

For the year ended

MERCIA HEALTHCARE (HOLDINGS) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 2001



(Registered number 03693526)

MERCIA HEALTHCARE (HOLDINGS) LIMITED

DIRECTORS' REPORT

Year ended 31st March 2001

The Directors submit their report and the audited financial statements of the Company and Group for the year ended 31st March 2001.

Principal Activity and Business Review

The Company is a holding company with a single subsidiary, Mercia Healthcare Limited (MHL).

MHL is engaged in a 30-year contract with Hereford Hospitals NHS Trust in the design and construction of an Acute Care Facility, and in the provision of certain non-clinical support services at the Hereford County Hospital.

The loss incurred in the year under review as set out in the consolidated profit and loss account on page 5 relates to the activities undertaken in respect of this project.

Dividends and transfers to reserves

No dividend is proposed. The amount transferred to reserves is set out in the consolidated profit and loss account on page 5.

Directors

The following Directors served during the period under review:

P Aitchison
G Pigache
R McGlynn
R Thompson (resigned 12 July 2000)
S Kibblewhite (appointed 12 September 2000)

Directors' interests in shares

The Directors have no interest in the share capital of the Company according to the Register maintained by the Company under Section 325 of the Companies Act 1985.

European Monetary Union

The Directors are aware of the implications of European Monetary Union, both for the information systems and other aspects of the Group's operations. Management has assessed the risks associated with these issues and is reviewing the actions required to ensure that any necessary systems modifications and other initiatives are planned and completed within the time available. It is not anticipated that significant incremental expenditure will be incurred to ensure compliance with the necessary requirements within the context of on-going expenditure plans to develop and upgrade the Group's systems.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

DIRECTORS' REPORT (continued)

Year ended 31st March 2001

Auditors

The Auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution to re-appoint PricewaterhouseCoopers will be proposed at the next Annual General Meeting.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board

R McGlynn - Director



8 May 2001

MERCIA HEALTHCARE (HOLDINGS) LIMITED

AUDITORS' REPORT

Year ended 31st March 2001

To the shareholders of Mercia Healthcare (Holdings) Limited

We have audited the financial statements set out on pages 5 to 17 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether those financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group as at 31st March 2001 and of the loss and cashflows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Manchester

8 May 2001

MERCIA HEALTHCARE (HOLDINGS) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st March 2001

	Notes	2001 £'000	2000 £'000
Turnover		5,127	4,291
Cost of sales		<u>(4,338)</u>	<u>(3,574)</u>
Gross profit		789	717
Administrative expenses		<u>(559)</u>	<u>(697)</u>
Operating profit	2	230	20
Net interest payable and similar charges	3	<u>(3,208)</u>	<u>(1,652)</u>
Loss on ordinary activities before and after taxation and retained loss for the year		<u>(2,978)</u>	<u>(1,632)</u>

The loss for the year under review relates solely to continuing activities in a single class of business within the United Kingdom.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2001 £'000	2000 £'000
Loss for the year	(2,978)	(1,632)
Total recognised loss for the year	<u>(2,978)</u>	<u>(1,632)</u>

CONSOLIDATED STATEMENT OF RESERVES

	2001 £'000	2000 £'000
As at 31 st March 2000	(1,632)	-
Retained loss for the year	(2,978)	(1,632)
Retained loss as at 31 st March 2001	<u>(4,610)</u>	<u>(1,632)</u>

The notes on pages 9 to 17 form part of the financial statements.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

CONSOLIDATED BALANCE SHEET

31st March 2001

	Notes	2001 £'000	2000 £'000
Current Assets:			
Debtors:	6		
-falling due within one year		467	586
-falling due after more than one year		47,872	26,556
Cash at bank and in hand		612	693
Total Current Assets		48,951	27,835
Creditors: Amounts falling due within one year	7	(3,129)	(3,394)
Net Current Assets		45,822	24,441
Creditors: Amounts falling due after more than one year	8	(50,431)	(26,072)
Net Liabilities		(4,609)	(1,631)
Capital and Reserves:			
Share capital	10	1	1
Profit and loss account		(4,610)	(1,632)
Total Equity Shareholders' Funds	11	(4,609)	(1,631)

R McGlynn – Director

R McGlynn

Approved by the Board on 8 May 2001

The notes on pages 9 to 17 form part of the financial statements.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

COMPANY BALANCE SHEET

31st March 2001

	Notes	2001 £'000	2000 £'000
Fixed Assets:	5		
Investment in subsidiary at cost		1	1
Net Assets		1	1
Capital and Reserves:			
Share capital	10	1	1
Profit and loss account		-	-
Total Equity Shareholders' Funds	11	<u>1</u>	<u>1</u>

R McGlynn -- Director



Approved by the Board on 8 May 2001

The notes on pages 9 to 17 form part of the financial statements.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st March 2001

	NOTE	2001 £'000	2000 £'000
Net cash outflow from operating activities	15	(20,038)	(23,119)
Returns on investment and servicing of finance	16	(2,850)	(4,465)
Financing	16	22,807	28,277
(Decrease) / Increase in cash in the period		<u>(81)</u>	<u>693</u>
Reconciliation of net cash flow to movement in net debt			
(Decrease) / Increase in cash in the period		(81)	693
New bank loans		(22,807)	(25,105)
Change in net debt resulting from cash flows	17	<u>(22,888)</u>	<u>(24,412)</u>
Non cash movement	17	(359)	(358)
Net debt at 31 st March 2000	17	<u>(24,770)</u>	<u>-</u>
Net debt at 31 st March 2001	17	<u>(48,017)</u>	<u>(24,770)</u>

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st March 2001

1) Accounting Policies

A summary of the principal accounting policies of the Group, all of which have been applied consistently, is set out below:

I. Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Financial Reporting Standards. They include the results of the activities described in the Directors' Report, all of which are continuing. The consolidated profit and loss account, balance sheet and cashflow statement include the financial statements of the company and its subsidiary.

II. Turnover and cost of sales

Turnover represents amounts due from Hereford Hospitals NHS Trust 'the Trust' in respect of the activities described in the Directors' Report. All turnover originates in the United Kingdom and is stated exclusive of value added tax.

Cost of sales represents amounts invoiced in respect of services by certain of the related parties.

Turnover and cost of sales includes amounts recharged by the company in respect of certain services provided to the Trust outside the main 30 year contract totaling £295,000 (2000 £674,000).

III. Taxation

Corporation Tax is provided on taxable profits at the applicable rate. Provision for Deferred Tax is made under the liability method in respect of those timing differences which are expected to become payable in the foreseeable future.

IV. Finance receivable

The costs incurred in respect of bid development, design and construction during the period prior to availability of the Acute Facilities are recovered over the contract period. Accordingly these costs are accumulated within the finance receivable as incurred. Once the construction is complete, payments from Hereford Hospitals NHS Trust will be allocated between turnover and reimbursement of the finance receivable so as to generate a constant rate of return over the contract period. Interest payable and similar charges and administration costs relating to the day to day running of Mercia Healthcare Limited ("MHL") are written off as incurred.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

2) Operating profit

Operating profit is stated after charging:

	Company	Group	Company	Group
	2001	2001	2000	2000
	£'000	£'000	£'000	£'000
Auditors' remuneration	-	8	-	8

The Auditors also received remuneration for other services to the Group totalling £37,000 (2000 Nil) during the period under review. The Directors received fees of £40,000 (2000 £8,000); no other salary, fees or other benefits were received in the performance of their duties. The Company and the Group had no employees throughout the period under review. Management and administrative staffing resources are provided by secondees staff that are employed by certain related parties (see Note 13). The employment costs relating to the secondees are recharged to MHL.

3) Net interest payable and similar charges

	2001	2000
	£'000	£'000
Interest payable and similar charges	(3,265)	(1,695)
Interest receivable	57	43
Net interest payable and similar charges	<u>(3,208)</u>	<u>(1,652)</u>

Interest payable and similar charges of £3,265,000 (2000 £1,695,000) relates to interest charges and commitment fees with respect to the bank borrowings of £3,088,000 (2000 £1,329,000); less £182,000 interest receivable (2000 plus £9,000 interest payable) as a result of the operation of interest rate swap arrangements; plus the amortisation of loan issue costs in accordance with FRS 4 of £359,000 (2000 £358,000).

4) Taxation

There is no credit to UK Corporation tax at 30% in the period as no tax credit for current year losses has been recognised.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

5) Investments

	2001	2000
	£'000	£'000
Company investment in subsidiary undertaking at cost	1	1

The Company holds 100% of the ordinary share capital in Mercia Healthcare Limited a company incorporated in England, which is engaged in a 30 year contract with Hereford Hospitals NHS Trust in the design and construction of an Acute Care Facility, and in the provision of certain non-clinical support services at Hereford County Hospital.

6) Debtors

	Group 2001 £'000	Group 2000 £'000
Amounts falling due within one year:		
Trade debtors	74	45
Tax and social security	393	541
	<u>467</u>	<u>586</u>
Amounts falling due after more than one year:		
Finance receivable	47,872	26,556
	<u>48,339</u>	<u>27,142</u>

7) Creditors: Amounts falling due within one year

	Group 2001 £'000	Group 2000 £'000
Trade creditors	(2,771)	(3,110)
Accruals	(358)	(284)
	<u>(3,129)</u>	<u>(3,394)</u>

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

8) Creditors: Amounts falling due after more than one year

	Group 2001 £'000	Group 2000 £'000
Amounts owed to related parties	(558)	-
Construction retentions	(1,244)	(609)
Bank loans	(48,629)	(25,463)
	<u>(50,431)</u>	<u>(26,072)</u>

Construction retentions represent those amounts that will be paid to Alfred McAlpine Special Projects/Haden Young following the completion of design and construction work and, subject to certain restrictions, will be paid in full by April 2003.

Bank loans represent amounts borrowed under two Facilities Agreements, a Term Loan Facility and a Shareholder Credit Facility. The principal terms and conditions relating to both facilities are summarised below.

	Group 2001 Term loan £'000	Group 2001 Shareholder Credit Facility £'000	Group 2000 Term Loan £'000	Group 2000 Shareholder Credit Facility £'000
Repayable between one and two years	-	5,619	-	-
Repayable between two and five years	5,652	-	3,126	3,124
Repayable after five years	39,813	-	22,026	-
Total loans outstanding	<u>45,465</u>	<u>5,619</u>	<u>25,152</u>	<u>3,124</u>
Loan issue costs	<u>(2,329)</u>	<u>(126)</u>	<u>(2,510)</u>	<u>(303)</u>
Total	<u>43,136</u>	<u>5,493</u>	<u>22,642</u>	<u>2,821</u>

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

8) Creditors: Amounts falling due after more than one year (continued)

Term Loan Facility

The tenure of the Term Loan is 25 years and it is repayable in 43 semi-annual instalments commencing on 16th April 2003. Interest charged on amounts drawn under the facility is based on the floating LIBOR rate. The Term Loan Facility has been syndicated to a consortium of banks. All amounts drawn under the Term Loan Facility are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the Company and the Group and by a floating charge over the Company and Group's undertakings and assets.

As at 31st March 2001, £45,464,000 has been drawn under the Term Loan Facility. The total facility is for a maximum of £67,800,000.

An additional standby facility of £500,000 remains unused at 31 March 2001.

Shareholder Credit Facility

The tenure of the Shareholder Credit Facility is 3 years and it is repayable in full on 16th April 2002. Interest charged on amounts drawn under the facility is based on the floating LIBOR rate. Security under the facility is in the form of irrevocable letters of credit, which have been issued by the respective banks of the related parties (as detailed at Note 13). The Shareholder Credit Facility has not been syndicated.

As at 31st March 2001, £5,619,000 has been drawn under the Shareholder Credit Facility. The total facility is for a maximum of £7,800,000.

Loan issue costs

Arrangement fees and certain costs directly relating to the facilities have been offset against the related loans and are being amortised over the duration of each respective swap as part of the finance cost, in accordance with FRS 4. The duration of the swap has been used for the amortisation period as MHL can repay the facilities without penalty at any time, however, this is unlikely to occur in practice until after the related swap has expired.

Swap arrangements

MHL has entered into interest rate swap agreements under both the Term Loan and Shareholder Credit Facilities. A fixed rate of 5.58% applies to all amounts drawn under the Term Loan, and the Shareholder Credit Facility. The swap agreement in relation to the Term Loan Facility expires on 10th April 2009. The swap agreement in relation to the Shareholder Credit Facility expires on 10th April 2002. The swap agreements operate by monthly exchanges of payments between MHL and its banks. The amounts exchanged represent the difference between floating and fixed interest rates calculated on pre-determined notional principal amounts.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

9) Provisions for Liabilities and Charges:

No deferred tax asset has been recognised in respect of tax losses.

10) Share Capital	2001		2000	
	Number	£'000	Number	£'000
Authorised:				
Ordinary shares of £1 each	<u>50,000</u>	<u>50</u>	<u>50,000</u>	<u>50</u>
Allotted and issued:				
Ordinary shares of £1 each	<u>1,000</u>	<u>1</u>	<u>1,000</u>	<u>1</u>

11) Movement in equity shareholders' funds

The movement in group equity shareholders' funds during the year relates wholly to the retained loss for the period under review. The group accounts do not include a separate profit and loss account for Mercia Healthcare (Holdings) Limited as permitted by Section 230 of the Companies Act 1985. Its profit for the period is nil and there is no movement in equity shareholders' funds.

12) Capital Commitments

Under the terms of the contract with Hereford Hospitals NHS Trust dated 16th April 1999 MHL is committed to payments totalling some £65 million in respect of design and construction work from 16th April 1999 through to 16th April 2002. MHL is also committed to payments of some £15 million for capital expenditure over the remaining contract term.

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

13) Related Party Disclosures

The following Companies, together with undertakings within the individual Groups of Companies, are considered to be Related Parties to the Company, as defined in Financial Reporting Standard 8. The construction is undertaken by a Joint Venture between Alfred McAlpine Special Projects and Haden Young Ltd.

WS Atkins plc

Alfred McAlpine Construction Limited

Sodexo Services Group Limited

Charterhouse Project Equity Investments Limited

Provision of Facilities and Services under the Concession Agreement

MHL is engaged in a 30-year contract with Hereford Hospitals NHS Trust in the design and construction of an Acute Care Facility, and in the provision of certain non-clinical support services at the Hereford County Hospital. Payments to related parties in respect of the above are detailed below.

	Construction contract 2001 £'000	Provision of staff and support services 2001 £'000	Construction contract 2000 £'000	Provision of staff and support services 2000 £'000
Alfred McAlpine Special Projects/Haden Young	20,938	-	22,691	-
WS Atkins plc	-	1,524	-	1,267
Sodexo Services Group Limited	-	2,862	-	2,436
Charterhouse Project Equity Investments Limited	-	18	-	2
Alfred McAlpine Special Projects	-	81	-	81

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

13) Related Party Disclosures (continued)

Amounts outstanding to Related Parties at 31st March 2001

	2001 £'000	2000 £'000
Alfred McAlpine Special Projects /Haden Young	3,564	2,561
WS Atkins plc	356	175
Sodexo Services Group Limited	480	340
Charterhouse Project Equity Investments Limited	-	2
Alfred McAlpine Special Projects	-	-

All transactions with Related Parties were carried out at arms length.

14) Parent Undertakings

25% of the Company's shares are held by each of the following, all of which are registered in the United Kingdom:

WS Atkins plc

Alfred McAlpine Construction Limited

Sodexo Services Group Limited

Charterhouse Project Equity Investments Limited

15) Reconciliation of Operating Profit to Net Cash Flow From Operating Activities

	2001 £'000	2000 £'000
Operating profit	230	20
(Increase) in debtors	(21,197)	(27,142)
Increase in creditors	929	4,003
Net cash outflow from operating activities	<u>(20,038)</u>	<u>(23,119)</u>

MERCIA HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2001

16)	Analysis of Cash Flow Movements	2001	2000
		£'000	£'000
	Returns on investment and servicing of finance		
	Interest received	57	43
	Interest paid	(2,907)	(1,338)
	Issue costs of new loans	-	(3,170)
		<u> </u>	<u> </u>
	Net cash outflow from returns on investment and servicing of finance	<u>(2,850)</u>	<u>(4,465)</u>
	Financing		
	Issue of share capital	-	1
	New bank loans	<u>22,807</u>	<u>28,276</u>
	Net cash flow from financing	<u>22,807</u>	<u>28,277</u>

17) Analysis of net debt

	At 31 March 2000 £'000	Cash Flows £'000	Non-cash Movement £'000	At 31 March 2001 £'000
Cash at bank and in hand	693	(81)	-	612
Bank loans	<u>(25,463)</u>	<u>(22,807)</u>	<u>(359)</u>	<u>(48,629)</u>
	<u>(24,770)</u>	<u>(22,888)</u>	<u>(359)</u>	<u>(48,629)</u>