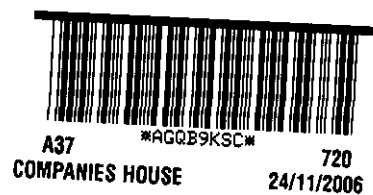


Catalyst Healthcare (Hexham) Holdings Limited

**Directors' report and consolidated
financial statements**

Registered number 04108766

Year ended 31 March 2006



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Directors and advisors

Executive Director

TD Anderson

Non-Executive Directors

Sir ADT Chessells (Chairman)

D Powling

S Hockaday

AL Tennant

T Dickie

Company Secretary

AL Mitchell

Registered Office

3rd Floor

The Venus

1 Old Park Lane

Trafford

Manchester

M41 7HG

Registered Auditors

KPMG LLP

St James' Square

Manchester

M2 6DS

Solicitors

Clifford Chance

200 Aldersgate Street

London

EC1A 4JJ

Bankers

Bank of Scotland

Manchester Branch

19-21 Spring Gardens

Manchester

M2 1FB

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2006.

Principal activities

The principal activities of the group are to design, finance, construct, refurbish and operate certain new facilities at the Hexham General Hospital under a concession agreement with Northumbria Healthcare NHS Trust.

Business review

The construction phase of the project was started in May 2001. Phase one of the project completed on the scheduled date of 31 March 2003 and phase two completed on 30 April 2004, also on the scheduled date. Operational services commenced during the summer of 2003. The results for the company are set out in the profit and loss account on page 8.

Development and performance of the business

The project has now completed its third year of operations since the construction phase was completed in March 2003. Operational performance of the facilities maintenance contractor has been closely monitored throughout the year. This takes the form of full-time representation on site through the Company's management services agent and periodic reporting by the independent Technical Assessor.

Since the financial year end, the Company has successfully negotiated a contract variation with a capital value of £24m to provide additional clinical facilities as an extension to the existing hospital. This is scheduled to complete in May 2008 and will increase unitary payments up to the end of the current concession period.

Principal risks and uncertainties

The Company is about to embark on a significant construction project to extend the existing operational hospital and this poses a key risk. However, the original building contractor, Bovis Lend Lease, which has significant expertise in hospital construction, is being engaged to undertake the new work.

A relatively small proportion of total costs is not protected from inflation increases via the RPI swap instrument. A rise in these costs above the general rate of inflation would reduce debt service cover ratios. The most significant of these costs is insurance, though claims history so far is good and current premium renewals have not been excessive.

Key performance indicators

The level of performance and availability deductions arising from failures to achieve specified levels of contract service is a key performance indicator. These are reported monthly to the Board and have been extremely small in relation to total unitary payments.

Another key indicator is the ratio of operating cash flow to the senior debt service amount. This ratio is tested at six-monthly intervals and each time it has been to the satisfaction of the senior debt provider.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The retained profit for the year is £537,000 (2005: £728,000).

Directors and directors' interests

The directors who held office during the year are set out on page 1 (see also note A2 on page 3).

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares or debentures of the company were granted to any of the directors or their immediate families during the financial year.

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Directors' report (continued)

Political and charitable donations

During the year there were no charitable or political donations (2005: £nil).

Corporate Governance

The Group is committed to high standards of corporate governance, as are appropriate for the long-term obligations to finance, construct and operate non-clinical services for hospitals under the Private Finance Initiative programme.

Corporate governance principles have been implemented within the framework established by agreement between the shareholding parties who have launched the company under a concession agreement with the Northumbria Healthcare NHS Trust. The Board has taken note of the Combined Code as this has been introduced to apply to equity quoted plc's with certain reporting requirements, this company, not being an equity quoted plc, is not bound by the Code's requirements but has voluntarily adopted those principles considered relevant.

This report is a narrative on the principles of corporate governance, as applied in this company. It does not provide a detailed statement to identify those provisions of the new Code from which the company's governance differs.

A. The Board

1. The Board normally meets monthly and reviews construction and operating performance against the financial model and detailed management budget. This model incorporates aspects of the strategic business plan and associated risks; all proposals for contract variations are vetted before approval against the model.

The Board reserves its own decision on all contractual expenditure and associated funding, and has established the provision of management, company secretary and accountancy services for the implementation of the project.

2. The Chairman is the senior non-executive director, selected by the shareholders for his particular experience, and he leads the Board. The Board comprises 4 non-executive directors nominated by participating shareholders (excluding alternates), together with the independent Chairman and the Executive Director.
3. The Board receives monthly information which encompasses all corporate, business, financial and relationship matters which are necessary and appropriate for the purposes of monitoring and progressing the complex contractual obligations for the hospital project.
4. Nominations for any changes to Board membership are subject to the shareholders' separate or collective decision.
5. For the particular interests of the shareholders in the continuity of the project, no directors retire by rotation.

B. Remuneration

No directors received remuneration directly from the group. The remuneration for the Chairman (part-time) and Executive Director (full-time) are set by the shareholders of Catalyst Lend Lease Ltd (formerly known as Catalyst Healthcare Management Limited), and are included in the services provided by that company, whose relationship is set out in Note 18.

C. Dialogue with Institutions

The Board maintains regular liaison with Bank of Scotland as Agent Bank for the senior lenders.

Directors' report (*continued*)

Corporate Governance (*continued*)

D Financial Reporting

1. The Board, after seeking appropriate external advice, decides upon accounting policies which are appropriate for the Company and ensures that they are consistently applied.
2. The Board has instigated a rigorous process of internal control, under the discipline of contractual agreements, in order to safeguard the outcomes for the company in terms of operational performance, financial control, legal and regulatory compliance, provision for risk factors, and longer-term relationships.
3. The Board has decided to undertake the role of an Audit Committee with all directors except the Executive Director. The Audit Committee meets annually to review the Management Letter tabled by the Auditors.
4. The Board continue to satisfy themselves that, given the contractual and long-term funding provisions, the Company will continue to trade as a going concern.

E Internal Controls

1. The board annually review the need for a formal internal audit function.
2. The board maintains a sound system of internal control to safeguard shareholders' investments and the group's assets.

Creditors payment policy

It is company policy that payments to suppliers are made in accordance with agreed terms. The average payment period to creditors amounted to 59 days (2005: 44 days)


Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the group is to be proposed at the forthcoming Annual General Meeting.

By order of the board



AL Mitchell

Company Secretary

3rd Floor
The Venus
1 Old Park Lane
Trafford
Manchester
M41 7HG

26/9/06

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards.

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 its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

St James' Square
Manchester M2 6DS
United Kingdom

Independent auditors' report to the members of Catalyst Healthcare (Hexham) Holdings Limited

We have audited the group and parent company financial statements (the "financial statements") of Catalyst Healthcare (Hexham) Holdings Limited for the year ended 31 March 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under 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 auditor's 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 Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

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 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 misstatement 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 group's and 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.

**Independent auditors' report to the members of Catalyst Healthcare
(Hexham) Holdings Limited (*continued*)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 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.

WLLG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

2/11 2006

Consolidated profit and loss account
for the year ended 31 March 2006

	<i>Note</i>	2006 £000	2005 £000
Turnover	2	1,471	1,712
Operating expenses	3	(1,053)	(1,245)
Operating profit	4	418	467
Net interest payable and similar charges	7	119	261
Profit on ordinary activities before taxation		537	728
Tax on profit on ordinary activities	8	-	-
Retained profit for the financial year		537	728

There is no difference between the profit on ordinary activities before taxation reported above and the historical cost equivalent.

The results for the year arise wholly from continuing operations.

The group has no recognised gains or losses in the year other than those reported above and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 13 to 21 form part of the financial statements.

Consolidated balance sheet
at 31 March 2006

	<i>Note</i>	2006 £000	2005 £000
Current assets			
Debtors: amounts falling due within one year	10	3,410	3,231
amounts falling due after more than one year	10	30,556	30,723
		33,966	33,954
Cash at bank and in hand		2,932	2,928
		36,898	36,882
Creditors: amounts falling due within one year	12	(810)	(1,238)
Net current assets		36,088	35,644
Creditors: amounts falling due after more than one year	13	(33,518)	(33,807)
Provisions for liabilities and charges	14	(730)	(534)
Net assets		1,840	1,303
Capital and reserves			
Called up share capital	15	50	50
Profit and loss account	16	1,790	1,253
Shareholders' funds		1,840	1,303

These financial statements were approved by the board of directors on 26/9/06 and were signed on its behalf by:



TD Anderson
Director

The notes on pages 13 to 21 form part of the financial statements.

Company balance sheet
At 31st March 2006

	<i>Note</i>	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Investments	9		50		50
Current assets					
Debtors	10	1,247		1,261	
Cash at bank and in hand		-		-	
		<u>1,247</u>		<u>1,261</u>	
Creditors: amounts falling due within one year	12	-		(14)	
Net current assets		<u>1,247</u>		<u>1,247</u>	
Total assets less current liabilities			<u>1,297</u>		<u>1,297</u>
Creditors: amounts falling due after more than one year	13		(1,247)		(1,247)
Net assets			<u>50</u>		<u>50</u>
Capital and reserves					
Called up share capital	15		50		50
Profit and loss account			-		-
Shareholders' funds			<u>50</u>		<u>50</u>

These financial statements were approved by the board of directors on behalf by:

26/4/06

and were signed on its



TD Anderson
Director

The notes on pages 13 to 21 form part of the financial statements.

Consolidated cash flow statement
for the year ended 31 March 2006

	<i>Note</i>	2006 £000	2005 £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		418	467
Increase in debtors		(12)	(1,323)
(Decrease)/increase in creditors		(469)	517
Increase in provisions		196	247
		<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities		133	(92)
		<hr/>	<hr/>
Cash flow statement			
Cash inflow/(outflow) from operating activities		133	(92)
Returns on investments and servicing of finance	17	150	266
		<hr/>	<hr/>
Cash outflow before financing		283	174
		<hr/>	<hr/>
Financing	17	(279)	2,668
		<hr/>	<hr/>
Increase in cash in the year		4	2,842
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year	18	4	2,842
Cash inflow from increase/(decrease) in debt	18	279	(2,668)
		<hr/>	<hr/>
Change in net debt resulting from cash flows		283	174
Non-cash movement		(31)	(7)
Net debt at the start of the year		(31,158)	(31,325)
		<hr/>	<hr/>
Net debt at 31 March 2006	18	(30,906)	(31,158)
		<hr/>	<hr/>

The notes on pages 13 to 21 form part of the financial statements.

Reconciliation of movements in shareholders' funds

For the year ended 31 March 2006

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Profit for the financial year	537	-	728	-
Dividends	-	-	-	-
Net increase in shareholders' funds	537	-	728	-
Opening shareholders' funds	1,303	50	575	50
Closing shareholders' funds	1,840	50	1,303	50

The notes on pages 13 to 21 form part of the financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Basis of preparation

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking, Catalyst Healthcare (Hexham) Plc.

No profit and loss account is presented for Catalyst Healthcare (Hexham) Holdings Limited as permitted by Section 230(4) of the Companies Act 1985. Details of the profit for Catalyst Healthcare (Hexham) Holdings Limited for the financial year is shown in note 16 to these financial statements.

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

Basis of consolidation

The Group accounts include the accounts of the Company and its subsidiary undertakings made up to 31 March 2006. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Investments

Investments held as fixed assets are stated at cost less amounts written off for impairment.

Turnover

Turnover on construction activities represents the value of work done and services rendered, excluding sales and related taxes. Turnover on operational services represents the value of work performed in the period under the concession agreement, together with additional services provided to the trust.

Finance lease debtor

Amounts receivable under the agreement with the Northumbria Healthcare NHS Trust relating to the hospital facilities transferred are included under debtors and represent the total amount outstanding under the agreement less unearned interest. Finance lease income is allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

Lifecycle costs

Provisions are made in respect of lifecycle maintenance costs to the extent that the company is obligated to undertake maintenance in future periods.

Notes (continued)

1 Accounting policies (continued)

Amortisation of issue costs

Issue cost are deducted against debt and amortised over the life of the instrument. This amortisation is charged to the profit and loss account when incurred.

Taxation

The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Related party transactions

The directors have taken advantage of the exemption in FRS 8, paragraph 3c, and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2 Analysis of turnover and profit on ordinary activities before taxation

	2006		2005	
	Turnover £000	Attributable pre-tax profit £000	Turnover £000	Attributable pre-tax profit £000
<i>By activity</i>				
Construction	-	-	83	-
Operational services	1,471	537	1,629	728
	<hr/>	<hr/>	<hr/>	<hr/>
	1,471	537	1,712	728
	<hr/>	<hr/>	<hr/>	<hr/>

3 Operating expenses

	2006 £000	2005 £000
Materials site and production costs	805	786
Management fees	83	111
Other operating expenses	165	348
	<hr/>	<hr/>
	1,053	1,245
	<hr/>	<hr/>

Notes (continued)

4 Operating profit

	2006 £000	2005 £000
<i>Operating profit is stated after charging</i>		
Auditors' remuneration:		
Audit (including £1,000 in respect of the company)	14	16
Other services	17	23
	<u> </u>	<u> </u>

Fees for other services paid to the auditors relate to accounting and taxation advisory work.

5 Remuneration of directors

The directors received no emoluments directly from the company (2005: £nil).

6 Staff numbers and costs

No staff are directly employed by the group. Services provided by the contractors include the provision of staff and management to perform contractual responsibilities. Costs associated with the staff and management are included within the contractors service charges.

7 Net interest payable and similar charges

	2006 £000	2005 £000
Bank interest receivable	152	31
Finance debtor interest receivable	2,391	2,412
On bank loans and overdrafts	(2,393)	(2,120)
Bank commitment fees payable	-	(21)
Amortisation of issue costs	(31)	(41)
	<u> </u>	<u> </u>
	119	261
	<u> </u>	<u> </u>

Notes (continued)

8 Taxation

Analysis of charge in year

	2006 £000	2005 £000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-

No recognition has been taken in respect of deferred tax asset arising from tax losses incurred during the construction phase.

Factors affecting the current tax charge for the current year

The current tax charge for the year is different than the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	537	728
Current tax at standard rate of 30% (2005: 30%)	161	218
<i>Effects on actual tax charge for the year:</i>		
Expenses not deductible for tax purposes (primarily finance debtor amortisation)	98	91
Utilisation of tax losses	(259)	(309)
Total current tax charge (see above)	-	-

9 Investments

Company

	Shares in subsidiary undertaking £000
<i>Cost and net book value</i>	
At beginning and end of the year	50

Shares in the subsidiary undertaking relates to the following:

Name of company	Country of registration	Holding	Proportion held
Catalyst Healthcare (Hexham) Plc	England	Ordinary shares	100%

The principal activities of the company are to design, finance, construct, refurbish and operate certain new facilities at the Hexham General Hospital under a concession agreement with Northumbria Healthcare NHS Trust.

Notes (continued)

10 Debtors

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Trade debtors	32	-	20	-
Amount owing to subsidiary undertakings	-	1,247	-	1,261
Other debtors	3,019	-	2,804	-
Finance debtor (note 11)	30,910	-	31,048	-
Prepayments	5	-	82	-
	<u>33,966</u>	<u>1,247</u>	<u>33,954</u>	<u>1,261</u>

Finance debtor includes £30,556,000 (2005: £30,722,000) due after more than one year. The ageing profit of finance debtor is shown in note 11.

11 Analysis of finance debtor - Group

	2006 £000	2005 £000
Amounts due within		
1 year	354	326
1-2 years	382	352
2-5 years	1,340	1,233
Over 5 years	28,834	29,137
	<u>30,910</u>	<u>31,048</u>
Less: amounts due within 1 year	(354)	(326)
	<u>30,556</u>	<u>30,722</u>

The movement in the finance debtor balance can be considered as follows:

	2006 £000	2005 £000
Opening debtor	31,048	31,359
Additions to finance debtor in the year (net of capital contributions)	188	(9)
Capital element of payments received in year	(326)	(302)
	<u>30,910</u>	<u>31,048</u>

In accordance with FRS 5 Application Note F, the income received in the form of a unitary charge has been allocated to the finance debtor using a property specific rate of return which the directors consider appropriate for the asset concerned. The gross earnings in respect of the finance debtor are allocated to give a constant periodic rate of return on the company's net cash investment.

Notes (continued)

12 Creditors: amounts falling due within one year

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Bank loans (note 13)	320	-	280	-
Trade creditors	237	-	618	-
Tax and social security	109	-	60	-
Accruals and deferred income	144	-	280	14
	<u>810</u>	<u>-</u>	<u>1,238</u>	<u>14</u>

13 Creditors: amounts falling due after more than one year

	Group 2006 £000	Company 2006 £000	Group 2005 £000	Company 2005 £000
Bank loans	32,822	-	33,142	-
Loan stock	1,247	1,247	1,247	1,247
Issue costs	(551)	-	(582)	-
	<u>33,518</u>	<u>1,247</u>	<u>33,807</u>	<u>1,247</u>

The group has a 30 year term loan secured by a fixed and floating charge over the assets of the group. Until 31 March 2003, the rate paid was LIBOR plus a 1.0% margin. This margin has changed to 0.8%. The group has entered into a swap transaction resulting in interest being charged on this loan at a rate of 6.785% until 31 March 2003, and 6.685% thereafter.

The Mezzanine loan, included within bank loans, was taken out during the year and carries an interest rate based on floating LIBOR plus 5%. Repayments fall due between 2006 and 2031.

Loan stock was issued during the year bearing an interest rate of 13%. The stock falls due for repayment in 2032.

Repayment details are set out below.

Analysis of debt	Group 2006 £000	Company 2005 £000	Group 2005 £000	Company 2005 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	320	-	280	-
Between one and two years	303	-	321	-
Between two and five years	1,331	-	1,167	-
In five years or more	32,435	1,247	32,901	1,247
	<u>34,389</u>	<u>1,247</u>	<u>34,669</u>	<u>1,247</u>
Less: issue costs	(551)	-	(582)	-
	<u>33,838</u>	<u>1,247</u>	<u>34,087</u>	<u>1,247</u>

Notes (continued)

14 Provisions for liabilities and charges

Group	Lifecycle provision
	2006
	£000
At beginning of year	534
Utilised during year	(100)
Charge to the profit and loss for the year	296
	<hr/>
At end of year	730
	<hr/>

15 Called up share capital

	2006	2005
	£000	£000
<i>Authorised</i>		
50,000 Ordinary shares of £1 each	50	50
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
50,000 Ordinary shares of £1 each	50	50
	<hr/>	<hr/>

16 Profit and loss account reserve

	Group	Company
	£000	£000
At beginning of year	1,253	-
Retained profit for the year	537	-
	<hr/>	<hr/>
At end of year	1,790	-
	<hr/>	<hr/>

Notes (continued)

17 Analysis of cash flows

	2006 £000	2006 £000	2005 £000	2005 £000
Returns on investment and servicing of finance				
Interest payable on borrowing	(2,393)		(2,176)	
Other interest receivable	2,543		2,442	
	<u> </u>	150	<u> </u>	266
		<u> </u>		<u> </u>
Financing				
Increase in bank loan	-		1,990	
Issue of loan stock	-		1,247	
Loan repayment	(279)		(569)	
	<u> </u>	(279)	<u> </u>	2,668
		<u> </u>		<u> </u>

18 Analysis of net debt

	At beginning of year £000	Cash flow £000	Non-cash Movements £000	At end of year £000
Cash in hand, at bank	2,928	4	-	2,932
Loans due within one year	(280)	(41)	-	(321)
Loans due after one year	(33,806)	320	(31)	(33,517)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Debt	(31,158)	283	(31)	(30,906)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The non-cash movements relate to reclassification of debt issue cost.

19 Commitments

At 31 March 2006 the group had authorised and contracted capital commitments of £nil (2005: £nil).

Notes (continued)

20 Related party disclosures

During the year the group incurred the following expenditure with the following related parties. The amounts due outstanding at the end of the year are also set out below:

Related Party	Relationship	Class of Transaction	Expenditure		Creditor	
			2006 £000	2005 £000	2006 £000	2005 £000
Bank of Scotland	Parent company of Uberior Infrastructure Investments Limited - 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Bank interest and fees	2,164	2,108	-	-
Bovis Lend Lease Limited	Part of Bovis Lend Lease Group - 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Construction	1,061	1,128	190	488
Catalyst Lend Lease Limited	Part of Bovis Lend Lease Group - 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Management Services	126	181	45	48

21 Controlling parties

The company is jointly controlled by its shareholders under the shareholders' agreement:

	Shareholding
Bovis Lend Lease Holdings Limited	50%
Uberior Infrastructure Investments Limited	50%

22 Subsequent event

The ultimate parent company has now changed to Catalyst Investment Holdings Limited following acquisition subsequent to year end.