

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE 14 MONTH PERIOD TO 31st MARCH 1999

(Registered number 03502452)



SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

DIRECTORS' REPORT

14 month period to 31st March 1999

The Directors submit their report and the audited financial statements of the Company and Group for the 14 month period to 31st March 1999.

Principal Activity and Business Review

The Company was incorporated on 2nd February 1998 and is a holding company with a single subsidiary, South Manchester Healthcare Limited (SMHL).

SMHL was incorporated on 2nd February 1998 and commenced trading on 12th August 1998. SMHL is engaged in a 35-year contract with South Manchester University Hospitals NHS Trust for the design and construction of a Mental Health Care Facility and an Acute Care Facility, and in the provision of certain non-clinical support services at Wythenshawe and Withington Hospitals under the UK Government's Private Finance Initiative.

The loss incurred in the 14 month period 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:

D.Clements - appointed 17th July 1998
R.Baldwin - appointed 17th July 1998
P.Aitchison - appointed 17th July 1998
D.Metter - appointed 11th August 1998
M.Cover - appointed 2nd February 1998 - resigned 17th July 1998

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.

Millennium and European Monetary Union

The Directors are aware of the implications of the Millennium and 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.

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

DIRECTORS' REPORT (continued)

14 month period to 31st March 1999

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

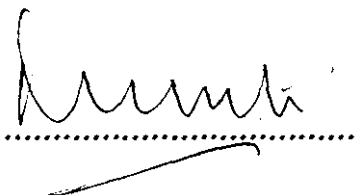
Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- 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

D. Clements - Director

A handwritten signature in dark ink, appearing to be 'D. Clements', is written over a horizontal dotted line. Below the dotted line, there is a solid horizontal line that starts under the signature and extends to the right.

6th October 1999

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

AUDITORS' REPORT

14 month period to 31st March 1999

To the shareholders of South Manchester Healthcare (Holdings) Limited

We have audited the financial statements set out on pages 5 to 15 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including as explained on page 3, the financial statements. Our responsibilities, as independent auditors, are established 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 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.

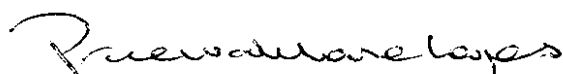
Basis of audit opinion

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 1999 and of the loss of the Group for the 14 months then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Manchester

6th October 1999

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

14 month period to 31st March 1999

	Notes	1999 £'000
Administrative expenses		<u>(851)</u>
Operating loss	2	(851)
Net interest payable and similar charges	3	(1,061)
Loss on ordinary activities before and after taxation and accumulated loss for the period		<u>(1,912)</u>

The loss for the period 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

	1999 £'000
Loss for the period	(1,912)
Total recognised loss for the period	<u>(1,912)</u>

CONSOLIDATED STATEMENT OF RESERVES

	1999 £'000
As at 2 nd February 1998	-
Loss for the period	(1,912)
Accumulated loss as at 31 st March 1999	<u>(1,912)</u>

The notes on pages 8 to 15 form part of the financial statements.


SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

CONSOLIDATED BALANCE SHEET

31st March 1999

	Notes	1999 £'000
Current Assets:		
Debtors:	6	
-falling due within one year		513
-falling due after more than one year		21,896
Cash at bank and in hand		252
Total Current Assets		<u>22,661</u>
Creditors: Amounts falling due within one year	7	(3,303)
Net Current Assets		<u>19,358</u>
Creditors: Amounts falling due after more than one year	8	(21,269)
Net Tangible Liabilities		<u>(1,911)</u>
Capital and Reserves:		
Share capital	10	1
Profit and loss account		(1,912)
Total Equity Shareholders' Funds	11	<u>(1,911)</u>

D.Clements – Director


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Approved by the Board on 6th October 1999

The notes on pages 8 to 15 form part of the financial statements.

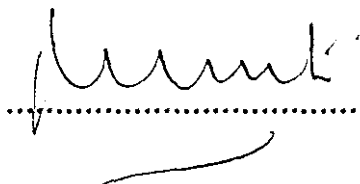
SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

COMPANY BALANCE SHEET

31st March 1999

	Notes	1999 £'000
Fixed Assets:	5	
Investment in subsidiary at cost		1
Net Tangible Assets		<u>1</u>
Capital and Reserves:		
Share capital	10	1
Profit and loss account		-
Total Equity Shareholders' Funds	11	<u>1</u>

D.Clements – Director



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Approved by the Board on 6th October 1999

The notes on pages 8 to 15 form part of the financial statements.

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 month period to 31st March 1999

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.

No cash flow statement has been presented as one is not required under Financial Reporting Standard 1 (Revised) due to the size of the Company.

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary made up to 31st March 1999.

II. Turnover

There was no turnover in the period under review.

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 final occupational availability of the Acute and Mental Health Care Facilities are recovered over the contract period. Accordingly these costs are accumulated within the finance receivable as incurred. Once the construction is complete, occupational availability payments from South Manchester University 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 SMHL are written off as incurred.

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 month period to 31st March 1999

2) Operating loss

Operating loss is stated after charging:

	Company	Group
	1999	1999
	£'000	£'000
Auditors' remuneration	NIL	10

The Auditors also received remuneration for other services to the Group totalling £19,000 during the period under review. The Directors received no salary, fees or other benefits 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 secondee staff that are employed by certain related parties (see Note 13). The employment costs relating to the secondees are recharged to SMHL.

3) Net interest payable and similar charges

	1999
	£'000
Interest payable and similar charges	(1,093)
Interest receivable	32
	<hr/>
Net interest payable and similar charges	<u>(1,061)</u>

Interest payable and similar charges of £1,093,000 relates to interest charges and commitment fees with respect to the bank borrowings of £972,000; less £63,000 interest receivable as a result of the operation of interest rate swap arrangements; plus the amortisation of loan issue costs in accordance with FRS 4 of £184,000.

4) Taxation

There is no credit to UK Corporation tax at 31% in the period as no tax credit for current year losses has been recognised.

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 month period to 31st March 1999

5) Investments

	1999
	£'000
Company investment in subsidiary undertaking at cost	1

The Company holds 100% of the ordinary share capital of South Manchester Healthcare Limited, a company incorporated in England.

6) Debtors

	Group
	1999
	£'000
Amounts falling due within one year:	
Tax and social security	513
Amounts falling due after more than one year:	
Finance receivable	21,896
	<u>22,409</u>

7) Creditors: Amounts falling due within one year

	Group
	1999
	£'000
Trade creditors	(3,203)
Accruals	(100)
	<u>(3,303)</u>

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 month period to 31st March 1999

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

	Group 1999 £'000
Construction retentions	(441)
Bank loans	(20,828)
	<u>(21,269)</u>

Construction retentions represent those amounts that will be paid to Alfred McAlpine Special Projects following the completion of design and construction work and, subject to certain restrictions, will be paid in full by July 2002.

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 1999 Term Loan £'000	Group 1999 Shareholder Credit Facility £'000
Repayable within one year	-	-
Repayable between one and two years	-	-
Repayable between two and five years	2,608	1,879
Repayable after five years	<u>19,068</u>	<u>-</u>
Total loans outstanding	<u>21,676</u>	<u>1,879</u>
Loan issue costs	(2,432)	(295)
Total	<u><u>19,244</u></u>	<u><u>1,584</u></u>

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 month period to 31st March 1999

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 42 semi-annual instalments commencing on 12th February 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 1999, £21,676,000 has been drawn under the Term Loan Facility. The total facility is for a maximum of £83,420,000.

Shareholder Credit Facility

The tenure of the Shareholder Credit Facility is 3 years and it is repayable in full on 12th August 2001. 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 1999, £1,879,000 has been drawn under the Shareholder Credit Facility. The total facility is for a maximum of £7,254,000.

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 SMHL 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

SMHL has entered into interest rate swap agreements under both the Term Loan and Shareholder Credit Facilities. A fixed rate of 5.98% applies to all amounts drawn under the Term Loan, with a fixed rate of 6.56% applying to the Shareholder Credit Facility. The swap agreement in relation to the Term Loan Facility expires on 12th August 2013. The swap agreement in relation to the Shareholder Credit Facility expires on 31st July 2001. The swap agreements operate by monthly exchanges of payments between SMHL and its banks. The amounts exchanged represent the difference between floating and fixed interest rates calculated on pre-determined notional principal amounts.

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 month period to 31st March 1999

9) Provisions for Liabilities and Charges:

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

10) Share Capital

		1999
	Number	£'000
Authorised:		
Ordinary shares of £1 each	50,000	50
Allotted and issued:		
Ordinary shares of £1 each	1,000	1

11) Movement in equity shareholders' funds

The movement in group equity shareholders' funds during the 14 month period relates wholly to the retained loss for the period under review. The group accounts do not include a separate profit and loss account for South Manchester Healthcare (Holdings) Limited as permitted by Section 230 of the Companies Act 1985. Its profit for the period, before and after dividends, is nil and there is no movement in equity shareholders' funds.

12) Capital Commitments

Under the terms of the contract with South Manchester University Hospitals NHS Trust dated 12th August 1998 SMHL is committed to payments totalling some £66 million in respect of design and construction work from 12th August 1998 through to 31st July 2002. SMHL is also committed to payments of some £17 million for capital expenditure over the remaining contract term.

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 month period to 31st March 1999

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.

WS Atkins plc

Alfred McAlpine Construction Limited

Gardner Merchant Services Group Limited

Innisfree Partners Limited

Provision of Facilities and Services under the Concession Agreement

SMHL is engaged in a 35-year contract with South Manchester University Hospitals NHS Trust for the design and construction of a Mental Health Care Facility and an Acute Care Facility, and in the provision of certain non-clinical support services at Wythenshawe and Withington Hospitals. Payments to related parties in respect of the above are detailed below.

Costs incurred to Financial Close

During the process of securing the contract, certain bid development costs were incurred by related parties on behalf of SMHL and were reimbursed following financial close as detailed below.

	Bid development costs	Construction contract	Provision of staff and support services
	£'000	£'000	£'000
Alfred McAlpine Special Projects	1,618	14,124	52
WS Atkins plc	1,595	49	251
Gardner Merchant Limited	423	-	263
Innisfree Limited	45	-	6

SOUTH MANCHESTER HEALTHCARE (HOLDINGS) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 month period to 31st March 1999

13) Related Party Disclosures (continued)

Amounts outstanding to Related Parties at 31st March 1999

£'000

Alfred McAlpine Special Projects	3,644
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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

Gardner Merchant Services Group Limited

Innisfree PFI Fund – a UK Limited Partnership