

Company Registration No. 3765827

HEALTH MANAGEMENT (UCLH) HOLDINGS LIMITED
AND SUBSIDIARY

REPORT AND FINANCIAL STATEMENTS

31 December 2001



24- 04- 02- 520

HEALTH MANAGEMENT (UCLH) HOLDINGS LIMITED DIRECTORS' REPORT

The Directors have pleasure in submitting their Report and consolidated Financial Statements, for the year ended 31 December 2001.

Principal Activities and Business Review

The Company is an investment holding company whose sole business is the holding of an investment in its wholly owned subsidiary Health Management (UCLH) plc.

On 12 July 2000, Health Management (UCLH) plc entered into a Private Finance Initiative (PFI) concession contract with the University College London Hospitals NHS Trust to design, build, finance and operate a new hospital in London.

Construction of the new hospital and associated facilities commenced in July 2000 and has continued throughout this year. Upon completion of construction, Health Management (UCLH) plc will provide non-clinical services in the new hospital.

The Company manages various services at the Trust's sites, and receives income from the Trust for these services.

Share Capital

On 24 December 2001 a further 63,027 ordinary shares of £1 each in the Company were issued fully paid to AMEC Investments Limited, Interserve *fm* Limited and Balfour Beatty Infrastructure Investments Limited.

Results and Dividends

The loss for the year after taxation amounted to £2,947,000 (*2000* £20,783,000). The Directors do not propose to pay any dividend in respect of the year ended 31 December 2001 (*2000* nil).

Payment of Suppliers

The Group's policy is to pay suppliers thirty days from the date of receipt of the supplier's invoice, unless otherwise contractually agreed, and this policy is made known to all suppliers on request. The number of suppliers' days outstanding at the end of the financial period was eighteen (*2000* forty).

DIRECTORS' REPORT continued

Directors

The following persons were Directors of the Company during the year :-

M.Archbold	
A.R.Brown	(Resigned 30 June 2001)
J.P.Chamberlain	(Appointed 30 June 2001)
R.M.Clampett	
M.G.Darroch	(Resigned 24 July 2001)
D.J.McEvedy	
A.L.P.Rabin	
A.M.Ringrose	(Appointed 24 July 2001)

Directors' Share Interests

No Director had any interest in the issued share capital of the Company.

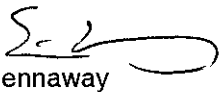
Auditors

Ernst & Young transferred its business to a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, called Ernst & Young LLP, on 28 June 2001. Ernst & Young resigned as the company's auditor with effect from that date and the directors used their statutory powers to appoint Ernst & Young LLP to fill the vacancy in the office of auditor. The Directors will place a resolution before the Annual General Meeting to reappoint Ernst & Young LLP as auditors for the ensuing year.

Registered Office

The Company's Registered Office is 3rd Floor, 301-305 Euston Road, London NW1 3AD.

By Order of the Board,


S.Jennaway
Secretary

26 March 2002

HEALTH MANAGEMENT (UCLH) HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group as at the end of the financial year and of the profit or loss of the group for that year then ended. 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;
- and
- * prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

to the members of Health Management (UCLH) Holdings Limited

We have audited the company's accounts for the year ended 31 December 2001, which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement and the related notes 1 to 24. These accounts have been prepared on the basis of 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 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.

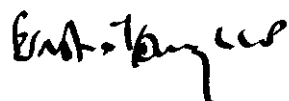
Basis of audit opinion

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 judgements 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 financial statements give a true and fair view of the state of affairs of the company and of the group at 31 December 2001, and of the loss 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

16 April 2002

HEALTH MANAGEMENT (UCLH) HOLDINGS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	Group	
		2001	2000
		£'000	£'000
Turnover	2	17,456	1,231
Cost of Sales		(17,456)	(1,231)
Gross Profit		<u>-</u>	<u>-</u>
Net Operating Expenses		(2,126)	(20,417)
Operating loss	3	<u>(2,126)</u>	<u>(20,417)</u>
Interest receivable		974	536
Interest payable and similar charges	5	(6,451)	(2,996)
		<u>(5,477)</u>	<u>(2,460)</u>
Less: amount capitalised	9	4,656	2,094
		<u>(821)</u>	<u>(366)</u>
Loss on ordinary activities before taxation		<u>(2,947)</u>	<u>(20,783)</u>
Taxation	6	-	-
Loss for the financial period transferred to reserves		<u>(2,947)</u>	<u>(20,783)</u>

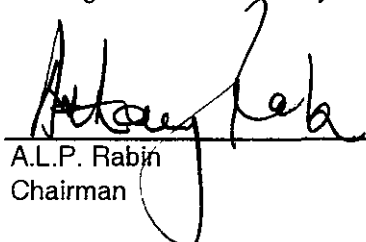
There were no recognised gains or losses for the year other than those stated in the profit and loss account.

The accompanying notes are an integral part of this profit and loss account and statement of recognised gains and losses.

HEALTH MANAGEMENT (UCLH) HOLDINGS LIMITED
BALANCE SHEET
AT 31 DECEMBER 2001

	Notes	Group		Company	
		2001	2000	2001	2000
		£'000	£'000	£'000	£'000
Fixed Assets					
Investments	8	-	-	7,552	6,921
Tangible assets	9	94,066	58,298	-	-
		<u>94,066</u>	<u>58,298</u>	<u>7,552</u>	<u>6,921</u>
Current Assets					
Debtors: due within one year	10	3,418	1,793	-	-
Debtors: due after one year	11	-	-	766	236
Cash at bank and in hand		692	30,883	4	3
		<u>4,110</u>	<u>32,676</u>	<u>770</u>	<u>239</u>
Current Liabilities					
Creditors: amounts falling due within one year	12	(4,280)	(1,846)	-	-
Net Current (Liabilities)/Assets		<u>(170)</u>	<u>30,830</u>	<u>770</u>	<u>239</u>
Total Assets less Current Liabilities		<u>93,896</u>	<u>89,128</u>	<u>8,322</u>	<u>7,160</u>
Creditors: amounts falling due after more than one year					
Borrowings	13	(74,041)	(72,419)	(7,563)	(6,465)
Deferred income	14	(42,830)	(36,800)	-	-
		<u>(116,871)</u>	<u>(109,219)</u>	<u>(7,563)</u>	<u>(6,465)</u>
Net (Liabilities)/Assets		<u>(22,975)</u>	<u>(20,091)</u>	<u>759</u>	<u>695</u>
Capital and Reserves					
Called-up share capital	16	755	692	755	692
Profit and loss account	17	(23,730)	(20,783)	4	3
Equity shareholders' funds	18	<u>(22,975)</u>	<u>(20,091)</u>	<u>759</u>	<u>695</u>

These financial statements were approved by the Board of Directors on 26 March 2002 and signed on its behalf by :-


A.L.P. Rabin
Chairman

The accompanying notes are an integral part of this balance sheet.

**HEALTH MANAGEMENT (UCLH) HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER**

	Notes	2001 £'000	2000 £'000
Net cash outflow from operating activities	19	(1,722)	(20,420)
Returns on investment and servicing of finance			
Interest received		1,375	141
Interest and fees paid		(5,888)	(4,706)
		<u>(4,513)</u>	<u>(4,565)</u>
Capital expenditure			
Purchase of tangible fixed assets		(31,112)	(56,204)
Contributions from NHS Trust		6,030	36,800
		<u>(25,082)</u>	<u>(19,404)</u>
Cash outflow before use of liquid resources and financing		<u>(31,317)</u>	<u>(44,389)</u>
Financing			
Issue of ordinary shares		63	677
Increase in unsecured subordinated loan stock		568	6,229
Increase in secured senior loans		495	68,351
		<u>1,126</u>	<u>75,257</u>
(Decrease) / Increase in cash		<u>(30,191)</u>	<u>30,868</u>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash		(30,191)	30,868
Cash inflow from secured senior loans		(495)	(68,351)
Cash inflow from issue of unsecured subordinated loan stock		(568)	(6,229)
Change in net debt resulting from cash flows	20	<u>(31,254)</u>	<u>(43,712)</u>
Amortisation of senior loan arrangement fees		(30)	2,397
Net debt as at 1 January		<u>(41,300)</u>	<u>15</u>
Net debt as at 31 December	20	<u>(72,584)</u>	<u>(41,300)</u>

HEALTH MANAGEMENT (UCLH) HOLDINGS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001

1 Accounting policies

A summary of the principal accounting policies of the Company, all of which have been applied consistently, is set out below:

a) Fundamental accounting concept

The accounts have been prepared on a going concern basis as the group will have adequate resources, supported by its shareholders. The group currently has net current liabilities of approximately £170,000 and the payment schedule from the NHS Trust has been matched in the project to the repayment schedule on the long term bank loan.

b) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. They include the result of the activities described in the Directors' Report, all of which are continuing.

c) Group financial statements

The Group financial statements include the financial statements of the Company and of its subsidiary undertaking.

d) Investments

Investment in the subsidiary undertaking is stated at cost. The carrying value of this investment is reviewed annually by the directors to determine whether there has been any impairment to its value.

e) Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced for services provided in the year.

f) Taxation

Corporation tax is provided on taxable profit at the applicable rate. Deferred tax is provided, using the liability method, on the excess of capital allowances over book depreciation and in respect of timing differences to the extent that a tax charge is expected to arise in the foreseeable future, at a rate of tax likely to be in force at the time of reversal. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred tax balance. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balance is reasonably certain.

g) Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Cost represents original purchase cost and includes the direct cost of financing construction until the assets come into use. Depreciation is provided at rates calculated to write off the cost less any residual value of these assets on a straight line basis over their estimated useful lives, commencing when the assets are brought into use.

h) Deferred income

Deferred income represents contributions from the University College London Hospitals NHS Trust towards the project cost. The contributions will be taken to the profit and loss account over the life of the project once the construction phase is completed.

i) 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 investment.

NOTES TO THE FINANCIAL STATEMENTS continued

j) Capitalisation of finance costs

Finance costs and interest on loans, net of interest receivable, entered into for the purpose of funding the construction of the hospital is capitalised until such time as the construction is substantially complete.

2 Turnover

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

	Group	
	2001	2000
	£'000	£'000
Provision of services	17,456	1,231

3 Operating loss

Operating loss is stated after charging:

	Group	
	2001	2000
	£'000	£'000
Costs incurred in establishing the project	-	15,777
Auditors remuneration for audit services	14	9

Amounts payable to Ernst & Young LLP by the company and its UK subsidiary undertaking in respect of non-audit services were £5,000 (2000 £3,000).

4 Directors' Emoluments

The Directors received no salary, fees or other benefits in the performance of their duties. All costs of the directors and other staff are borne by the shareholders, who second their employees to the Company's subsidiary.

	Group	
	2001	2000
	£'000	£'000
Emoluments-payable to third parties	69	30

No director was a member of a pension scheme to which the company contributed at any time during the year ended 31 December 2001 (2000: none).

NOTES TO THE FINANCIAL STATEMENTS continued

	Group	
	2001	2000
	£'000	£'000
5 Interest payable and similar charges		
Commitment fees payable on secured senior loan	898	423
Interest payable on secured senior loan	4,199	2,231
Amounts payable on secured senior loan hedging contract	795	93
Interest and fees payable on secured senior loan and hedging	5,892	2,747
Interest payable on secured subordinated loan stock	529	236
Interest payable on loans	6,421	2,983
Amortisation of loan arrangement costs	30	13
	6,451	2,996

6 Taxation

There is no corporation tax charge for the financial year.

7 Profit for the financial period transferred to reserves

The profit for the financial period dealt with in the financial statements of the parent company, Health Management (UCLH) Holdings Limited, was £497 (2000 £3,079). As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

8 Fixed asset investments

	Company		
	Shares in subsidiary undertaking	Secured subordinated loan stock in subsidiary undertaking	Total
	£'000	£'000	£'000
<u>Cost</u>			
At 31 December 2000	692	6,229	6,921
Additions	63	568	631
At 31 December 2001	755	6,797	7,552

Principal subsidiary undertakings

The parent company has investments in the following subsidiary undertaking.

Name: Health Management (UCLH) plc
Activity: Concession company
Country of operation: England
Shareholding: 100%

NOTES TO THE FINANCIAL STATEMENTS continued

9 Tangible Fixed Assets

	<u>Group</u>
	Asset in Course of Construction £'000
<u>Cost</u>	
At 31 December 2000	58,298
Additions	35,768
At 31 December 2001	<u>94,066</u>
<u>Depreciation</u>	
At 31 December 2000	-
Charge for the year	-
At 31 December 2001	<u>-</u>
<u>Net Book Value</u>	
At 31 December 2000	58,298
At 31 December 2001	<u>94,066</u>

The cost of tangible fixed assets at 31 December 2001 includes £6,750,000 (2000 £2,094,000) of finance costs net of interest receivable which have been capitalised. During the year £4,656,000 was capitalised representing 85% of net finance costs.

	<u>Group</u>	
	2001	2000
	£'000	£'000
10 Debtors - due within 1 year		
VAT debtor	864	378
Prepayments	401	463
Trade debtors	1,894	558
Accrued income	259	394
	<u>3,418</u>	<u>1,793</u>

	<u>Group</u>		<u>Company</u>	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
11 Debtors - due after 1 year				
Accrued interest on secured subordinated loan stock in subsidiary undertaking	-	-	766	236

12 Creditors: amounts falling due within one year

	<u>Group</u>	
	2001	2000
	£'000	£'000
Construction creditor	1,295	1,082
Financing creditor	462	450
Trade creditors	2,228	117
Other accruals	295	197
	<u>4,280</u>	<u>1,846</u>

NOTES TO THE FINANCIAL STATEMENTS continued

13 Borrowings: amounts falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Secured senior loans - principal	68,846	68,351	-	-
Less: arrangement fee	(2,367)	(2,397)	-	-
Secured senior loans	66,479	65,954	-	-
Unsecured subordinated loan stock	6,797	6,229	6,797	6,229
Accrued interest on unsecured subordinated loan stock	765	236	766	236
	74,041	72,419	7,563	6,465

The secured senior loan represents amounts borrowed by the Company's subsidiary under a facility agreement with a bank. The bank loan bears interest at a margin of 0.95% over LIBOR and is repayable in instalments between 2005 and 2035. The loan is secured by fixed and floating charges over the undertaking, property, assets and rights of the Company's subsidiary, and has certain covenants attached.

In order to hedge against interest rate variations on its senior loan, the Company's subsidiary has entered into interest rate swap agreements with a bank whereby at monthly intervals sums are exchanged reflecting the difference between floating and fixed interest rates, calculated on a predetermined notional principal amount.

The unsecured subordinated loan stock is issued by the Company to its shareholders in proportion to their equity holding. The loan stock bears interest at a fixed rate of 8% and is repayable in 2035.

	Group		Company	
	2001	2000	2001	2000
Borrowings are repayable in the following periods:				
Between two and five years	1,488	462	766	236
After five years	74,920	74,354	6,797	6,229
	76,408	74,816	7,563	6,465
Less: arrangement fee	(2,367)	(2,397)	-	-
	74,041	72,419	7,563	6,465

14 Other creditors: amounts falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Deferred income	42,830	36,800	-	-

NOTES TO THE FINANCIAL STATEMENTS continued

15 Provisions for liabilities and charges

Deferred taxation provided in the accounts and the amounts not provided are as follows:

Group

	Provided 2001 £'000	Not Provided 2001 £'000	Provided 2000 £'000	Not Provided 2000 £'000
Advance capital allowances	-	(1)	-	100
Losses	-	(7,661)	-	-
Other timing differences	-	2,022	-	630
	-	(5,640)	-	730

16 Share Capital

	Group		Company	
	2001 No.	2000 No.	2001 No.	2000 No.
<i>Authorised share capital</i>				
30,000,000 Ordinary Shares of £1 each	30,000,000	30,000,000	30,000,000	30,000,000

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
<i>Issued and fully paid share capital</i>				
Ordinary Shares of £1 each - 755,184 (2000 692,157)	755	692	755	692
	755	692	755	692

During the year, 63,027 ordinary shares of £1 each were issued at par for cash.

17 Reserves

	Group £'000	Company £'000
<u>Profit and loss account</u>		
At 1 January	(20,783)	3
(Loss)/profit for the year	(2,947)	1
At 31 December	(23,730)	4

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Opening shareholders' funds	(20,091)	15	695	15
Shares issued in year	63	677	63	677
(Loss)/profit for the year	(2,947)	(20,783)	1	3
Closing shareholders' funds	(22,975)	(20,091)	759	695

NOTES TO THE FINANCIAL STATEMENTS continued

19 Reconciliation of operating loss to net cash outflow from operating activities

	Group	
	2001	2000
	£'000	£'000
Operating loss	(2,126)	(20,417)
Increase in debtors	(2,019)	(1,399)
Increase in creditors	2,423	1,396
Net cash outflow from operating activities	(1,722)	(20,420)

20 Analysis of net debt

	At 1		Other non	At 31
	January	Cash	cash	December
	2001	flow	changes	2001
	£'000	£'000	£'000	£'000
Cash at bank and in hand	30,883	(30,191)	-	692
Secured senior loans	(65,954)	(495)	(30)	(66,479)
Unsecured subordinated loan stock	(6,229)	(568)	-	(6,797)
	(41,300)	(31,254)	(30)	(72,584)

21 Contingencies

The company, in support of bank loan agreements made by its subsidiary, Health Management (UCLH) plc, has committed to make investment in its subsidiary, by way of share capital and subordinated loan stock, of up to £28,198,961 dependent on circumstances. Investment to date is £7,551,828 (2000 £6,921,558).

22 Capital commitments

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Contracted but not provided for	182,093	211,100	-	-

23 Controlling Parties

In the directors' opinion the controlling parties are AMEC Project Investments Limited, Balfour Beatty plc and Interservefm Limited in equal shares.

24 Related party transactions

During the year, the Company issued subordinated loan stock, divided between AMEC plc, Balfour Beatty plc and Interservefm Limited in equal shares, of £567,243 (2000 £6,229,401).

During the year, the value of work certified as complete under a contract between the Company's subsidiary and subsidiaries of Balfour Beatty plc and AMEC plc for the construction of the new Hospital, and other costs incurred by subsidiaries of Balfour Beatty plc, Interservefm Limited and AMEC plc on behalf of the Company's subsidiary, was £29,978,059 (2000 £41,940,691).

NOTES TO THE FINANCIAL STATEMENTS continued

During the year, amounts payable by the Company's subsidiary to a subsidiary of Interservefm Limited for provision of services to University College London Hospitals NHS Trust totalled £17,339,245 (2000 £1,190,000). Amounts invoiced and unpaid at 31 December 2001 totalled £2,193,613 (2000 nil).

Staff are seconded to the Company's subsidiary from subsidiaries of Balfour Beatty plc, Interservefm Limited and AMEC plc. Amounts payable for their services and associated costs during the period totalled £382,966 (2000 £285,435). Amounts invoiced and unpaid at 31 December 2001 totalled £25,751 including VAT.

Amounts payable by the Company's subsidiary for fees to subsidiaries of Balfour Beatty plc, Interservefm Limited and AMEC plc for the services of the directors of Group companies during the period totalled £69,286 (2000 £30,000).

Accommodation and related costs are occasionally incurred by the Company's subsidiary on behalf of subsidiaries and other associates of Balfour Beatty plc, Interservefm Limited and AMEC plc, and are recharged to them at cost. Amounts rechargeable during the period totalled £115,992 (2000 £41,063). Amounts invoiced and unpaid at 31 December 2001 totalled £33,599 including VAT.