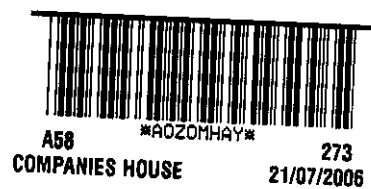


Registered number 3693524

Mercia Healthcare Limited  
Directors' Report & Financial Statements  
for the period ended 31 December 2005



# **MERCIA HEALTHCARE LIMITED**

## **DIRECTORS' REPORT**

**Period ended 31st December 2005**

The Directors submit their report and the audited financial statements of the Company for the period ended 31st December 2005.

### **Principal Activity and Business Review**

The Company 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 profit generated in the period under review as set out in the profit and loss account on page 5 relates to the activities undertaken in respect of this project. During the year the company has amended its accounting reference date to 31<sup>st</sup> December 2005.

### **Dividends and transfers to reserves**

The directors approved dividends during the period of £1,000,000 (year ended 31 March 2005: £1,400,000). The amount transferred to reserves is set out in the profit and loss account on page 5.

### **Directors**

The following Directors served during the period under review:

S Carter, W Doughty, I Gethin, B Williams

### **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.

# MERCIA HEALTHCARE LIMITED

## DIRECTORS' REPORT (continued)

Period ended 31st December 2005

### Auditors

The Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint PricewaterhouseCoopers LLP 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 of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

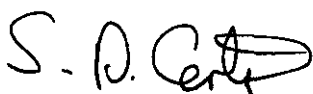
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare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

The directors have confirmed that they have complied with the above requirements in preparing the financial statements.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2005 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



S Carter – Director  
28 June 2006

# **MERCIA HEALTHCARE LIMITED**

## **Independent auditors' report to the members of Mercia Healthcare Limited**

We have audited the financial statements of Mercia Healthcare Limited ("the financial statements") for the period ended 31 December 2005 which comprise the profit and loss account, the statement of reserves, the balance sheet, the cash flow statement and the related notes. The financial statements have been prepared under the accounting policies set out therein.

### **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 financial statements, preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). 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.

## MERCIA HEALTHCARE LIMITED

### Independent auditors' report to the members of Mercia Healthcare Limited (continued)

#### 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 affairs as at 31 December 2005 and of its loss and cash flows for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

Manchester

28 June 2006

# MERCIA HEALTHCARE LIMITED

## PROFIT AND LOSS ACCOUNT

9 month period ended 31st December 2005

	Notes	Period ended 31 December 2005 £'000	Year ended 31 March 2005 £'000
Turnover		4,259	6,299
Cost of sales		<u>(3,591)</u>	<u>(5,410)</u>
Gross profit		668	889
Administrative expenses		<u>(611)</u>	<u>(961)</u>
Operating profit/(loss)	2	57	(72)
Interest payable and similar charges	3	<u>(4,071)</u>	<u>(5,785)</u>
Interest receivable and similar income	3	<u>5,022</u>	<u>6,756</u>
Profit on ordinary activities before taxation		<u>1,008</u>	<u>899</u>
Taxation	4	<u>(825)</u>	<u>(284)</u>
Profit on ordinary activities after taxation for the period		183	615
Dividend	5	<u>(1,000)</u>	<u>(1,400)</u>
Loss for the period		<u>(817)</u>	<u>(785)</u>

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

There were no recognised gains or losses other than those included in the profit and loss account.

# MERCIA HEALTHCARE LIMITED

## STATEMENT OF RESERVES

Period ended 31st December 2005

	Period ended 31 December 2005 £'000	Year ended 31 March 2005 £'000
Accumulated profit as at 1 <sup>st</sup> April	1,303	2,088
Loss for period	<u>(817)</u>	<u>(785)</u>
Accumulated profit as at 31 <sup>st</sup> December	<u>486</u>	<u>1,303</u>

The notes on pages 9 to 18 form part of the financial statements.

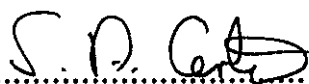
# MERCIA HEALTHCARE LIMITED

## BALANCE SHEET

31<sup>st</sup> December 2005

	Notes	31 December 2005 £,000	31 March 2005 £'000
<b>Current assets:</b>			
Debtors:			
-falling due within one year	6	1,164	799
-falling due after more than one year	6	70,171	71,027
Cash at bank and in hand		<u>3,469</u>	<u>5,531</u>
<b>Total current assets</b>		<b>74,804</b>	<b>77,357</b>
 <b>Creditors: Amounts falling due within one year</b>	 7	 <u><b>(5,349)</b></u>	 <u><b>(6,229)</b></u>
 <b>Net current assets</b>		 <b>69,455</b>	 <b>71,128</b>
 <b>Creditors: Amounts falling due after more than one year</b>	 8	 <u><b>(65,945)</b></u>	 <u><b>(67,626)</b></u>
Provisions	9	<u><b>(3,023)</b></u>	<u><b>(2,198)</b></u>
 <b>Net assets</b>		 <u><b>487</b></u>	 <u><b>1,304</b></u>
<b>Capital and reserves:</b>			
Share capital	10	1	1
Profit and loss account		<u><b>486</b></u>	<u><b>1,303</b></u>
<b>Total equity shareholders' funds</b>	<b>11</b>	<u><b>487</b></u>	<u><b>1,304</b></u>

S Carter - Director

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Approved by the Board on 28 June 2006

The notes on pages 9 to 18 form part of the financial statements.



# MERCIA HEALTHCARE LIMITED

## CASH FLOW STATEMENT

Period ended 31<sup>st</sup> December 2005

	Notes	31 December 2005 £'000	31 March 2005 £'000
Net cash (outflow)/inflow from operating activities	15	(188)	167
Returns on investment and servicing of finance	16	1,171	998
Taxation received		-	384
Dividend		(1,000)	(1,400)
Financing	16	<u>(2,045)</u>	<u>(894)</u>
Decrease in cash in the period		<u>(2,062)</u>	<u>(745)</u>
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the period		(2,062)	(745)
Decrease in borrowings		<u>2,045</u>	<u>894</u>
Change in net debt resulting from cash flows	17	(17)	149
Non cash movement	17	(220)	(291)
Net debt at 31 <sup>st</sup> March 2005	17	<u>(63,898)</u>	<u>(63,756)</u>
Net debt at 31 <sup>st</sup> December 2006	17	<u>(64,135)</u>	<u>(63,898)</u>

# **MERCIA HEALTHCARE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Period ended 31st December 2005**

### **1) Accounting Policies**

#### **I. Basis of Preparation**

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

A summary of the major accounting policies, which have been consistently applied, is set out below.

#### **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.

#### **III. Deferred taxation**

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

Deferred tax assets are recognised when it is more likely than not they will be recovered. The deferred tax assets and liabilities are not discounted.

#### **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.

Occupational availability payments from Hereford Hospital NHS Trust are allocated between turnover in relation to the service element of the contract, reimbursement of the finance receivable and finance income on the finance receivable so as to generate a constant rate of return over the services provided.

#### **V. 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.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31st December 2005

### VI. Related party transactions

The directors have taken advantage of the exemptions in FRS 8 and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

### 2) Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	Period ended 31 December 2005 £'000	Year ended 31 March 2005 £'000
Auditors' remuneration	12	9

The auditors also received remuneration for other services totalling £3,000 (2005 £19,000) during the period under review. The Directors received fees of £225,000 (2005 £300,000); no other salary, fees or other benefits were received in the performance of their duties. The Company 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 and directors are recharged to MHL.

### 3) Interest

	Period ended 31 December 2005 £'000	Year ended 31 March 2005 £'000
Interest payable and similar charges	<u>(4,071)</u>	<u>(5,785)</u>
Interest receivable	197	299
Finance income	<u>4,825</u>	<u>6,457</u>
Interest receivable and similar income	<u>5,022</u>	<u>6,756</u>

Interest payable and similar charges of £4,071,000 (2005 £5,785,000) relates to interest charges with respect to the bank borrowings of £2,489,000 (2005 £3,511,000); plus interest payable of £329,000 (2005 £492,000) as a result of the operation of interest rate swap arrangements; plus subordinated loan interest of £1,033,000 (2005 £1,491,000); plus the amortisation of loan issue costs in accordance with FRS 4 of £220,000 (2005 £291,000).

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31<sup>st</sup> December 2005

### 4) Taxation

	Period ended 31 December 2005 £'000	Year ended 31 March 2005 £'000
Corporation tax at 30%	-	-
Corporation tax – prior year	=	(384)
Current tax credit for the period	=	(384)
Deferred tax	219	269
Deferred tax – prior year	<u>606</u>	<u>399</u>
Deferred tax charge for the period	<u>825</u>	<u>668</u>
Profit and loss account tax charge	<u>825</u>	<u>284</u>

The tax charge assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	Period ended 31 December 2005 £'000	Year ended 31 March 2005 £'000
Profit on ordinary activities	1,008	899
Profit on ordinary activities at the UK rate of 30%	302	270
Deduction for notional lease premium	(83)	(1)
Accelerated capital allowances	(219)	(269)
Adjustments to tax in respect of prior years	<u>-</u>	<u>(384)</u>
Profit and loss account tax charge	<u>-</u>	<u>(384)</u>

### 5) Dividends

	Period ended 31 December 2005 £'000	Year ended 31 March 2005 £'000
Dividends payable	<u>1,000</u>	<u>1,400</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31st December 2005

### 6) Debtors

	31 December 2005 £'000	31 March 2005 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	197	442
Finance receivable	892	283
Accrued income	<u>75</u>	<u>74</u>
	<u><b>1,164</b></u>	<u><b>799</b></u>
<b>Amounts falling due after more than one year:</b>		
Finance receivable	<u><b>70,171</b></u>	<u><b>71,027</b></u>
<b>Finance receivable</b>		
Balance at 1 April	<b>71,310</b>	71,613
Finance income reimbursed	<b>(5,072)</b>	(6,760)
Finance income recognised	<u><b>4,825</b></u>	<u><b>6,457</b></u>
Balance at 31 March	<u><b>71,063</b></u>	<u><b>71,310</b></u>

### 7) Creditors: Amounts falling due within one year

	31 December 2005 £'000	31 March 2005 £'000
Trade creditors	(656)	(629)
Construction retentions	(79)	(79)
Accruals	(2,158)	(2,920)
Other taxation and social security	(256)	(257)
Sub-ordinated loans	(329)	(731)
Bank loans	<u><b>(1,871)</b></u>	<u><b>(1,613)</b></u>
	<u><b>(5,349)</b></u>	<u><b>(6,229)</b></u>

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

	31 December 2005 £'000	31 March 2005 £'000
Amounts owed to related parties	(541)	(541)
Sub-ordinated loans	(9,758)	(9,788)
Bank loans	<u><b>(55,646)</b></u>	<u><b>(57,297)</b></u>
	<u><b>(65,945)</b></u>	<u><b>(67,626)</b></u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31 December 2005

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

The principal terms and conditions relating to the facilities are summarised below.

	31 December 2005 £,000 Term loan	31 December 2005 £'000 Sub-ordinated Loans	31 March 2005 £'000 Term loan	31 March 2005 £'000 Sub-ordinated Loans
Repayable within one year	1,871	329	1,613	731
Repayable between one and two years	1,972	-	1,871	-
Repayable between two and five years	6,453	-	6,073	-
Repayable after five years	<u>48,165</u>	<u>9,758</u>	<u>50,517</u>	<u>9,788</u>
Total loans outstanding	58,461	10,087	60,074	10,519
Loan issue costs	<u>(944)</u>	-	<u>(1,164)</u>	-
Total	<u>57,517</u>	<u>10,087</u>	<u>58,910</u>	<u>10,519</u>

### 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 by a floating charge over the Company's undertakings and assets.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31 December 2005

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

#### Sub-ordinated debt

On the 16<sup>th</sup> April 2002, the shareholders subscribed to £8,496,320 sub-ordinated loan notes (£2,124,080 per shareholder) in Mercia Healthcare Limited.

The loan notes are to mature in full in 2029, however, both the loan holder and the company may redeem all or part of the loan notes at anytime, provided certain conditions are met and relevant consents are given.

The Loan Notes are unsecured and bear interest at 15%. Interest was rolled up on the loan notes until 16<sup>th</sup> October 2003, thereafter the interest is paid 6 monthly.

#### Swap arrangements

The Company has entered into interest rate swap agreements under the Term Loan. 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 10<sup>th</sup> April 2009. The swap agreements operate by monthly exchanges of payments between the Company and its banks. The amounts exchanged represent the difference between floating and fixed interest rates calculated on pre-determined notional principal amounts.

### 9) Deferred taxation

	31 December 2005 £'000	31 March 2005 £'000
Accelerated capital allowance & other timing differences – deferred tax provision	(8,307)	(7,488)
Losses – deferred tax asset	<u>5,284</u>	<u>5,290</u>
Deferred tax provision	<u>(3,023)</u>	<u>2,198</u>
Balance at 1 April	(2,198)	(1,530)
Profit and loss account charge	<u>(825)</u>	<u>(668)</u>
Balance at 31 December	<u>(3,023)</u>	<u>(2,198)</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31<sup>st</sup> December 2005

### 10) Share Capital

	31 December 2005		31 March 2005	
	Number	£'000	Number	£'000
<b>Authorised:</b>				
Ordinary shares of £1 each	<u>50,000</u>	<u>50</u>	<u>50,000</u>	<u>50</u>
<b>Allotted called up and fully paid:</b>				
Ordinary shares of £1 each	<u>1,000</u>	<u>1</u>	<u>1,000</u>	<u>1</u>

### 11) Equity shareholders' funds

	£'000
At 1 April 2005	1,304
Loss for the period	<u>(817)</u>
<b>At 31 December 2005</b>	<b><u>487</u></b>

### 12) Capital Commitments

Under the terms of the contract with Hereford Hospitals NHS Trust dated 16<sup>th</sup> April 1999 the Company was committed to payments totalling some £65 million in respect of design and construction work from 16<sup>th</sup> April 1999 to 16<sup>th</sup> April 2003. The Company is also committed to payments of some £14.1 million for capital expenditure over the remaining contract term.

### 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 was undertaken by a Joint Venture between Alfred McAlpine Special Projects and Haden Young Ltd.

Sodexho Investment Services Limited

Sodexho Services Group Limited

Secondary Market Infrastructure Fund UK LLP



# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31<sup>st</sup> December 2005

### 13) Related Party Disclosures (continued)

#### Provision of Facilities and Services under the Concession Agreement

The Company 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.

	Provision of staff and support services Period ended 31 December 2005 £'000	Provision of staff and support services Year ended 31 March 2005 £'000
Sodexho Investment Services Limited	349	-
Sodexho Services Group Limited	2,089	3,095
Secondary market Infrastructure Fund UK LLP	1,048	274

#### Amounts outstanding to Related Parties at 31<sup>st</sup> December 2005

	31 December 2005 £'000	31 March 2005 £'000
Sodexho Investment Services Limited	3,064	-
Sodexho Services Group Limited	250	3,412
Secondary market Infrastructure Fund UK LLP	8,114	7,889

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

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31<sup>st</sup> December 2005

### 14) Parent Undertakings

The Company is a wholly owned subsidiary of Mercia Healthcare (Holdings) Limited, a company which is incorporated in England and Wales.

Mercia Healthcare (Holdings) Limited's shares are held by each of the following, all of which are registered in the United Kingdom:

	Percentage Holding (%)
Secondary Market Infrastructure Fund UK LLP	75%
Sodexo Investment Services Limited	25%

### 15) Reconciliation of operating profit to net cash flow from operating activities

	31 December 2005 £'000	31 March 2005 £'000
Operating profit/(loss)	57	(72)
Decrease in debtors	491	388
Decrease in creditors	<u>(736)</u>	<u>(149)</u>
Net cash outflow/(inflow) from operating activities	<u>(188)</u>	<u>167</u>

### 16) Analysis of cash flow movements

<b>Returns on investment and servicing of finance</b>		
Interest received	5,022	6,682
Interest paid	<u>(3,851)</u>	<u>(5,684)</u>
Net cash inflow from returns on investment and servicing of finance	<u>1,171</u>	<u>998</u>
<b>Financing</b>		
Repayment of bank loans and sub-debt	<u>(2,045)</u>	<u>(894)</u>
Net cash outflow from financing	<u>(2,045)</u>	<u>(894)</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Period ended 31st December 2005

### 17) Analysis of net debt

	At 31 March 2005 £'000	Cash Flows £'000	Non-cash Movement £'000	At 31 December 2005 £'000
Cash at bank and in hand	5,531	(2,062)	-	3,469
Bank loans	(58,910)	1,613	(220)	(57,517)
Subordinated loans	<u>(10,519)</u>	<u>432</u>	<u>-</u>	<u>(10,087)</u>
	<u>(63,898)</u>	<u>(17)</u>	<u>(220)</u>	<u>(64,135)</u>

The non-cash movement relates to the amortisation of loan issue costs £220,000.