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Catalyst Healthcare (Hexham) Holdings Limited

**Directors' report and consolidated
financial statements**

Registered number 04108766

Year ended 31 March 2003



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Directors and advisors

Executive Director

T D Anderson

Non-Executive Directors

Sir ADT Chessells (Chairman)

A D Darling

A Gander (resigned 11 July 2002)

P R Grant

DK Perry (appointed 21 January 2003)

JE Prescott (resigned 25 June 2003)

A Ring

A D Silverbeck (resigned 21 January 2003)

RH Taylor (appointed 21 January 2003)

Registered Office

9th Floor

St James's Buildings

Oxford Street

Manchester

M1 6FQ

Company Secretary

HLM Secretaries Limited

9th Floor

St James's Buildings

79 Oxford Street

Manchester

M1 6FQ

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 2003. The comparative period is for the 15 months ended 31 March 2002.

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 and continued throughout the year. On 31 March 2003 the main construction project reached practical completion, and operational services are due to commence in the year to March 2004. The results for the company are set out in the profit and loss account on page 7.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The retained profit for the year is £nil (2002: £nil).

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. The interests of the directors in other group companies are disclosed in the financial statements of those group companies.

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.

Political and charitable donations

During the year there were no charitable or political donations (2002: £nil).

Corporate Governance

The group is committed to high standards of corporate governance, as are appropriate for the longer term obligations to finance, construct and operate non-clinical services for the new Hexham hospital 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: Principles of Good Governance and Code of Best Practice, which was published in June 1998 as a consolidation of the work of the Hampel Committee and the earlier Cadbury and Greenbury Committees and also of the ICAEW guidance on internal control issued by the Turnbull Working Party. Whereas the Combined Code has been introduced to apply to quoted plc's with certain reporting requirements, this company, not being a quoted plc, has adopted the main principles set out in the Combined Code.

Directors' report (*continued*)

Corporate Governance (*continued*)

This report is a narrative on the principles of the Code, as applied in this company. It does not provide a detailed statement to identify those provisions of the 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 Healthcare Management Limited, and are included in the services provided by that company, whose relationship is set out in Note 0.

C. *Dialogue with Institutions*

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

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.

Directors' report (*continued*)

Corporate Governance (*continued*)

2. The board maintains a sound system of internal control to safeguard shareholders' investments and the company's assets.

Creditors payment policy

It is company policy that payments to suppliers are made in accordance with agreed terms.

Auditors

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

By order of the board



HLM Secretaries Limited
Secretary

18 November 2003

9th Floor
St James's Buildings
Oxford Street
Manchester
M1 6FQ

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group 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 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 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.



St James' Square
Manchester M2 6DS
United Kingdom

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

We have audited the financial statements on pages 7 to 18.

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 are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company is not disclosed.

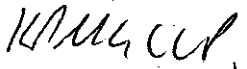
Basis of audit opinion

We conducted our audit in accordance with 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2003 and of the result of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP
Chartered Accountants
Registered Auditor

31/2/03

Consolidated profit and loss account
for the year ended 31 March 2003

	<i>Note</i>	31 March 2003 £000	15 months ended 31 March 2002 £000
Turnover		18,496	11,464
Operating expenses	2	(17,112)	(10,905)
Operating profit	3	1,384	559
Net interest payable and similar charges	5	(1,384)	(559)
Profit before tax		-	-
Taxation	6	-	-
Retained profit for the financial year		-	-

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

A statement of movements on reserves is given on page 12.

Consolidated balance sheet
at 31 March 2003

	Note	2003 £000	2002 £000
Current assets			
Debtors: amounts falling due within one year	8	636	161
amounts falling due after more than one year	8	29,665	11,464
		30,301	11,625
Cash at bank and in hand		59	1,359
		30,360	12,984
Creditors: amounts falling due within one year	9	(1,517)	(1,857)
Net current assets		28,843	11,127
Creditors: amounts falling due after more than one year	10	(28,793)	(11,077)
Net assets		50	50
Capital and reserves			
Called up share capital	11	50	50
Profit and loss account	12	-	-
Shareholders' funds		50	50

These financial statements were approved by the board of directors on *18 November* 2003 and were signed on its behalf by:



TD Anderson
Director

Company balance sheet
at 31 March 2003

	<i>Note</i>	2003 £000	2002 £000
Fixed asset			
Investments	7	50	50
		<hr/>	<hr/>
Net assets		50	50
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	11	50	50
Profit and loss account	12	-	-
		<hr/>	<hr/>
Shareholders' funds		50	50
		<hr/>	<hr/>

These financial statements were approved by the board of directors on *18 November* 2003 and were signed on its behalf by:



TD Anderson

Director

Consolidated cash flow statement
for the year ended 31 March 2003

		2003	2002
		£000	£000
		£000	£000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit		1,384	559
Increase in debtors		(18,676)	(11,625)
(Decrease)/increase in creditors		(340)	1,838
		<u></u>	<u></u>
Net cash outflow from operating activities		(17,632)	(9,228)
		<u></u>	<u></u>
Cash flow statement			
Cash outflow from operating activities		(17,632)	(9,228)
Returns on investments and servicing of finance			
Interest received	15	101	
Interest paid	(1,316)	(529)	
Bank commitment fees	(67)	(95)	
		<u></u>	<u></u>
		(1,368)	(523)
		<u></u>	<u></u>
Cash outflow before financing		(19,000)	(9,751)
Financing			
Increase in bank loans	17,700	11,700	
Issue costs incurred	-	(640)	
Issue of ordinary shares	-	50	
		<u></u>	<u></u>
		17,700	11,110
		<u></u>	<u></u>
(Decrease)/increase in cash in the year		(1,300)	1,359
		<u></u>	<u></u>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the year	13	(1,300)	1,359
Cash inflow from increase in debt	13	(17,700)	(11,060)
		<u></u>	<u></u>
Change in net debt resulting from cashflows		(19,000)	(9,701)
Non-cash movement		(16)	(17)
Net debt at the start of the period		(9,718)	-
		<u></u>	<u></u>
Net debt at 31 March 2003	13	(28,734)	(9,718)
		<u></u>	<u></u>

Reconciliation of movements in shareholders' funds
for the 15 months ended 31 March 2003

	Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
Result for the financial period	-	-	-	-
New share capital subscribed	-	-	50	50
Net increase in shareholders' funds	-	-	50	50
Opening shareholders' funds	50	50	-	-
Closing shareholders' funds	50	50	50	50

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. The group has adopted FRS 18 'Accounting policies' and FRS 19 'Deferred tax' in these financial statements. No changes to the comparative figures have been required as a result.

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 individual profit and loss account for Catalyst Healthcare (Hexham) Holdings Limited for the financial period is shown in note 12 to these financial statements.

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

Turnover

Turnover on construction activities represents the value of work done and services rendered, excluding sales and related taxes.

Stocks and work in progress / amounts recoverable under contracts

Costs incurred in the construction of the hospital have been accounted for under Financial Reporting Standard ('FRS') 5 Application Note F. Applying the guidance within the Application Note indicates that the project's principal agreements transfer substantially all the risks and rewards of ownership to the Northumbria Healthcare NHS Trust. As such, all construction costs incurred on the project, including interest on finance up to the date of commission and incidental costs, are recorded as construction work in progress during the construction phase of the project. Costs are recognised as cost of sales to the extent that they relate to the value of work done in respect of turnover recognised.

On the services commencement date, the amounts outstanding under the contract are transferred from amounts recoverable under contracts into a finance debtor.

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.

Capitalisation of interest

Loan interest incurred during the construction of the hospital is capitalised into the finance debtor.

Notes (continued)

1 Accounting policies (continued)

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 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 Operating expenses

	Year ended 31 March 2003	15 Months ended 31 March 2002
	£000	£000
Materials site and production costs	16,376	8,448
Management fees	185	165
Other operating expenses	551	306
Initial project costs	-	1,986
	<u>17,112</u>	<u>10,905</u>

3 Operating profit

	Year ended 31 March 2003	15 Months ended 31 March 2002
	£000	£000
<i>Operating profit is stated after charging</i>		
Auditors' remuneration:		
Audit (including £1,000 in respect of the company)	17	15
Other services	2	3
	<u>19</u>	<u>18</u>

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

Notes (continued)

4 Remuneration of directors

The directors received no emoluments directly from the company.

5 Net interest payable and similar charges

	Year ended 31 March 2003	15 months ended 31 March 2002
	£000	£000
Bank interest receivable	15	95
Other interest receivable	-	6
On bank loans and overdrafts	(1,316)	(548)
Bank commitment fees payable	(67)	(95)
Amortisation of issue costs	(16)	(17)
	<u>(1,384)</u>	<u>(559)</u>

Finance costs amounting to £1,368,000 (2002: £559,000) have been capitalised within the amounts recoverable on contracts.

6 Taxation

Analysis of charge in period

	2003 £000	2002 £000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-

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

Notes (continued)

7 Investments

Company

	Shares in subsidiary undertaking £000
<i>Cost</i>	
At beginning of the period	50
Additions	-
	<hr/>
At end of year	50
	<hr/>
<i>Provisions for diminution</i>	
At beginning and end of year	-
	<hr/>
<i>Net book value</i>	
At 31 March 2003	50
	<hr/>
At beginning of period	50
	<hr/>

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.

8 Debtors

	Group 2003	Company 2003	Group 2002	Company 2002
	£000	£000	£000	£000
Other debtors – other taxes and social security	306	-	126	-
Finance debtor	29,960	-	-	-
Amounts recoverable on contracts	-	-	11,464	-
Prepayments	35	-	35	-
	<hr/>	<hr/>	<hr/>	<hr/>
	30,301	-	11,625	-
	<hr/>	<hr/>	<hr/>	<hr/>

The 2003 finance debtor (2002: amounts recoverable on contracts) includes £29,665,000 (2002: £11,464,000) due after more than one year.

Notes (continued)

9 Creditors: amounts falling due within one year

	Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
Trade creditors	985	-	857	-
Accruals and deferred income	532	-	1,000	-
	<u>1,517</u>	<u>-</u>	<u>1,857</u>	<u>-</u>

10 Creditors: amounts falling due after more than one year

	Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
Bank loans	29,400	-	11,700	-
Issue costs	(607)	-	(623)	-
	<u>28,793</u>	<u>-</u>	<u>11,077</u>	<u>-</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 will be LIBOR plus a 1.0% margin. This margin will change to 0.9% thereafter. 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.

Repayment details are set out below.

Analysis of debt	Group 2003 £000	Company 2003 £000	Group 2002 £000	Company 2002 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	-	-	-	-
Between one and two years	-	-	43	-
Between two and five years	1,079	-	331	-
In five years or more	28,321	-	11,326	-
	<u>29,400</u>	<u>-</u>	<u>11,700</u>	<u>-</u>
Issue costs	(607)	-	(623)	-
	<u>28,793</u>	<u>-</u>	<u>11,077</u>	<u>-</u>

Notes (continued)

11 Called up share capital

	31 March 2003 £000	31 March 2002 £000
<i>Authorised</i> 50,000 Ordinary shares of £1 each	50	50
<i>Allotted, called up and fully paid</i> 50,000 Ordinary shares of £1 each	50	50

12 Profit and loss account reserves

	Profit and loss account £000
At beginning and end of period	-

13 Analysis of net debt

	At beginning of period £000	Cash flow £000	Non-cash movements £000	At 31 March 2003 £000
Cash in hand, at bank	1,359	(1,300)	-	59
Loans due after one year	(11,077)	(17,700)	(16)	(28,793)
Net Debt	(9,718)	(19,000)	(16)	(28,734)

14 Commitments

At 31 March 2003 the group had authorised and contracted capital commitments of £3,471,000 (2002: £19,053,000).

Notes (continued)

15 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	
			2003 £000	2002 £000	2003 £000	2002 £000
Bank of Scotland	50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Financial Advisory Work	1,443	1,233	11	-
Bovis Lend Lease Limited	Part of Bovis Lend Lease Group – 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Construction	16,540	7,593	1,382	850
Catalyst Healthcare Management Limited	Part of Bovis Lend Lease Group – 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Management Services	186	855	-	-