Mercia Healthcare Limited

Annual report and financial statements

for the year ended 31 December 2006

Registered number 3693524

Mercia Healthcare Limited

Annual report and financial statements for the year ended 31 December 2006

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Mercia Healthcare Limited

Directors and advisors

Directors

S Carter
I R Gethin
B Williams
J N E Cowdell
S P Hornby

Secretary

D Hammond (resigned 28 September 2006)
SMIF Secretariat Services Limited (appointed 28 September 2006)

Registered office

140 London Wall
London
EC2Y 5DN

Auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Mercia Healthcare Limited

Directors' report
for the year ended 31 December 2006

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

Results, principal activities and review of business

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

The profit for the year attributable to shareholders which has been dealt with in the financial statements is £131,000 (9 months ended 31 December 2005 loss of £817,000)

Dividends and transfers to reserves

No dividend was proposed during the year (9 months ended 31 December 2005 £1,000,000 paid) The amount transferred to reserves is set out in the profit and loss account on page 5

Principal risks and uncertainties

The company has taken on the activity as detailed above and is risk averse in its trading relationships with its customer, funders and sub-contractors as determined by the terms of their respective detailed PFI contracts In extreme circumstances, the company could be exposed to subcontractor failure to perform their obligations The financial risks and the measures taken to mitigate them are as detailed in the following section

Financial risk management

The company has exposures to a variety of financial risks which are managed with the purpose of minimising any potential adverse effect on the company's performance The board has policies for managing each of these risks and they are summarised below

Interest rate risk

The senior and subordinated debt interest have been fixed through use of fixed funding rates, plus a margin Details of these can be found on page 13

Inflation risk

The funding to the company was agreed as part of the overall PFI contracts with lenders, clients and shareholders, and suitable hedging has been put in place, as set out in the notes to the accounts

Liquidity risk

The company adopts a prudent approach to liquidity management by endeavouring to maintain sufficient cash and liquid resources to meet its obligations as they fall due

Credit risk

The company receives the bulk of its revenue from Hereford Hospitals NHS Trust and is not exposed to significant credit risk Cash investments are with institutions of a suitable credit quality

Key performance indicators ('KPIs')

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

Mercia Healthcare Limited

Directors' report
for the year ended 31 December 2006 (continued)

Directors

The directors of the company during the year, and subsequently, are set out below

S Carter	
W R Doughty	(resigned 25 April 2007)
I R Gethin	
B Williams	
J N E Cowdell	(appointed 2 March 2007)
S P Hornby	(appointed 25 April 2007)

Directors' interests in shares

There were no directors' interests recorded in the register kept in accordance with section 325 of the Companies Act 1985 The directors have no interest in the shares of any other company in the group

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

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 year ended 31 December 2006 and that applicable accounting standards have been followed

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

Disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which PricewaterhouseCoopers LLP ('PwC') are unaware, and the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that PwC are aware of that information

Auditors

Having passed elective resolutions of the shareholders at an extraordinary general meeting, the company is exempt from the obligation to annually reappoint auditors and to hold annual general meetings PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly the board recommends that PricewaterhouseCoopers LLP continue in office as auditors to the company

By order of the board

On behalf of SMIF Secretariat Services Limited
Secretary

8 AUGUST 2007

Independent auditors' report to the members of Mercia Healthcare Limited

We have audited the financial statements of Mercia Healthcare Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet and the related notes These 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 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 other transactions 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 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 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 affairs as at 31 December 2006 and of its 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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham

23 August 2007

Mercia Healthcare Limited

Profit and loss account
for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £'000	9 months ended 31 December 2005 £'000
Turnover	1	**5,914**	4,259
Cost of sales		**(4,993)**	(3,591)
Gross profit		**921**	668
Operating expenses		**(551)**	(611)
Operating profit	2	**370**	57
Interest receivable and similar income	3	**6,330**	5,022
Interest payable and similar charges	4	**(5,659)**	(4,071)
Profit on ordinary activities before taxation		**1,041**	1,008
Tax on profit on ordinary activities	5	**(910)**	(825)
Profit on ordinary activities after taxation		**131**	183
Dividends	6	**-**	(1,000)
Retained profit/(loss) transferred to/(from) reserves for the year/ period	13	**131**	(817)

The company has been engaged solely in continuing activities in a single class of business within the United Kingdom

There is no difference between the profit for the year as shown in the profit and loss account and its historical cost equivalent

The company had no recognised gains or losses other than the profit for the year and therefore no separate statement of total recognised gains and losses has been presented The movements on reserves are shown in note 13 to the financial statements

Mercia Healthcare Limited

Balance sheet
as at 31 December 2006

	Note	31 December 2006	31 December 2005
		£'000	£'000
Current assets			
Debtors amounts falling due within one year	7	**550**	1,164
Debtors amounts falling due after more than one year	8	**73,719**	70,171
Cash at bank and in hand		**4,184**	3,469
		78,453	74,804
Creditors amounts falling due within one year	9	**(6,287)**	(5,349)
Net current assets		**72,166**	69,455
Creditors amounts falling due after more than one year	10	**(67,615)**	(65,945)
Provision for liabilities and charges	11	**(3,933)**	(3,023)
		618	487
Capital and reserves			
Share capital	12	**1**	1
Profit and loss account	13	**617**	486
Shareholder's funds	13	**618**	487

The financial statements on pages 5 to 16 were approved by the board on 8 August 2007 and signed on its behalf by

Director

Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies

A summary of the company's pncipal accountıng policıes ıs set out below

Basis of preparatıon of accounts

The financıal statements have been prepared under the hıstorıcal cost conventıon and ın accordance wıth the Companıes Act 1985 and applıcable UK accountıng and financıal reportıng standards

Going concern

The dırectors have revıewed the company's projected profits and cash flows by reference to a financıal model coverıng accountıng perıods up December 2029 Havıng examıned the current status of the company's prıncıpal contracts and lıkely developments ın the foreseeable future the dırectors consıder that the company wıll be able to settle ıts lıabılıtıes as they fall due and accordıngly the financıal statements have been prepared on a goıng concern basıs

Turnover

Turnover represents the value of work done and servıces rendered, excludıng sales related taxes All turnover orıgınates ın the Unıted Kıngdom

The company recognıses ıncome when ıt has fully fulfilled ıts contractual oblıgatıons In accordance wıth Fınancıal Reportıng Standard 5 – Applıcatıon Note G, the company ıncludes sales and purchase transactıons related to varıatıons under the orıgınal contract where the benefits and rısks are retaıned by the company, wıthın the financıal statements as turnover and operatıng costs

Transactıons to whıch the company does not have access to all the sıgnıficant benefits and rısks are excluded from the financıal statements

Finance debtor and ınterest receivable

In accordance wıth Fınancıal Reportıng Standard (FRS) 5 – Applıcatıon Note F, the costs ıncurred ın constructıng the assets have been treated as a finance debtor

Thıs treatment arose from applyıng the guıdance wıthın the Applıcatıon Note whıch ındıcated that the project's prıncıpal agreements transfer substantıally all the rısks and rewards relatıng to the property to the customer

The finance debtor represents the costs arısıng on the constructıon of the assets ıncludıng ınıtıal tender costs Durıng asset constructıon, finance debtor ınterest ıncome ıs recognısed on an accruals basıs equal to the ınterest expense of the operator and capıtalısed wıthın the finance debtor receıvable Once the project reached ıts operatıonal phase and was accepted by the customer the contract receıvable was reclassıfied as a finance debtor, wıth a constant proportıon of the planned net revenue arısıng from the project beıng allocated to remunerate the finance debtor Imputed ınterest receıvable ıs allocated to the finance debtor usıng a property specıfic rate to generate a constant rate of return over the lıfe of the contract Over the course of the contract term the finance debtor ıs expected to be fully repaıd

Mercia Healthcare Limited

Notes to the financial statements
for the year ended 31 December 2006 (continued)

1 Principal accounting policies (continued)

Debt issue costs

Debt issue costs incurred have been offset against the related debt and will be charged to the profit and loss account at a constant rate on the carrying value of the debt

Interest rate swaps

Interest rate swaps are used to hedge the company's exposure to movements on interest rates The interest payable on such swaps is accrued in the same way as interest arising on the related borrowings

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 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 is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Deferred tax assets are only recognised when it is considered more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted

Cash flow statement

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company qualifies as a small entity as defined in sections 247 and 247a of the Companies Act 1985

2 Operating profit

The company had no employees during the year, other than the directors (9 months to 31 December 2005 none) The remuneration of the directors is paid by the controlling parties and their services to the company are of a non-executive nature The controlling parties charged £150,000 (9 months to 31 December 2005 £225,000) to the company in respect of these services

The audit fee in respect of the company was £8,000 for the year (9 months to 31 December 2005 £3,000)

Mercia Healthcare Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

3 Interest receivable and similar income

	Year ended 31 December 2006	9 months ended 31 December 2005
	£'000	£'000
Imputed interest receivable on finance debtor	**6,095**	4,825
Interest receivable on bank deposits	**235**	197
	6,330	5,022

4 Interest payable and similar charges

	Year ended 31 December 2006	9 months ended 31 December 2005
	£'000	£'000
Interest payable on debt	**3,846**	2,818
Other interest – subordinated loan notes	**1,519**	1,033
Amortisation of debt issue costs	**294**	220
	5,659	4,071

Mercia Healthcare Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

5 Tax on profit on ordinary activities

(a) Analysis of tax charge for the year/period

	Year ended 31 December 2006	9 months ended 31 December 2005
	£'000	£'000
Current tax:	-	-
Deferred tax:		
Origination and reversal of timing differences	**292**	219
Adjustment in respect of prior year	**618**	606
Tax charge on profit on ordinary activities	**910**	825

(b) Factors affecting current tax charge

The tax assessed for the year is lower (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are explained below

	Year ended 31 December 2006	9 months ended 31 December 2005
	£'000	£'000
Profit on ordinary activities before taxation	**1,041**	1 008
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	**312**	302
Effects of		
Permanent differences	**(20)**	-
Capital allowances in excess of depreciation	**(36)**	(219)
Other short term timing differences	**(257)**	(83)
Utilisation of tax losses	**1**	-
Current tax charge for the year /period (note 5(a))	-	-

The current tax charge will continue to be affected by timing differences on the project asset, although these timing differences will have an opposite impact on the deferred tax charge so there should be no overall impact on the tax charge Further to a proposed corporation tax rate change announced in the 2007 budget, deferred tax reversing after 1 April 2008 will be recognised at a rate of 28% as opposed to the existing rate of 30%

Mercia Healthcare Limited

Notes to the financial statements
for the year ended 31 December 2006 (continued)

6 Dividends

	Year ended 31 December 2006	9 months ended 31 December 2005
	£'000	£'000
Dividends paid	-	1,000

7 Debtors: amounts falling due within one year

	31 December 2006	31 December 2005
	£'000	£'000
Trade debtors	**423**	197
Finance debtor	-	892
Prepayments and accrued income	**127**	75
	550	1,164

8 Debtors: amounts falling due after more than one year

	31 December 2006	31 December 2005
	£'000	£'000
Finance debtor	**73,719**	70,171

9 Creditors: amounts falling due within one year

	31 December 2006 £'000	31 December 2005 £'000
Senior debt	**1,684**	1,871
Trade creditors	**616**	656
Other creditors and accruals	**3,987**	2,822
	6,287	5,349

10 Creditors: amounts falling due after more than one year

(a) Total

	31 December 2006 £'000	31 December 2005 £'000
Debt (as analysed in (b) below)	**64,012**	65,404
Amounts owed to related parties	**542**	541
Deferred income	**3,061**	-
	67,615	65,945

(b) Debt

	31 December 2006 £'000	31 December 2005 £'000
Senior debt	**56,590**	58,461
Subordinated loan bridge debt	**9,756**	9,758
	66,346	68,219
Less included in creditors falling due within one year	**(1,684)**	(1,871)
Less unamortised issue costs	**(650)**	(944)
	64,012	65,404

Mercia Healthcare Limited

Notes to the financial statements
for the year ended 31 December 2006 (continued)

10 Creditors: amounts falling due after more than one year (continued)

(c) Maturity of debt	31 December 2006	31 December 2005
	£'000	£'000
Less than one year	1,972	1,871
Between one and two years	2,094	1,972
Between two and five years	6,839	6,453
In more than five years	55,441	57,923
	66,346	68,219
Less creditors falling due within one year	(1,684)	(1,871)
Less unamortised issue costs	(650)	(944)
	64,012	65,404

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, plus a margin of 1 10 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

Sub-ordinated debt
On the 16th April 2002, the shareholders subscribed to £8,496,320 subordinated loan notes (£2,124,080 per shareholder) in the company

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 16th October 2003, and 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 10th April 2009 The only derivative financial instruments held are the interest rate swap which converts the borrowings from rates linked to LIBOR to the fixed rates above The fair value of this class of derivative financial instruments at 31 December 2006 is £nil

During the year the directors have reviewed the disclosure of the split of debt and have updated the presentation of the maturity analysis to more accurately reflect the debt net of unamortized issue costs There has been no adjustment to the prior year in this respect and the change has no impact on the net creditors disclosure in the current of prior year

Mercia Healthcare Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

11 Provision for liabilities and charges

	31 December 2006	31 December 2005
	£'000	£'000
Deferred taxation	**3,933**	3,023
The movements in deferred taxation during the year and previous period is as follows		
At 1 January	**3,023**	2,198
Charge to the profit and loss account (note 5 (a))	**910**	825
At 31 December	**3,933**	3,023
The deferred tax liability consists of		
Accelerated capital allowances	**6,167**	8,307
Other timing differences	**3,657**	-
Tax losses recognised	**(5,891)**	(5,284)
	3,933	3,023

12 Share capital

	31 December 2006	31 December 2005
	£'000	£'000
Authorised		
50,000 Ordinary shares of £1 each	**50**	50
Allotted, called up and fully paid		
1,000 Ordinary shares of £1 each	**1**	1

13 Reconciliation of shareholder's funds and movement on reserves

	Share capital	Profit and loss account	Total shareholder's funds
	£'000	£'000	£'000
At 1 January 2006	1	486	487
Profit for the year	-	131	131
At 31 December 2006	**1**	**617**	**618**

14 Related party transactions

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- Related Party Transactions

Sodexho Investment Services Limited
Sodexho Services Group Limited
Secondary Market Infrastructure Fund UK LLP
SMIF Asset Management Limited

During the year, the company, on normal commercial terms, incurred costs of £262,551 (9 month period ended 31 December 2005 £nil) in respect of management services provided by SMIF Asset Management Limited No amounts (2005 nil) remained outstanding at the balance sheet date The company also incurred the following costs in respect of the provision of staff and support services

Costs incurred in the year/period

	Year ended 31 December 2006 £'000	9 months ended 31 December 2005 £'000
Sodexho Investment Services Limited	**417**	349
Sodexho Services Group Limited	**2,740**	2,089
Secondary market Infrastructure Fund UK LLP	**1,252**	1,048

Mercia Healthcare Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

14 Related party transactions (continued)

Amounts outstanding at 31 December.

	31 December 2006	31 December 2005
	£'000	£'000
Sodexho Investment Services Limited	**3,260**	3,064
Sodexho Services Group Limited	**230**	250
Secondary market Infrastructure Fund UK LLP	**8,154**	8,114

All transactions with Related Parties were carried out on arms length terms

15 Ultimate parent undertaking and controlling party

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 – acting through its General Partner SMIF UK Ltd	75%
Sodexho Investment Services Limited	25%

The ultimate parent undertaking and ultimate controlling party, as at the year end, was SMIF Investments Luxembourg Sarl (formerly Star SMIF Investments Luxembourg Sarl), a company incorporated in Luxembourg

The largest and smallest group to consolidate these financial statements is SMIF Investments Luxembourg Sarl Consolidated financial statements for SMIF Investments Luxembourg Sarl can be obtained from the company secretary at the registered office, 7 Val Ste Croix L-1371 Luxembourg

On 2 February 2007, the ultimate controlling party became Land Securities Group PLC, when LST SMIF Limited Partnership acting through its general partnership, LST SMIF Partnership GP Limited, purchased the entire issued share capital of Star SMIF Investments Luxembourg Sarl The ultimate controlling party of LST SMIF Limited Partnership and LST SMIF Partnership GP Limited is Land Securities Group PLC

Star SMIF Investments Luxembourg Sarl changed its name to SMIF Investments Luxembourg Sarl on 3 April 2007