

3561900

HEALTH MANAGEMENT (CARLISLE) HOLDINGS LIMITED

Report and Group Accounts

31 December 2003



Health Management (Carlisle) Holdings Limited

Registered No. 3561960

DIRECTORS

J P Chamberlain

M Bennett

P Challenger (appointed 25 March 2003)

R F Dolan

R J Marsden (appointed 8 January 2003)

B A Melizan (appointed 28 October 2003)

B R B Pope (appointed 23 September 2003)

G N Powell

I J Wolstenholme

SECRETARY

M Lewis

AUDITORS

Ernst & Young LLP

400 Capability Green

Luton

Bedfordshire

LU1 3LU

BANKERS

Lloyds TSB Bank plc

City Office

St George's House

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REGISTERED OFFICE

Interserve House

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RG10 9JU

Health Management (Carlisle) Holdings Limited

DIRECTORS' REPORT

The directors present their report and the group accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

On 26 September 1997 the group entered into an agreement with the Carlisle NHS Trust to refurbish certain existing hospitals, to design and construct further hospital buildings and to manage and provide non-clinical support services at the hospitals. The project is part of a Private Finance Initiative and will run for a period of 45 years. The finance for the project was raised by the issue of £75,800,000 Guaranteed Secured Bonds due 2003-2027.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £190,731 (2002: £301,903). The directors do not recommend the payment of a dividend.

FINANCIAL INSTRUMENTS

The group's principal financial instruments comprise guaranteed secured bonds, subordinated unsecured loan stock, current asset investment and cash. The main purpose of these financial instruments has been to finance the design, build and operation of a hospital under the Government's Private Finance Initiative. The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the group's financial instruments are interest rate, inflation and liquidity risk. The board has policies for managing each of these risks and they are summarised below. The policies have remained unchanged since incorporation.

Interest and inflation rate risk

The group borrows at a fixed rate of interest and receives income linked to RPI. The group also invests in cash deposits at floating rate. The group's exposure to interest and inflationary fluctuations will continue to be monitored.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash deposits and money market investments.

SUPPLIER PAYMENT POLICY

The directors recognise the importance of good relationships with suppliers and the established payment policy is to

- agree payment terms in advance of any commitment being entered into;
- ensure suppliers are made aware of these terms by inclusion of the terms of payment on the order of contract; and
- ensure that payments are made in accordance with the terms of the contractor's order providing that the presented documentation is complete and accurate. The company has no trade creditors.
- At 31 December 2003, the group had an average of 9 days purchases outstanding in trade creditors and the company had none.

Health Management (Carlisle) Holdings Limited

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors that served during the year were as follows:

J P Chamberlain	
M Bennett	
P Challenger	(appointed 25 March 2003)
R F Dolan	
R J Marsden	(appointed 8 January 2003)
D J McEvedy	(resigned 28 October 2003)
B A Melizan	(appointed 28 October 2003)
B R B Pope	(appointed 23 September 2003)
G N Powell	
A M Ringrose	(resigned 25 March 2003)
I J Wolstenholme	

None of the directors held an interest in the share capital of the company.

AUDITORS

A resolution to re-appoint Ernst & Young LLP as the Group's auditors will be put to the members at the forthcoming Annual General Meeting.

On behalf of the board



Director

22 June 2004

Health Management (Carlisle) Holdings Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts comply with the 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.

Health Management (Carlisle) Holdings Limited

INDEPENDENT AUDITORS' REPORT

To the members of Health Management (Carlisle) Holdings Limited

We have audited the Group's accounts for the year ended 31 December 2003 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 22. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

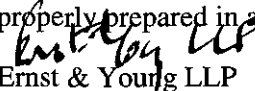
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
Luton

Date 22 June 2004

Health Management (Carlisle) Holdings Limited

	<i>Notes</i>	2003 £	2002 £
TURNOVER	2	7,495,019	7,105,228
Cost of sales		(5,825,183)	(5,713,990)
GROSS PROFIT		<u>1,669,836</u>	<u>1,391,238</u>
Administrative expenses		(1,174,404)	(774,839)
OPERATING PROFIT	3	<u>495,432</u>	<u>616,399</u>
Interest receivable	6	5,937,757	5,936,456
Interest payable and similar charges	7	(6,368,540)	(6,424,759)
		<u>(430,783)</u>	<u>(488,303)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>64,649</u>	<u>128,096</u>
Taxation	8	126,082	173,807
PROFIT RETAINED FOR THE FINANCIAL YEAR	18	<u><u>190,731</u></u>	<u><u>301,903</u></u>

RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the profit for the year.

Health Management (Carlisle) Holdings Limited

GROUP BALANCE SHEET at 31 December 2003

	Notes	2003 £	2002 £
CURRENT ASSETS			
Debtors: amounts falling due within one year		4,905,242	4,920,927
Debtors: amounts falling due after more than one year		63,923,601	64,123,286
	10	68,828,843	69,044,213
Investments	11	3,042,582	2,904,729
Cash at bank and in hand		4,875,489	3,453,778
		76,746,914	75,402,720
CREDITORS: amounts falling due within one year	12	8,892,278	7,374,528
NET CURRENT ASSETS		67,854,636	68,028,192
TOTAL ASSETS LESS CURRENT LIABILITIES		67,854,636	68,028,192
CREDITORS: amounts falling due after more than one year	13	75,734,561	76,098,848
		(7,879,925)	(8,070,656)
CAPITAL AND RESERVES			
Called up share capital	17	841,002	841,002
Profit and loss account	18	(8,720,927)	(8,911,658)
EQUITY SHAREHOLDERS' FUNDS		(7,879,925)	(8,070,656)



Director

22 June 2004

Health Management (Carlisle) Holdings Limited

COMPANY BALANCE SHEET at 31 December 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Investment	9	5,824,210	5,824,210
CURRENT ASSETS			
Debtors	10	1,107,380	475,827
Cash at bank and hand		440	428
		1,107,820	476,225
CREDITORS: amounts falling due within one year	12	(1,404,698)	(773,145)
NET CURRENT LIABILITIES		(296,878)	(296,890)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,527,332	5,527,320
CREDITORS: amounts falling due after more than one year	13	(4,686,106)	(4,686,106)
		841,226	841,214
CAPITAL AND RESERVES			
Called up share capital	17	841,002	841,002
Profit and loss account	18	224	212
EQUITY SHAREHOLDERS' FUNDS		841,226	841,214



Director

22 June 2004

Health Management (Carlisle) Holdings Limited

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2003

	Notes	2003 £	2002 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	20(a)	1,082,712	872,000
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received from investments		112,105	121,865
Bank interest received		211,934	177,147
Interest element of finance receivable repayments		5,613,717	5,637,447
Interest paid on bonds		(5,443,198)	(5,443,198)
Interest paid on unsecured loan stock		-	(329,991)
		494,558	163,270
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		1,577,270	1,035,270
MANAGEMENT OF LIQUID RESOURCES			
Purchase of liquid resources		(137,854)	(146,281)
		(137,854)	(146,281)
FINANCING			
Repayment of unsecured loan stock		-	(238,632)
Repayment of secured bond		(305,171)	-
Capital element of finance receivable repayments		287,466	253,666
		(17,705)	15,034
INCREASE IN CASH		1,421,711	904,022
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase in cash		1,421,711	904,022
Cash outflow/(inflow) from decrease in liquid resources		137,854	146,281
Cash outflow from decrease in debt		305,171	238,632
Cash inflow from capital element of finance receivable repayments		(287,466)	(253,666)
Change in net debt resulting from cash flows	20(b)	1,577,270	1,035,269
Amortisation of bond issue costs		(299,268)	(342,552)
		1,278,002	692,717
NET DEBT AS AT 1 JANUARY		(7,303,540)	(7,996,257)
NET DEBT AS AT 31 DECEMBER	20(b)	(6,025,538)	(7,303,540)

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Fundamental accounting concept

The accounts have been prepared on a going concern basis. The credit facilities in place at 31 December 2003 are adequate to cover the projected funding requirements of the group. The bond issue was made on the basis that the payment schedule from the NHS Trust is matched to the bond repayment profile.

Basis of consolidation

The group's financial statements incorporate the assets and liabilities of Health Management (Carlisle) Holdings Ltd and its subsidiary undertaking Health Management (Carlisle) plc as at 31 December 2003 and their result for the year ended 31 December 2003.

No profit and loss account is presented for Health Management (Holdings) Limited as permitted by Section 230 of the Companies Act 1985.

Financial asset

Amounts receivable under the agreement with the Carlisle NHS Trust relating to the hospital facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Interest receivable is recognised over the period of the contract based on the interest rate implicit in the contract.

Liquid resources

Liquid resources comprise current asset investments held as readily disposable investments. They are readily convertible into known amounts of cash at, or close to, their carrying value. The investments are carried at lower of cost and net realisable value. Net realisable value is based on mid-market price.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if they are not included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided and assets transferred in the year. Turnover which is attributable to one geographical market, the United Kingdom, can be analysed as follows:

	2003 £	2002 £
Services provision	5,825,183	5,713,990
Management of site	1,669,836	1,391,238
	<u>7,495,019</u>	<u>7,105,228</u>

3. OPERATING PROFIT

This is stated after charging:

	2003 £	2002 £
Auditor's remuneration - audit services	13,000	22,000
- non-audit services	16,000	22,750
	<u>29,000</u>	<u>44,750</u>

4. DIRECTORS' EMOLUMENTS

	2003 £	2002 £
Emoluments	102,356	94,433

Directors' emoluments were paid by AMEC plc and Interserve Investments Plc. and recharged to the group.

No director was a member of a pension scheme to which the group contributes at any time during the year ended 31 December 2003 (2002 - none).

5. STAFF COSTS

The group does not have any direct employees. Staff are seconded from the shareholders of the company.

6. INTEREST RECEIVABLE

	2003 £	2002 £
Bank interest	211,935	177,145
Finance receivable	5,613,717	5,637,446
Certificates of deposit and gilts	112,105	121,865
	<u>5,937,757</u>	<u>5,936,456</u>

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Interest payable on long term bond	5,437,719	5,443,198
Amortisation of issue costs on long term bond	299,268	345,552
Loan stock interest	631,553	639,009
	<u>6,368,540</u>	<u>6,424,759</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax credit for the period is made up as follows:

	2003 £	2002 £
Note a)		
<i>Current tax</i>		
UK corporation tax	—	—
Adjustments in respect of previous periods	(126,082)	(173,807)
Total current tax	<u>(126,082)</u>	<u>(173,807)</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	—	—
Total deferred tax	<u>—</u>	<u>—</u>
Tax on profit on ordinary activities	<u>(126,082)</u>	<u>(173,807)</u>
Note b)		
Profit on ordinary activities before tax	64,649	128,096
@ 30%	19,395	38,516
Expenses not deductible for tax purposes/income not taxable	42,232	37,413
Capital allowances in excess of depreciation	(589,374)	(802,117)
Short term timing differences	7,891	6,963
Losses surrendered by group relief	(4)	—
Consortium relief receivable in respect of prior year	(126,082)	(173,898)
Losses surrendered as consortium relief	519,860	719,316
Total current tax	<u>(126,082)</u>	<u>(173,807)</u>

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

8. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (continued)

Note c)

Tax losses arising on the results of the year will be surrendered to the shareholders of the company by way of consortium relief (Note 16). The shareholders are contracted to make payments to the group for such losses surrendered at the rate which will be payable, as and when the group becomes liable to corporation tax which would not have been payable but for the surrender of the losses. An amount of £1,497,791 (2002: £1,371,709) has been included as a debtor in respect of the payments receivable from the shareholders.

Due to the long term nature of the project and the uncertainty as to when the losses will be utilised, a deferred tax asset has only been recognised to the extent that it matches deferred tax liabilities of the group. To the extent that losses are not surrendered to the shareholders, they will be available without time limit for offset against future profits of the group

9. INVESTMENTS

Company:

	<i>Ordinary Shares</i>	<i>Loan Stock</i>	<i>2003</i>	<i>2002</i>
	£	£	£	£
Investment in subsidiary undertaking:				
At 1 January	841,002	4,983,208	5,824,210	6,062,842
Disposals	-	-	-	(238,632)
At 31 December	841,002	4,983,208	5,824,210	5,824,210

The company owns the entire ordinary issued share capital of Health Management (Carlisle) plc, a company registered in England and Wales. The principal activity of Health Management (Carlisle) plc is described on page 3 to the accounts.

10. DEBTORS

	<i>2003</i>	<i>Group 2002</i>	<i>2003</i>	<i>Company 2002</i>
	£	£	£	£
Finance receivable	62,751,577	63,039,043	-	-
Trade debtors	4,124,732	4,368,988	-	-
Consortium relief	1,497,791	1,371,709	-	-
Amounts due from subsidiary undertaking	-	-	1,107,380	475,827
Prepayments and accrued income	454,743	264,473	-	-
	68,828,843	69,044,213	1,107,380	475,827

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

10. DEBTORS (continued)

Amounts falling due after more than one year included above are:

	2003 £	2002 £
Finance receivable	62,425,810	62,751,577
Consortium relief	1,497,791	1,371,709
	<u>63,923,601</u>	<u>64,123,286</u>

<i>Group</i>	2003 £	2002 £
Net investment in finance receivable:		
Total payments receivable	62,751,577	63,039,043
Total payments received during the year in respect of finance receivable	7,570,930	7,282,351

11. CURRENT ASSET INVESTMENTS

<i>Group</i>	2003 £	2002 £
Money market investments	3,042,582	2,904,729

12. CREDITORS: amounts falling due within one year

	2003 £	<i>Group</i> 2002 £	2003 £	<i>Company</i> 2002 £
Trade creditors	13,470	370,022	—	—
Corporation tax	216	216	216	216
Taxation and social security	801,810	781,966	—	—
Guaranteed Secured Bonds (note 14)	663,524	305,140	—	—
Loan stock repayment (note 15)	297,102	297,102	297,102	297,102
Accruals	7,116,156	5,620,082	1,107,380	475,827
	<u>8,892,278</u>	<u>7,374,528</u>	<u>1,404,698</u>	<u>773,145</u>

13. CREDITORS: amounts falling due after more than one year

	2003 £	<i>Group</i> 2002 £	2003 £	<i>Company</i> 2002 £
Guaranteed secured bonds (note 14)	71,048,455	71,412,742	—	—
Unsecured loan stock (note 15)	4,686,106	4,686,106	4,686,106	4,686,106
	<u>75,734,561</u>	<u>76,098,848</u>	<u>4,686,106</u>	<u>4,686,106</u>

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

14. LONG TERM BONDS

<i>Group</i>	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Not wholly repayable within five years:		
£75,800,000 of 7.18 per cent Guaranteed Secured Bonds 2003 - 2027	75,494,829	75,800,000
Amounts repayable:		
In one year or less	663,524	305,140
In one year to two years	741,430	358,384
In two years to five years	2,788,694	2,495,671
In more than five years	71,301,181	72,640,805
	75,494,829	75,800,000
Less: unamortised issue expenses	3,782,850	4,082,118
	71,711,979	71,717,882
Less: included within creditors falling due within one year	663,524	305,140
	71,048,455	71,412,742

The bonds are secured under the terms of a Security Trust Deed, on the assets and liabilities of the group.

The bonds are repayable in six monthly instalments commencing 30 September 2003, in increasing amounts, as determined by the terms of the bonds on issue.

15. LOAN STOCK

Subordinated unsecured loan stock 2027.

	<i>Group & Company</i>	
	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Amounts payable:		
Within one year	297,102	297,102
In more than five years	4,686,106	4,686,106
	4,983,208	4,983,208

The subordinated unsecured loan stock 2027 bears fixed interest at 12.5% per annum payable six monthly. The loan stock is redeemable on the redemption date in whole or in part on such earlier date as the group may decide. The stock is subordinated until all of the secured obligations of the group have been repaid and discharged in full. Last year the group expected to repay £297,102 during the current financial year, but this has been deferred. Current expectations are that this amount will be repaid within a year of the balance sheet date.

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

16. PROVISIONS FOR LIABILITIES AND CHARGES

The deferred tax asset recognised and unrecognised in the accounts can be analysed as follows:

	<i>Recognised</i> 2003	<i>Recognised</i> 2002	<i>Unrecognised</i> 2003	<i>Unrecognised</i> 2002
	£	£	£	£
Accelerated capital allowances	6,008,105	5,418,730	—	—
Short term timing differences	1,722,655	1,730,546	—	—
Losses surrendered not yet recognised	(7,730,760)	(7,149,276)	(88,020)	(275,726)
Losses carried forward	—	—	(1,328,340)	(1,328,340)
	—	—	(1,416,360)	(1,604,066)

To the extent tax losses arise, these are surrendered to the shareholders by way of consortium relief. The shareholders are contracted to make payments to the group for such losses surrendered, at the rate at which tax will be payable, as and when the group becomes liable to corporation tax which would not have been payable but for the surrender of the losses. An amount of £1,497,791 (2002: £1,371,709) has been included as a debtor (note 10) in respect of the payments receivable from shareholders. This amount is not included above.

17. SHARE CAPITAL

	<i>Group and company</i>	
	2003	2002
	£	£
<i>Authorised:</i>		
Ordinary shares of £1 each	1,000,000	1,000,000
	=====	=====
	<i>Group</i>	<i>Company</i>
	2003	2002
	£	£
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	841,002	841,002
	=====	=====

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

<i>Group</i>	<i>Share Capital £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 2002	841,002	(9,213,561)	(8,372,559)
Profit for the year	–	301,903	301,903
At 31 December 2002	841,002	(8,911,658)	(8,070,656)
Profit for the year	–	190,731	190,731
At 31 December 2003	841,002	(8,720,927)	(7,879,925)
<i>Company</i>	<i>Share Capital £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 1 January 2002	841,002	291	841,293
Loss for the year	–	(79)	(79)
At 31 December 2002	841,002	212	841,214
Profit for the year	–	12	12
At 31 December 2003	841,002	224	841,226

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The company's subsidiary undertaking issued the Guaranteed Secured Bonds (see note 14) in order to finance the design, build and operation of a hospital under the government's PFI initiative. The cash received from this bond issue was used to pay the building costs, professional fees and interest costs during the construction period. Part of the proceeds from the bond issue has been invested in a portfolio managed by Scottish Widows Investment Partnership. The objective of the portfolio is to maximise gross return. Investments are made at Scottish Widows' discretion but are subject to certain restrictions on maturity, liquidity and maximums. The investments are made in short term deposits, gilts and certificates of deposit. There are no equity investments and all the investments are in sterling financial instruments. The disclosures below do not include short term debtors and creditors.

Financial assets

The group's financial assets are its finance receivable of £62,751,577 (2002: £63,039,043) current asset investments of £3,042,582 (2002: £2,904,729) and cash of £4,875,489 (2002: £3,453,778), all of which are denominated in sterling. The current asset investments and cash are floating rate assets, while the finance receivable is a fixed interest rate asset. The weighted average interest rate for the fixed rate financial assets is 9.22% (2002: 9.22%). The weighted average period for which interest rates on the fixed rate financial assets are fixed is 26 years (2002: 27 years).

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Financial liabilities

The group's financial liabilities are its listed bonds and its unsecured loan stock as described in notes 14 and 15 respectively, all of which are denominated in sterling and bear fixed interest. The weighted average interest rate of the fixed rate financial liabilities is 7.51% (2002: 7.51%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 24 years (2002: 24 years).

Currency exposures

As at 31 December 2003 the group had no currency exposures.

Fair value of financial assets and financial liabilities

	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>2003</i>	<i>2003</i>	<i>2002</i>	<i>2002</i>
	£	£	£	£
Finance receivable	62,751,577	62,751,577	63,039,043	63,039,043
Current asset investments	3,042,582	3,043,781	2,904,728	2,909,221
Cash	4,875,489	4,875,489	3,453,778	3,453,778
Listed bonds	(71,711,979)	(89,615,658)	(71,717,882)	(90,876,308)
Subordinated loan stock 2027	(4,983,208)	(4,983,208)	(4,983,208)	(4,983,208)

The fair value of the current asset investments and the listed bonds has been calculated using market values. The fair value of the finance receivable and subordinated unsecured loan stock has not been calculated as there is not an active market for these debt instruments.

Borrowing facilities

The undrawn committed facilities at 31 December 2003 were as follows:

	<i>2003</i>	<i>2002</i>
	£	£
Expiring in more than two years	5,016,792	4,973,208

20. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of operating loss to net cash inflow/(outflow) from operating activities:

	<i>2003</i>	<i>2002</i>
	£	£
Operating profit	495,432	616,399
(Increase)/decrease in debtors	53,986	(965,207)
Increase/(decrease) in creditors	533,294	1,220,808
Net cash inflow from operating activities	1,082,712	872,000

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS

at 31 December 2003

20. NOTES TO THE CASH FLOW STATEMENTS (continued)

(b) Analysis of net debt:

	At 1 January 2003 £	Cash flow £	Other non-cash changes £	At 31 December 2003 £
Cash at bank and in hand	3,453,778	1,421,711	—	4,875,489
Liquid resources*	2,904,729	137,854	—	3,042,583
Finance receivable	63,039,043	(287,466)	—	62,751,577
Guaranteed secured bonds	(71,717,882)	305,171	(299,268)	(71,711,979)
Unsecured loan stock	(4,983,208)	—	—	(4,983,208)
	(7,303,540)	1,577,270	(299,268)	(6,025,538)

* Liquid resources are included in the group balance sheet as 'investments'.

21. CONTROLLING PARTIES

Health Management (Carlisle) Holdings Limited is jointly owned in equal shares by AMEC Investments Limited and Interserve Investments plc who in the directors' opinion are the controlling parties.

22. RELATED PARTIES

During the year the following related party transactions were entered into:

AMEC plc and subsidiaries (a shareholder of the company).

During the year £62,330 (2002: £65,467) was paid to AMEC plc for reimbursement of costs associated with the project.

At the year end £5,957 (2002: £ Nil) was owed to AMEC plc as outstanding invoices. At the year end £ Nil (2002: £8,760) was accrued but not yet invoiced by AMEC plc

Interserve Plc and subsidiaries (Interserve Plc is the ultimate parent company of Interserve PFI Holdings Limited, a shareholder of the company)

Interserve Investments plc

During the year £53,856 (2002: £Nil) was paid to Interserve Investments plc for reimbursement of costs associated with the project.

At the year end £Nil (2002: £Nil) was owed to Interserve Investments plc as outstanding invoices.

Interservefm Limited

During the year £6,339,979 (2002: £7,196,344) was paid to Interservefm Limited for reimbursement of costs and work performed on behalf of the Group.

At the year end £ Nil (2002: £350,488) was owed to Interservefm for their services.