parent | (23,869) | (17,333) | (11,638) |
| Other payables | (170) | (272) | (19) |
| | <u>(24,039)</u> | <u>(17,605)</u> | <u>(11,657)</u> |
| Included on the balance sheet as follows: | | | |
| Current | (24,039) | (17,605) | (11,657) |
| Non-current | - | - | - |
| | <u>(24,039)</u> | <u>(17,605)</u> | <u>(11,657)</u> |

The carrying amount of these liabilities approximates their fair value. Interest payable to parent in the current and prior year represents accrued interest on loan note borrowings from Equitix Fund I LP (note 15).

| 15 BORROWINGS | 2013 | 2012 | 2011 |
|-------------------------------------------|------------------|------------------|-----------------|
| | £'000 | £'000 | £'000 |
| Loans from Parent Entity | (109,524) | (104,855) | (82,688) |
| Bank loan | (10,000) | - | - |
| | <u>(119,524)</u> | <u>(104,855)</u> | <u>(82,688)</u> |
| Included on the balance sheet as follows: | | | |
| Current | - | - | - |
| Non-current | (119,524) | (104,855) | (82,688) |
| | <u>(119,524)</u> | <u>(104,855)</u> | <u>(82,688)</u> |

Amounts owing to parent undertaking are composed of interest free loans of £58k (2012: £58k), interest-bearing intercompany loans of £1,717k (2012: £nil) and £107,750k (2012: £104,797k) of Eurobond Loan Notes, listed on the Channel Island Securities Exchange on 15 September 2009, 21 February 2011 and 22 June 2012, and subscribed to by Equitix Fund I LP. The intercompany interest-bearing loans carry an interest rate of 12%, the loan notes are unsecured, have an interest rate of 15% and fall due for repayment on 12 November

On 27 August the Company entered into a 12% interest bearing loan with its parent entity, Equitix Fund I LP for £60k and subscribed to £2,953k of Eurobond loan notes for the purpose of acquiring the additional 15% interest in Roehampton Hospital Ltd.

On 4 September the Company entered into an interest bearing loan with its parent entity, Equitix Fund I LP for £1,656k for the purpose of acquiring the additional 50% interest in Waterfront Leisure (Crosby) Ltd. The interest-bearing loan has an interest rate of 12%.

On 19 November 2013 Equitix Capital Eurobond Ltd entered into an £11m revolving credit facility with RBS. The interest on drawn amounts is charged at libor add a margin of 200 bps, while undrawn commitments incur a fee of 85 bps. The balance is repayable in a single bullet payment on 19 November 2015.

The carrying amount of these liabilities approximates their fair value.

Notes to the financial statements for the year ended 31 December 2013

16 SHARE CAPITAL

| | 2013 Number | 2013 £'000 | Authorised 2012 Number | 2012 £'000 | 2011 Number | 2011 £'000 |
|------------------------------|----------------|---------------|------------------------------|---------------|----------------|---------------|
| Ordinary shares of £1 each | 100 | - | 100 | - | 100 | - |
| | | | Issued and unpaid | | | |
| | 2013 Number | 2013 £'000 | 2012 Number | 2012 £'000 | 2011 Number | 2011 £'000 |
| Ordinary shares of £1 each | 100 | - | 100 | - | 100 | - |
| At 1 January and 31 December | 100 | - | 100 | - | 100 | - |

17 RETAINED EARNINGS

| | |
|------------------------------------|---------------|
| | 2013 £'000 |
| Restated balance at 1 January 2012 | 16,634 |
| Net profit for the year | 14,293 |
| Balance at 31 December 2012 | 30,927 |
| Net profit for the year | 5,359 |
| Balance as at 31 December 2013 | 36,286 |

18 FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that it is 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 borrowings are as disclosed in note 15, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 16 and 17. The Group is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

| | | |
|------------------------------------------------|---------------|---------------|
| a) <u>Categories of financial instruments</u> | 2013 £'000 | 2012 £'000 |
| Financial assets | | |
| Fair value through profit and loss | | |
| Investments | 167,549 | 151,319 |
| Loans and receivables | | |
| Interest receivable from investments | 1,326 | 1,707 |
| Other receivables | 972 | 360 |
| | 169,848 | 153,386 |
| Financial liabilities at amortised cost | | |
| Borrowings | (119,524) | (104,855) |
| Other payables | (24,039) | (17,605) |
| | (143,563) | (122,459) |

b) Financial risk management objectives

The directors provide advice to the Company on all risks faced and manage the financial risks relating to the operations of the Company 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 Company does not enter into financial derivative contracts.

Market risk

The Company's activities expose it primarily to the financial risks of interest rates.

Notes to the financial statements for the year ended 31 December 2013

18 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk management

The Company has limited exposure to interest rate risk from intra group loans as the underlying borrowings are fixed interest rate. Therefore the Company is not exposed to cash flow risk due to changes in interest rates over 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.

On 19 November 2013 Equitix Capital Eurobond Ltd entered into an £11m revolving credit facility with RBS which introduced some interest rate risk. The interest on drawn amounts is charged at libor add a margin of 200 bps, while undrawn commitments incur a fee of 85 bps. The balance of £10m outstanding at 31 December 2013 is repayable in a single bullet payment on 19 November 2015.

Interest rate sensitivity analysis

The Company has no exposure to interest rate risk from intercompany loans because the loans held with Equitix Fund I LP have a fixed interest rate of 12% to 15% (2012: 12% to 15%).

A 1% increase or decrease in libor would result in a £100k per annum increase or decrease in interest paid on the revolving credit facility loan.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. For cash and cash equivalents the Company only transacts with entities that are rated the equivalent to investment grade and above. Other financial assets consist of amounts receivable from related parties.

The Company only transacts with creditworthy PFI / PPP concession companies that have a cash flow derived from projects in agreement with government or semi-government authorities.

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 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.

c) Fair value of financial instruments

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

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

The fair value of other non-derivative financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities, recorded at amortised cost in the financial statements, are approximately equal to their fair values.

The following tables detail the Company'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 year | 1-2 years | 3-5 years | 5+ years | Total |
|----------------------------|------------------|-----------------|-----------|------------------|------------------|
| 2013 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Borrowings | - | (10,000) | - | (109,524) | (119,524) |
| Interest payable to parent | (23,869) | - | - | - | (23,869) |
| Other payables | (170) | - | - | - | (170) |
| | <u>(24,039)</u> | <u>(10,000)</u> | <u>-</u> | <u>(109,524)</u> | <u>(143,563)</u> |

21. PRINCIPAL SUBSIDIARIES AND JOINT VENTURES AS AT 31 DECEMBER 2013 (continued)

| Company name | Percentage of shares held | Number and class of shares held | Principal activity | Country of incorporation |
|----------------------------------------------------------|---------------------------|---------------------------------|---------------------------------------------------------------------|--------------------------|
| Durham and Tees Community Ventures Holdco (No.1) Ltd | 60%* | 22,176 ordinary £1 shares | Parent company to Care Partnerships 25 Fundco 1 Ltd | UK |
| Durham and Tees Community Ventures Holdco (No.2) Ltd | 60%* | 1 ordinary £1 share | Parent company to Care Partnerships 25 Fundco 2 Ltd | UK |
| Durham and Tees Community Ventures Holdco (No.3) Ltd | 60%* | 1 ordinary £1 share | Parent company to Care Partnerships 25 Fundco 3 Ltd | UK |
| Durham and Tees Community Ventures Holdco (No.4) Ltd | 60%* | 2 ordinary £1 shares | Parent company to Care Partnerships 25 Fundco 4 Ltd | UK |
| Bradford and Airedale Care Partnerships Holdco 1 Limited | 60%* | 9,900 ordinary £1 shares | Parent company to Bradford and Airedale Fundco 1 Ltd | UK |
| Bradford and Airedale Care Partnerships Holdco 2 Limited | 60%* | 1 ordinary £1 share | Parent company to Bradford and Airedale Fundco 2 Ltd | UK |
| Bradford and Airedale Care Partnerships Holdco 3 Limited | 60%* | 1 ordinary £1 share | Parent company to Bradford and Airedale Fundco 3 Ltd | UK |
| Bradford and Airedale Care Partnerships Holdco 4 Limited | 60%* | 1 ordinary £1 share | Parent company to Bradford and Airedale Fundco 4 Ltd | UK |
| Durham and Tees Community Ventures Fundco (No.1) Ltd | 60%* | 22,176 ordinary £1 shares | Provision of community healthcare in the Teesside area | UK |
| Durham and Tees Community Ventures Fundco (No.2) Ltd | 60%* | 1 ordinary £1 share | Provision of community healthcare in the Teesside area | UK |
| Durham and Tees Community Ventures Fundco (No.3) Ltd | 60%* | 1 ordinary £1 share | Provision of community healthcare in the Teesside area | UK |
| Durham and Tees Community Ventures Fundco (No.4) Ltd | 60%* | 2 ordinary £1 shares | Provision of community healthcare in the Teesside area | UK |
| Bradford & Airedale Care Partnerships Fundco 1 Ltd | 60%* | 9,900 ordinary £1 shares | Provision of community healthcare in the Bradford and Airedale area | UK |
| Bradford & Airedale Care Partnerships Fundco 2 Ltd | 60%* | 1 ordinary £1 share | Provision of community healthcare in the Bradford and Airedale area | UK |
| Bradford & Airedale Care Partnerships Fundco 3 Ltd | 60%* | 1 ordinary £1 share | Provision of community healthcare in the Bradford and Airedale area | UK |
| Bradford & Airedale Care Partnerships Fundco 4 Ltd | 60%* | 1 ordinary £1 share | Provision of community healthcare in the Bradford and Airedale area | UK |

* - Indicates interest that is indirectly held by the Company