

Catalyst Healthcare (Hexham) Holdings Limited

**Directors' report and consolidated
financial statements**

Registered number 04108766

Year ended 31 March 2005



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Directors and advisors

Executive Director

TD Anderson

Non-Executive Directors

Sir ADT Chessells (Chairman)

RH Taylor (resigned 25 May 2005)

D Powling

S Hockaday (appointed 25 May 2005)

AL Tennant

MS Amin (resigned 1 December 2004)

T Dickie (appointed 25 April 2005)

Company Secretary

AL Mitchell (appointed 31 December 2004)

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 2005.

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 7.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The retained profit for the year is £728,000 (2004: £525,000).

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. 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 £nil (2004: £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 new Combined Code as this has been introduced to apply to equity quoted plcs 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.

Directors' report (*continued*)

Corporate Governance (*continued*)

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 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.

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.

Directors' report (*continued*)

Corporate Governance (*continued*)

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 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 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

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 and 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 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.



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 financial statements on pages 7 to 20.

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.

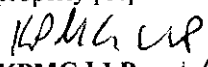
Basis of audit opinion

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 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG LLP 6/9/05
Chartered Accountants
Registered Auditors

Consolidated profit and loss account
for the year ended 31 March 2005

	<i>Note</i>	31 March 2005 £000	31 March 2004 £000
Turnover	2	1,712	3,927
Operating expenses	3	(1,245)	(3,610)
Operating profit	4	467	317
Net interest payable and similar charges	6	261	208
Profit before tax		728	525
Taxation	7	-	-
Retained profit for the financial year		728	525

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

The results for the arise wholly from continuing operations.

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.

Consolidated balance sheet
at 31 March 2005

	Note	2005 £000	2004 £000
Current assets			
Debtors: amounts falling due within one year	9	3,231	627
amounts falling due after more than one year	9	30,723	32,004
		33,954	32,631
Cash at bank and in hand		2,928	86
		<u>36,882</u>	<u>32,717</u>
Creditors: amounts falling due within one year	11	(1,238)	(562)
		<u>35,644</u>	<u>32,155</u>
Net current assets			
Creditors: amounts falling due after more than one year	12	(33,807)	(31,293)
Provisions for liabilities and charges	13	(534)	(287)
		<u>1,303</u>	<u>575</u>
Net assets			
Capital and reserves			
Called up share capital	14	50	50
Profit and loss account	15	1,253	525
		<u>1,303</u>	<u>575</u>
Shareholders' funds			

These financial statements were approved by the board of directors on 26.1.06 and were signed on its behalf by:



TD Anderson
 Director

Company balance sheet

At 31st March 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
Fixed assets					
Investments	8		50		50
Current assets					
Debtors	9	1,261		-	
Cash at bank and in hand		-		-	
		<u>1,261</u>		<u>-</u>	
Creditors: amounts falling due within one year	11	<u>(14)</u>		<u>-</u>	
Net current assets		1,247		-	
Total assets less current liabilities			<u>1,297</u>		<u>50</u>
Creditors: amounts falling due after more than one year	12		<u>(1,247)</u>		<u>-</u>
Net assets			<u>50</u>		<u>50</u>
Capital and reserves					
Called up share capital	14		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 26.7.05
 behalf by:

and were signed on its



TD Anderson
 Director

Consolidated cash flow statement
for the year ended 31 March 2005

<i>Note</i>	2005	2004
	£000	£000

**Reconciliation of operating profit to net cash
 flow from operating activities**

Operating profit	467	317
Increase in debtors	(1,323)	(2,279)
Increase in creditors	517	(1,124)
Increase in provisions	247	287
	<hr/>	<hr/>
Net cash outflow from operating activities	(92)	(2,799)
	<hr/>	<hr/>

Cash flow statement

Cash outflow from operating activities		(92)	(2,799)
Returns on investments and servicing of finance	16	266	226
		<hr/>	<hr/>
Cash outflow before financing		174	(2,573)
		<hr/>	<hr/>
Financing	16	2,668	2,600
		<hr/>	<hr/>
Increase in cash in the year		2,842	27
		<hr/>	<hr/>

**Reconciliation of net cash flow to movement in
 net debt**

Increase in cash in the year	17	2,842	27
Cash inflow from increase in debt	17	(2,668)	(2,600)
		<hr/>	<hr/>
Change in net debt resulting from cash flows		174	(2,573)
		<hr/>	<hr/>
Non-cash movement		(7)	(18)
		<hr/>	<hr/>
Net debt at the start of the period		(31,325)	(28,734)
		<hr/>	<hr/>
Net debt at 31 March 2005	17	(31,158)	(31,325)
		<hr/>	<hr/>

Reconciliation of movements in shareholders' funds

For the year ended 31 March 2005

	Group 2005 £000	Company 2005 £000	Group 2004 £000	Company 2004 £000
Result for the financial period	728	-	525	-
Dividends	-	-	-	-
Net increase in shareholders' funds	728	-	525	-
Opening shareholders' funds	575	50	50	50
Closing shareholders' funds	1,303	50	575	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.

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) Limited as permitted by Section 230(4) of the Companies Act 1985. Details of the profit/(loss) for Catalyst Healthcare (Hexham) Holdings Limited for the financial period is shown in note 15 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. 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)

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

	31 March 2005		31 March 2004	
	Turnover £000	Attributable pre-tax profit £000	Turnover £000	Attributable pre-tax profit £000
<i>By activity</i>				
Construction	83	-	2,443	-
Operational services	1,629	728	1,484	525
	<u>1,712</u>	<u>728</u>	<u>3,927</u>	<u>525</u>

3 Operating expenses

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Materials site and production costs	786	3,168
Management fees	111	180
Other operating expenses	348	262
	<u>1,245</u>	<u>3,610</u>

Notes (continued)

4 Operating profit

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
<i>Operating profit is stated after charging</i>		
Auditors' remuneration:		
Audit (including £1,000 in respect of the company)	16	18
Other services	23	12
	<u> </u>	<u> </u>

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

Audit fees of £15,750 (2004: £18,000) and other services (relating to taxation advice) of £22,580 (2004: £12,000) have been paid to the auditors in the year.

5 Remuneration of directors

The directors received no emoluments directly from the company.

6 Net interest payable and similar charges

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Bank interest receivable	31	8
Other interest receivable	2,412	2,391
On bank loans and overdrafts	(2,120)	(2,147)
Bank commitment fees payable	(21)	(26)
Amortisation of issue costs	(41)	(18)
	<u> </u>	<u> </u>
	261	208
	<u> </u>	<u> </u>

7 Taxation

Analysis of charge in period

	2005 £000	2004 £000
UK corporation tax		
Current tax on income for the period	-	-
	<u> </u>	<u> </u>

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)

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:

	2005 £000	2004 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	728	525
	<hr/>	<hr/>
Current tax at standard rate of 30% (2004: 30%)	218	158
<i>Effects on actual tax charge for the year:</i>		
Expenses not deductible for tax purposes (primarily finance debtor amortisation)	91	83
Utilisation of tax losses	(309)	(241)
Losses created in year	-	-
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/>	<hr/>

8 Investments

Company

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

Notes (continued)

9 Debtors

	Group 2005	Company 2005	Group 2004	Company 2004
	£000	£000	£000	£000
Trade debtors	20	-	48	-
Amount owing to Subsidiary	-	1,261	-	-
Other debtors	2,804	-	1,223	-
Finance debtor	31,048	-	31,359	-
Prepayments	82	-	1	-
	<u>33,954</u>	<u>1,261</u>	<u>32,631</u>	<u>-</u>

Finance debtor includes £30,722,624 (2004: £31,060,000) due after more than one year.

10 Analysis of finance debtor

	2005 £000	2004 £000
Amounts due within		
1 year	326	299
1-2 years	352	323
2-5 years	1,233	1,132
Over 5 years	29,137	29,605
	<u>31,048</u>	<u>31,359</u>
Less: amounts due within 1 year	(325)	(299)
	<u>30,723</u>	<u>31,060</u>

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

	2005 £000	2004 £000
Opening debtor	31,359	29,960
Additions to finance debtor in the year (net of capital contributions)	(9)	1,674
Capital element of payments received in year	(302)	(275)
	<u>31,048</u>	<u>31,359</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)

11 Creditors: amounts falling due within one year

	Group 2005	Company 2005	Group 2004	Company 2004
	£000	£000	£000	£000
Bank loans and overdrafts	280	-	118	-
Trade creditors	618	-	141	-
Tax and social security	60	-	55	-
Accruals and deferred income	280	14	248	-
	<u>1,238</u>	<u>14</u>	<u>562</u>	<u>-</u>

12 Creditors: amounts falling due after more than one year

	Group 2005	Company 2005	Group 2004	Company 2004
	£000	£000	£000	£000
Bank loans	33,142	-	31,882	-
Loan stock	1,247	1,247	-	-
Issue costs	(582)	-	(589)	-
	<u>33,807</u>	<u>1,247</u>	<u>31,293</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 was LIBOR plus a 1.0% margin. This margin has changed to 0.9%. 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.

Notes (continued)

Repayment details are set out below.

Analysis of debt	Group 2005 £000	Company 2005 £000	Group 2004 £000	Company 2004 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	280	-	118	-
Between one and two years	321	-	283	-
Between two and five years	1,167	-	1,074	-
In five years or more	32,901	1,247	30,525	-
	<u>34,669</u>	<u>1,247</u>	<u>32,000</u>	<u>-</u>
Issue costs	(582)	-	(589)	-
	<u>34,087</u>	<u>1,247</u>	<u>31,411</u>	<u>-</u>

13 Provisions for liabilities and charges

	2005 £000	2004 £000
At beginning of period	287	-
Utilised during period	(46)	(14)
Charge to the profit and loss for the period	293	301
	<u>534</u>	<u>287</u>
At end of period		

14 Called up share capital

	31 March 2005 £000	31 March 2004 £000
<i>Authorised</i>		
50,000 Ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>
<i>Allotted, called up and fully paid</i>		
50,000 Ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

Notes (continued)

15 Profit and loss account reserve

	Group £000	Company £000
At beginning of year	525	-
Retained profit for the year	728	-
	<hr/>	<hr/>
At end of year	1,253	-
	<hr/>	<hr/>

16 Analysis of cash flows

	2005 £000	2005 £000	2004 £000	2004 £000
Returns on investment and servicing of finance				
Interest payable on borrowing	(2,176)		(2,173)	
Other interest receivable	2,442		2,399	
	<hr/>		<hr/>	
		266		226
		<hr/>		<hr/>
Financing				
Increase in bank loan	1,990		2,600	
Issue of loan stock	1,247		-	
Loan repayment	(569)		-	
	<hr/>		<hr/>	
		2,668		2,600
		<hr/>		<hr/>

17 Analysis of net debt

	At beginning of period £000	Cash flow £000	Non-cash Movements £000	At 31 March 2005 £000
Cash in hand, at bank	86	2,842	-	2,928
Loans due within one year	(118)	(162)	-	(280)
Loans due after one year	(31,293)	(2,506)	(7)	(33,806)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Debt	(31,325)	174	(7)	(31,158)
	<hr/>	<hr/>	<hr/>	<hr/>

18 Commitments

At 31 March 2005 the group had authorised and contracted capital commitments of £nil (2004: £400,000).

Notes (continued)

19 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	
			2005 £000	2004 £000	2005 £000	2004 £000
Bank of Scotland	Parent company of Uberior Infrastructure Investments Limited - 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Bank interest and fees	2,108	2,165	-	-
Bovis Lend Lease Limited	Part of Bovis Lend Lease Group -- 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Construction	1,128	3,179	488	105
Catalyst Healthcare Management Limited	Part of Bovis Lend Lease Group -- 50% shareholders of Catalyst Healthcare (Hexham) Holdings Limited	Management Services	181	171	48	18