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HEALTH MANAGEMENT (CARLISLE) HOLDINGS LIMITED

Annual Report and Financial Statements

31 December 2006

THURSDAY



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COMPANIES HOUSE

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Health Management (Carlisle) Holdings Limited

DIRECTORS

S Baggaley
M A Crowe
F Kitching
S Jones
R J Marsden
B R B Pope
P Dodd

SECRETARY

L Smerdon

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

BANKERS

Lloyds TSB Bank plc
City Office
St George's House
6-8 Eastcheap
London EC3 1LL

REGISTERED OFFICE

Interserve House
Ruscombe Park
Twyford
Reading
RG10 9JU

Health Management (Carlisle) Holdings Limited

DIRECTORS' REPORT

The directors present their annual report and the group financial statements for the year ended 31 December 2006

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The group's principal activity is undertaking a Private Finance Initiative (PFI) concession contract entered into on 26 September 1997 with the North Cumbria Acute Hospitals NHS Trust to refurbish certain existing hospitals, design and construct further hospital buildings and manage and provide non-clinical support services at the hospitals. The project 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. Construction was completed in March 2000 and service operations have been running satisfactorily since that date.

There have not been any changes in the group's activities in the year under review, and the directors are not aware, at the date of this report, of any likely changes in the next year.

As shown in the group's profit and loss account on page 7, the company's turnover has increased by £0.3 million over the prior year mainly due to inflation. The profit after tax has increased by £0.23 million due to both inflation and a slight decrease in administrative expenses.

The balance sheet on page 8 of the financial statements shows that the group's financial position at the year end, excluding the hedge reserve adjustments, has not changed significantly.

There have been no significant events since the balance sheet date.

The group's operations are managed under the supervision of its shareholders and funders and are largely determined by the detailed terms of the PFI contract. For this reason, the group's directors believe that further key performance indicators for the group are not necessary or appropriate for an understanding of the performance or position of the business.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The group's principal financial instruments comprise guaranteed secured bonds, subordinated unsecured loan stock, an RPI Swap, and cash. The main risks arising from the group's financial instruments are interest rate, inflation, liquidity and credit. The board has policies for managing each of these risks and they are summarised below.

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, and entered into a fixed-rate 22 year RPI Swap during 2005 to restrict its exposure to future RPI fluctuations.

The group's exposure to interest and inflationary fluctuations will continue to be monitored.

Liquidity risk

The group adopts a prudent approach to liquidity management by maintaining sufficient cash and liquid resources to meet its obligations. Due to the nature of the project cash flows are reasonably predictable and so this is not a major risk area for the group.

Credit risk

The group receives its revenue from a NHS Trust and therefore is not exposed to significant credit risk. Cash investments and the RPI Swap arrangement are with institutions of a suitable credit quality.

Health Management (Carlisle) Holdings Limited

DIRECTORS' REPORT (Continued)

ENVIRONMENT

The group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and implements policies via its sub-contractors to reduce any damage that might be caused by the company's activities

EMPLOYEES

The company has no direct employees as detailed in note 5

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year, except as noted, were as follows

S Baggaley	
J P Chamberlain	(resigned 19 July 2006)
M A Crowe	
F Kitching	
S Jones	(appointed 25 January 2006)
R J Marsden	
B A Melizan	(resigned 25 January 2006)
B R B Pope	
P Dodd	(appointed 19 July 2006)

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

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

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s 234ZA of the Companies Act 1985

AUDITORS

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

Approved by the Board of Directors and signed on behalf of the Board



Director

26 June 2007

Health Management (Carlisle) Holdings Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 judgments 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 proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Health Management (Carlisle) Holdings Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEALTH MANAGEMENT (CARLISLE) HOLDINGS LIMITED

We have audited the group financial statements of Health Management (Carlisle) Holdings Limited for the year ended 31 December 2006 which comprise the group profit and loss account, the statement of total recognised gains and losses, the group and company balance sheets, the consolidated cash-flow statement and the related notes 1 to 23. These group financial statements 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

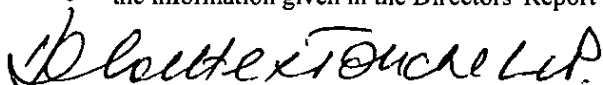
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group'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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

Date 26 June 2007

Health Management (Carlisle) Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

	<i>Notes</i>	2006 £	2005 £
TURNOVER	2	9,929,422	9,642,480
Cost of sales		(7,637,983)	(7,552,736)
GROSS PROFIT		2,291,439	2,089,744
Administrative expenses		(1,550,034)	(1,609,021)
OPERATING PROFIT	3	741,405	480,723
Interest receivable and other similar income	6	6,008,458	6,109,600
Interest payable and similar charges	7	(6,064,681)	(6,129,176)
		(56,223)	(19,576)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		685,182	461,147
Tax on profit on ordinary activities	8	-	-
PROFIT RETAINED FOR THE FINANCIAL YEAR	19	685,182	461,147

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

(Loss) / Gain on available for sale financial asset	(3,901,000)	6,533,000
Loss on cash flow hedge	(2,380,664)	(2,284,557)
NET (LOSS)/GAIN RECOGNISED DIRECTLY IN RESERVES	(6,281,664)	4,248,443
Profit for the year	685,182	461,147
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	(5,596,482)	4,709,590

All results in the current and prior years derive from continuing operations

Health Management (Carlisle) Holdings Limited

GROUP BALANCE SHEET at 31 December 2006

	Notes	2006 £	2005 £
CURRENT ASSETS			
Debtors amounts falling due within one year		5,569,801	796,830
Debtors amounts falling due after more than one year		65,321,688	69,683,502
	10	70,891,489	70,480,332
Investments	11	-	2,675,316
Cash at bank and in hand		8,782,042	9,963,408
		79,673,531	83,119,056
CREDITORS: amounts falling due within one year	12	(9,364,399)	(8,883,283)
NET CURRENT ASSETS		70,309,132	74,235,773
TOTAL ASSETS LESS CURRENT LIABILITIES		70,309,132	74,235,773
CREDITORS: amounts falling due after more than one year	1	(78,852,130)	(77,182,289)
NET LIABILITIES		(8,542,998)	(2,946,516)
CAPITAL AND RESERVES			
Called up share capital	18	841,002	841,002
Profit and loss account	19	(7,350,779)	(8,035,961)
Cash flow hedge reserve	19	(2,033,221)	4,248,443
SHAREHOLDERS' DEFICIT		(8,542,998)	(2,946,516)

Approved By

MA Crowe

Director

26 June 2007

Health Management (Carlisle) Holdings Limited

COMPANY BALANCE SHEET at 31 December 2006

	Notes	2006 £	2005 £
FIXED ASSETS			
Investment	9	5,824,210	5,824,210
CURRENT ASSETS			
Debtors	10	305,669	415,570
Cash at bank and hand		123	2,035
		305,792	417,605
CREDITORS amounts falling due within one year	12	(303,518)	(415,419)
NET CURRENT ASSETS		2,274	2,186
TOTAL ASSETS LESS CURRENT LIABILITIES		5,826,484	5,826,396
CREDITORS amounts falling due after more than one year	13	(4,983,208)	(4,983,208)
		843,276	843,188
CAPITAL AND RESERVES			
Called up share capital	18	841,002	841,002
Profit and loss account	19	2,274	2,186
SHAREHOLDERS' FUNDS		843,276	843,188

Approved by



Director

26 June 2007

Health Management (Carlisle) Holdings Limited

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 £	2005 £
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES	21(a)	(3,465,168)	5,267,715
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received from investments	6	128,398	181,505
Bank interest received	6	348,908	359,658
Interest element of finance receivable repayments	6	5,531,152	5,566,490
Interest paid on bonds	7	(5,305,940)	(5,360,698)
Interest paid on unsecured loan stock		(667,668)	(1,803,078)
Swap charges		(3,019)	(8,596)
		31,831	(1,064,719)
NET CASH (OUTFLOW) / INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(3,433,337)	4,202,996
MANAGEMENT OF LIQUID RESOURCES			
Sale of liquid resources		2,675,316	455,220
		2,675,316	455,220
FINANCING			
Repayment of secured bond		(828,418)	(741,400)
Capital element of finance receivable repayments		405,073	354,736
		(423,345)	(386,664)
(DECREASE) / INCREASE IN CASH	21(b)	(1,181,366)	4,271,552
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH/ (DEBT)			
(Decrease) / Increase in cash		(1,181,366)	4,271,552
Cash inflow from decrease in liquid resources		(2,675,316)	(455,220)
Cash outflow from repayment of debt		828,418	741,400
Cash inflow from capital element of finance receivable repayments		(405,073)	(354,736)
Change in net debt resulting from cash flows	21(b)	(3,433,337)	4,202,996
Amortisation of bond issue costs		(214,846)	(216,996)
Fair value adjustment to finance receivable	19	(3,901,000)	6,533,000
		(7,549,183)	10,519,000
NET CASH / (DEBT) AS AT 1 JANUARY		5,516,572	(5,002,428)
NET (DEBT) / CASH AS AT 31 DECEMBER	21(b)	(2,032,611)	5,516,572

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. ACCOUNTING POLICIES

(a) Accounting convention

The financial statements have been prepared in accordance with applicable law and UK accounting standards, and in accordance with the historical cost basis, except for the revaluation of certain financial instruments

Accounting policies have been consistently applied in the current year and prior year

During the period the group continued to apply FRS 25 *Financial instruments, disclosure and presentation* and FRS 26 *Financial Instruments, measurement*. The effect of adopting these, following the fair valuing of certain of the company's financial assets and derivatives is to decrease shareholders funds at 31 December 2006 by £6.3m (31 December 2005-increase £4.2 million)

(b) Investments

The available for sale investments were held at fair value. The fund was closed in the period with the proceeds converted to cash.

(c) Basis of consolidation

The group's financial statements incorporate the results, assets and liabilities of Health Management (Carlisle) Holdings Ltd and its wholly owned subsidiary undertaking Health Management (Carlisle) plc as at 31 December 2006 and their result for the year ended 31 December 2006.

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

(d) Finance receivable

During the period of construction, costs incurred as a direct consequence of designing and constructing the facilities, including finance costs, were shown as assets under construction.

On completion, credit was taken for the deemed sale, which was recorded within turnover. The construction expenditure and associated costs were reallocated to cost of sales. Amounts receivable are classified as a finance lease receivable (PFI contract).

Revenues received from the customer are apportioned between

- capital repayments,
- finance income, and
- operating revenue

(e) Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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.

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES (continued)

(f) Financial instruments

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account where there is objective evidence that the asset is impaired.

Trade payables

Trade payables are measured at fair value.

Derivative financial instruments and hedge accounting

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Transactions in derivative financial instruments are for risk management purposes only. The company uses derivative financial instruments to hedge its exposure to inflation risk.

Changes in the fair value of derivative instruments that are designated and effective as hedges of future cash flows are recognised directly in reserves.

Gains and losses arising from changes in fair value of available-for-sale financial assets are recognised directly in reserves, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in reserves is included in the net profit or loss for the period.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided, and is recognised each year as the applicable portions of the amounts receivable relating to finance and operating costs calculated on a consistent basis (see accounting policy note I (d)).

Turnover which is attributable to one geographical market, the United Kingdom, can be analysed as follows:

	2006 £	2005 £
Services provision	7,692,343	7,560,074
Management of site	2,237,079	2,082,406
	<u>9,929,422</u>	<u>9,642,480</u>

3. OPERATING PROFIT

This is stated after charging:

	2006 £	2005 £
Auditor's remuneration - audit services	11,000	15,000
- taxation services	7,500	7,500
	<u>18,500</u>	<u>22,500</u>

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

4. DIRECTORS' EMOLUMENTS

	2006 £	2005 £
Emoluments	163,180	167,522

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 2006 (2005 none)

5. STAFF COSTS

The group does not have any direct employees (2005 none)

6. INTEREST RECEIVABLE AND OTHER SIMILAR INCOME

	2006 £	2005 £
Bank interest	348,908	361,605
Finance receivable	5,531,152	5,566,490
Certificates of deposit and gilts	128,398	181,505
	<u>6,008,458</u>	<u>6,109,600</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £	2005 £
Interest payable on long term bond	5,291,050	5,347,818
Amortisation of issue costs on long term bond	214,846	216,996
Loan stock interest	555,766	555,766
Other Interest	3,019	8,596
	<u>6,064,681</u>	<u>6,129,176</u>

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax credit for the year is made up as follows

	2006	2005
	£	£
Note a) <i>Current tax</i>		
Tax on profit on ordinary activities	-	-

Note b) *Factors affecting current tax charge*

The tax assessed on the profit on ordinary activities for the year is lower (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 30%)
The differences are reconciled below

	2006	2005
	£	£
Profit on ordinary activities before tax	685,182	461,147
@ 30% (2005 30%)	205,555	138,344
Expenses not deductible for tax purposes/income not taxable	52,605	106,451
Capital allowances in excess of depreciation	(282,418)	(442,827)
Losses surrendered by group relief	-	-
Losses surrendered as consortium relief	24,258	198,032
Total current tax	-	-

Note c) *tax losses*

Tax losses arising on the results of the year may be surrendered to the shareholders of the company by way of consortium relief (note 17) 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 (2005 £1,497,791) has been included as a debtor in respect of the payments receivable from the shareholders, representing a discounted valuation of the expected future cash inflows Due to uncertainty relating to the timing of future loss utilisations this amount has not been increased in relation to losses surrendered in the period

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

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

9. INVESTMENT IN SUBSIDIARY

Company

	Ordinary Shares £	Loan Stock £	2006 £	2005 £
Investment in subsidiary undertaking At 1 January and 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 2 to the accounts.

10. DEBTORS

	2006 £	Group 2005 £	2006 £	Company 2005 £
Finance receivable (note 20)	64,298,001	68,604,074	—	—
Trade debtors	4,789,664	21,054	—	—
Consortium relief	1,497,791	1,497,791	—	—
Amounts due from subsidiary undertaking	—	—	305,669	415,570
Prepayments and accrued income	306,033	357,413	—	—
	<u>70,891,489</u>	<u>70,480,332</u>	<u>305,669</u>	<u>415,570</u>

Amounts falling due after more than one year included above are

	2006 £	2005 £
Finance receivable	63,823,897	68,185,711
Consortium relief	1,497,791	1,497,791
	<u>65,321,688</u>	<u>69,683,502</u>

11. CURRENT ASSET INVESTMENTS

Group

	2006 £	2005 £
Money market investments	—	2,675,316

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

12. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£	£	£	£
Trade creditors	23,653	163,291	—	—
Corporation tax	216	216	—	216
Taxation and social security	598,384	537,910	—	—
Guaranteed Secured Bonds (note 14)	925,745	828,494	—	—
Accruals	7,816,401	7,353,372	305,518	415,203
	<u>9,364,399</u>	<u>8,883,283</u>	<u>305,518</u>	<u>415,419</u>

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

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£	£	£	£
Guaranteed secured bonds (note 14)	69,203,701	69,914,524	—	—
Unsecured loan stock (note 15)	4,983,208	4,983,208	4,983,208	4,983,208
RPI swap (note 16)	4,665,221	2,284,557	—	—
	<u>78,852,130</u>	<u>77,182,289</u>	<u>4,983,208</u>	<u>4,983,208</u>

14. LONG TERM BONDS

<i>Group</i>	2006	2005
	£	£
Not wholly repayable within five years		
£75,800,000 of 7 181 per cent Guaranteed Secured Bonds 2003 - 2027	73,261,534	74,089,952
	<u>73,261,534</u>	<u>74,089,952</u>
Amounts repayable		
In one year or less	925,745	828,494
In one year to two years	1,034,443	925,745
In two years to five years	3,890,738	3,481,949
In more than five years	67,410,608	68,853,764
	<u>73,261,534</u>	<u>74,089,952</u>
Less unamortised issue expenses	(3,132,088)	(3,346,934)
	<u>70,129,446</u>	<u>70,743,018</u>
Less included within creditors falling due within one year	(925,745)	(828,494)
	<u>69,203,701</u>	<u>69,914,524</u>

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 which commenced on 30 September 2003, in increasing amounts, as determined by the terms of the bonds on issue.

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

15. LOAN STOCK

Subordinated unsecured loan stock 2027

	<i>Group & Company</i>	
	<i>2006</i>	<i>2005</i>
	<i>£</i>	<i>£</i>
Amounts payable		
Within one year	-	-
In more than five years	4,983,208	4,983,208
	<u>4,983,208</u>	<u>4,983,208</u>

The subordinated unsecured loan stock 2027 bears fixed interest at 11.0% (up to 2003 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.

16. RPI SWAP

	<i>2006</i>	<i>2005</i>
	<i>£</i>	<i>£</i>
Fair value of RPI swap at period end	4,665,221	2,284,557
	<u>4,665,221</u>	<u>2,284,557</u>

In May 2005 the company entered into a 22 year fixed RPI swap arrangement designed to restrict its exposure to the effect of RPI fluctuations on its income. The swap was effected on a notional total of £114m payable in six monthly amounts between October 2005 and October 2027.

17. PROVISIONS FOR LIABILITIES

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

	<i>Recognised</i>	<i>Recognised</i>	<i>Unrecognised</i>	<i>Unrecognised</i>
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Accelerated capital allowances	5,416,792	5,246,188	-	-
Short term timing differences	1,692,491	1,703,975	-	-
Losses surrendered not yet recognised	(6,692,983)	(6,950,163)	-	(339,716)
Losses carried forward	(416,300)	-	(309,994)	(302,557)
	<u>-</u>	<u>-</u>	<u>(309,994)</u>	<u>(642,273)</u>

To the extent tax losses arise, these are surrendered to the shareholders by way of consortium relief as detailed in note 8.

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

18. SHARE CAPITAL

		Group and company		
		2006	2005	
Authorised		£	£	
Ordinary shares of £1 each		1,000,000	1,000,000	
		Group	Company	
	2006	2005	2006	2005
Allotted, called up and fully paid	£	£	£	£
Ordinary shares of £1 each	841,002	841,002	841,002	841,002

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

<i>Group</i>	<i>Share Capital</i>	<i>Profit and loss account</i>	<i>Cash Flow Hedge Reserve</i>	<i>Total</i>
		<i>£</i>	<i>£</i>	<i>£</i>
At 1 January 2006	841,002	(8,035,961)	4,248,443	(2,946,516)
Profit for the year	-	685,182	-	685,182
Fair value adjustments				
Loss on available for sale financial asset	-	-	(3,901,000)	(3,901,000)
Loss on cash flow hedge	-	-	(2,380,664)	(2,380,664)
At 31 December 2006	841,002	(7,350,779)	(2,033,221)	(8,542,998)
<i>Company</i>	<i>Share Capital</i>	<i>Profit and loss account</i>	<i>Total</i>	
	<i>£</i>	<i>£</i>	<i>£</i>	
At 1 January 2006	841,002	2,186	843,188	
Profit for the year	-	88	88	
At 31 December 2006	841,002	2,274	843,276	

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

20. 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 had been invested in a portfolio managed by Scottish Widows Investment Partnership which was closed in December 2006. There were no equity investments and all the investments were in sterling financial instruments. The disclosures below do not include short term debtors and creditors.

In May 2005 the company entered into a 22 year fixed RPI Income Swap arrangement designed to restrict its exposure to the effect of RPI fluctuations on its income (see note 16). The amounts swapped match the schedule of fixed six monthly capital and interest repayments on the Bond.

Financial assets

The group's financial assets are its finance receivable of £64,298,001 (2005 £68,604,074), current asset investments of £Nil (2005 £2,675,316) and cash of £8,781,919 (2005 £9,963,408), 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% (2005 9.22%). The weighted average period for which interest rates on the fixed rate financial assets are fixed is 23 years (2005 24 years).

Financial liabilities

The group's financial liabilities are its listed bonds, its unsecured loan stock and its RPI Swap as described in notes 14, 15 and 16 respectively, all of which are denominated in sterling and bear fixed interest or RPI swap rates. The weighted average interest rate of the fixed rate financial liabilities is 7.43% (2005 7.43%). The weighted average period for which interest rates on the fixed rate financial liabilities are fixed is 21 years (2005 22 years).

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>2006</i>	<i>2006</i>	<i>2005</i>	<i>2005</i>
	£	£	£	£
Finance receivable	64,298,001	64,298,001	68,604,074	68,604,074
Current asset investments	-	-	2,675,316	2,675,636
Cash	8,782,042	8,782,042	9,963,408	9,963,408
RPI Swap	(4,665,221)	(4,665,221)	(2,284,557)	(2,284,557)
Listed bonds	(70,129,446)	(83,919,700)	(70,743,018)	(89,934,891)
Subordinated loan stock 2027	(4,983,208)	(4,983,208)	(4,983,208)	(4,983,208)

The fair value of the finance receivable has been calculated by discounting future cash flows relating to the asset.

The fair value of the current asset investments and listed bonds has been calculated using market values, although the listed bonds have been retained at cost because this is materially similar to amortised cost.

The fair value of the subordinated unsecured loan stock has not been calculated as there is not an active market for these instruments.

Health Management (Carlisle) Holdings Limited

NOTES TO THE GROUP ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Currency exposures

As at 31 December 2006 the group had no currency exposures

Borrowing facilities

The undrawn committed facilities at 31 December 2006 were as follows

	2006 £	2005 £
Expiring in more than two years	5,016,792	5,016,792

21. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2006 £	2005 £
Operating profit	741,405	480,723
(Increase)/decrease in debtors	(4,717,230)	4,406,372
Increase /(decrease) in creditors	510,657	380,620
Net cash (outflow)/inflow from operating activities	(3,465,168)	5,267,715

(b) Analysis of net debt

	At 1 January 2006 £	Cash flow £	Other non-cash changes £	At 31 December 2006 £
Cash at bank and in hand	9,963,408	(1,181,366)	-	8,782,042
Liquid resources*	2,675,316	(2,675,316)	-	-
Finance receivable	68,604,074	(405,073)	(3,901,000)	64,298,001
Guaranteed secured bonds	(70,743,018)	828,418	(214,846)	(70,129,446)
Unsecured loan stock	(4,983,208)	-	-	(4,983,208)
	5,516,572	(3,433,337)	(4,115,846)	(2,032,611)

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

22. CONTROLLING PARTIES

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

23. RELATED PARTIES

During the year the following related party transactions were entered into

AMEC plc and subsidiaries (AMEC plc is the ultimate parent company of AMEC Investments Ltd, a shareholder of the company)

AMEC Project Investments Ltd

During the year £102,671 (2005 £133,438) was paid to AMEC Project Investments Ltd for reimbursement of costs associated with the project

At the year end £6,027 (2005 £9,782) was owed to AMEC Project Investments Ltd as outstanding invoices, and £16,320 (2005 £1,500) was accrued but not yet invoiced by AMEC Project Investments Ltd

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

Interserve Investments Ltd

During the year £52,282 (2005 £56,584) was paid to Interserve Investments Ltd for reimbursement of costs associated with the project

At the year end £Nil (2005 £Nil) was owed to Interserve Investments Ltd as outstanding invoices

Interservefm Limited

During the year £9,121,599 (2005 £9,126,068) was paid to Interservefm Limited for reimbursement of costs and work performed on behalf of the Group

At the year end £Nil (2005 £153,361) was owed to Interservefm Limited for their services