

4157380

SUMMIT HOLDINGS (DUDLEY) LIMITED

Report and Group Accounts

31 March 2002

ERNST & YOUNG



Summit Holdings (Dudley) Limited

Registered No. 04157380

DIRECTORS

A D Darling
V H Dickinson
P R Grant
A M Ringrose
M C Shelley
C L Spencer
J M Thompson
C B Weekley

SECRETARY

D J McEvedy

AUDITORS

Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

BANKERS

Lloyds TSB plc
11-15 Monument Street
London
EC3V 9JA

REGISTERED OFFICE

19 – 23 Blackfriars Road
London
SE1 8NY

 ERNST & YOUNG

Summit Holdings (Dudley) Limited

DIRECTORS' REPORT

The directors present their report and the group accounts for the period from incorporation on 9 February 2001 to 31 March 2002.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The company is a holding company whose sole business is the holding of investments in its wholly owned subsidiaries, Summit Healthcare (Dudley) Limited and Dudley Summit plc.

Summit Healthcare (Dudley) Limited entered into an agreement with the Dudley Group of Hospitals NHS Trust to refurbish certain existing sites and to design and construct further hospital buildings and to manage and provide non-clinical support services at the hospitals.

Dudley Summit plc issued guaranteed secured index linked bonds in May 2001 and the funds raised, with additional funding from the European Investment Bank, were on loaned to Summit Healthcare (Dudley) Limited to fund the project.

RESULTS AND DIVIDENDS

The loss for the period, after taxation, amounted to £11,794,000. The directors do not recommend the payment of a dividend.

FINANCIAL INSTRUMENTS

The group's principal financial instruments comprise guaranteed secured bonds, a committed term loan facility, guaranteed investment contracts and cash. The main purpose of these instruments is the financing of the design, build and operation of various hospital buildings under the Government's Private Finance Initiative. The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the group's financial instruments are interest rate and liquidity risk. The board has policies for managing each of these risks and they are summarised below. The policies have remained unchanged since incorporation.

Interest rate risk

The terms of the guaranteed secured bonds and committed loan facility are such that all payments of principal and interest are indexed to retail price inflation. The group has entered into indexed linked and fixed rate guaranteed investment contracts with AMBAC Capital Funding Inc. The group invests in cash deposits at floating rates. The group's exposure to interest fluctuations will continue to be monitored.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash deposits and proceeds from investment sums.

Summit Holdings (Dudley) Limited

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The directors who served at 31 March 2002 and during the period were as follows:

Instant Companies Limited	(appointed and resigned 9 February 2001)
Swift Incorporation Limited	(appointed and resigned 9 February 2001)
M Darroch	(appointed 9 February 2001, resigned 24 August 2001)
R B Eley	(appointed 9 February 2001, resigned 11 January 2002)
R D Vince	(appointed 24 August 2001, resigned 19 April 2002)
A M Ringrose	(appointed 9 February 2001)
A D Darling	(appointed 9 February 2001)
M C Shelley	(appointed 9 February 2001)
C L Spencer	(appointed 9 February 2001)
P R Grant	(appointed 18 January 2002)
V H Dickinson	(appointed 18 January 2002)
J M Thompson	(appointed 19 April 2002)

C B Weekley was appointed as a director on 20 September 2002.

None of the directors held an interest in the share capital of the company.

AUDITORS

On 15 November 2001, Ernst & Young LLP were appointed as the company's auditors.

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the members at the forthcoming Annual General Meeting.

On behalf of the board



Director

25 October 2002

Summit Holdings (Dudley) Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial period, which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. 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, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT**to the members of Summit Holdings (Dudley) Limited**

We have audited the company's accounts for the period ended 31 March 2002 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement and the related notes 1 to 23. 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 accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 2002 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Luton

25 March 2002

Summit Holdings (Dudley) Limited

GROUP PROFIT AND LOSS ACCOUNT

for the period ended 31 March 2002

	Notes	54 weeks 2002 £000
TURNOVER	2	13,859
Cost of sales		(17,494)
GROSS PROFIT		(3,635)
Administrative expenses		(1,306)
Exceptional administrative expense – project start-up costs	3	(6,250)
OPERATING LOSS	3	(11,191)
Interest receivable	6	4,743
Interest payable and similar charges	7	(6,080)
		(1,337)
Interest capitalised		734
		(603)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(11,794)
Tax on profit on ordinary activities	8	–
RESULT FOR THE FINANCIAL YEAR	18	(11,794)

There are no recognised gains and losses other than the loss for the year.

Summit Holdings (Dudley) Limited

GROUP BALANCE SHEET

at 31 March 2002

	Notes	2002 £000
FIXED ASSETS		
Tangible	9	30,355
CURRENT ASSETS		
Debtors:	11	914
Investments	12	84,310
Cash at bank and in hand		18,121
CREDITORS: amounts falling due within one year	13	103,345 (5,514)
NET CURRENT ASSETS		97,831
TOTAL ASSETS LESS CURRENT LIABILITIES		128,186
CREDITORS: amounts falling due after more than one year	14	(139,920)
		(11,734)
CAPITAL AND RESERVES		
Called up share capital	17	60
Profit and loss account	18	(11,794)
EQUITY SHAREHOLDERS' FUNDS		(11,734)

Am. King

Director

23 October 2002

Summit Holdings (Dudley) Limited

COMPANY BALANCE SHEET

at 31 March 2002

	Notes	2002 £000
FIXED ASSETS		
Investment	10	60
		<hr/>
CAPITAL AND RESERVES		
Called up share capital	17	60
Profit and loss account	18	-
		<hr/>
EQUITY SHAREHOLDERS' FUNDS		60
		<hr/>

Am Lung
Director

25 October 2002

ERNST & YOUNG

Summit Holdings (Dudley) Limited

GROUP STATEMENT OF CASH FLOWS

for the period ended 31 March 2002

	Notes	2002 £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	20(a)	(10,716)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received from investments		4,042
Bank interest received		411
Interest paid on bonds		(2,520)
Interest paid on committed term loan facility		(2,052)
Issue costs on new long term loans		(4,230)
		(4,349)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets		(23,854)
NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		(38,919)
MANAGEMENT OF LIQUID RESOURCES		
Purchase of investments		(84,020)
FINANCING		
Proceeds from issue of share capital		60
Proceeds from issue of bonds		71,000
Proceeds from issue of loan		70,000
		141,060
INCREASE IN CASH		18,121
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		
Increase in cash		18,121
Cash outflow from increase in liquid resources		84,020
Cash inflow from increase in debt		(141,000)
Issue costs of new long term loans		4,230
Change in net debt resulting from cash flows	20(b)	(34,629)
Indexation in the period		(1,024)
		(35,653)
NET DEBT AS AT 31 MARCH	20(b)	(35,653)

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS

at 31 March 2002

1. ACCOUNTING POLICIES

Accounting convention

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

Fundamental accounting concept

The accounts have been prepared on a going concern basis as the group will have adequate resources, supported by its shareholders, to continue in operational existence for the foreseeable future. The group has net current assets of approximately £98 million and the payments from the NHS Trust has been matched in the project to the repayment schedule on the bond issue and loan.

Basis of consolidation

The group's financial statements incorporate the assets and liabilities of Summit Holdings (Dudley) Limited and its subsidiary undertakings Dudley Summit PLC and Summit Healthcare (Dudley) Limited as at 31 March 2002 and their result for the period ended 31 March 2002.

No profit and loss account is presented for Summit Holdings (Dudley) Limited as permitted by Section 230 of the Companies Act 1985. The company did not trade in the period.

Tangible fixed assets

No depreciation is provided on assets under construction.

Capitalisation of interest

Interest has been capitalised based on the borrowing cost during the period, net of interest received on cash deposits, of amounts used to finance capital expenditure in the period.

Liquid resources

Liquid resources comprise current asset investments held under Guaranteed Investment Contracts and as readily disposable investments. They are readily convertible into known amounts of cash at, or close to, their carrying value. The investments are carried at lower of cost and net realisable value. Net realisable value is based on mid-market price.

Financial instruments

Financial instruments are recorded on a historical cost basis. Indexation and interest are charged to the profit and loss account on an accruals basis.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS

at 31 March 2002

1. ACCOUNTING POLICIES (continued)

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 instrument at a constant rate on the carrying amount.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced for the provision of non-clinical services and maintenance of various buildings at four hospitals and is attributable to the United Kingdom.

3. OPERATING LOSS

This is stated after charging:

	2002
	£000
Auditor's remuneration - audit services	13
- non-audit services	28
Exceptional Items - project start-up costs	6,250
	<u>6,291</u>

4. DIRECTORS' EMOLUMENTS

No directors received any payment during the year in respect of their services to the group.

5. STAFF COSTS

The group does not have any employees under contract to group companies. Staff are seconded from the shareholders of the company.

6. INTEREST RECEIVABLE

	2002
	£000
Bank interest	411
Investment interest	4,332
	<u>4,743</u>

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS

at 31 March 2002

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £000
Guaranteed secured bonds	2,520
Loan	2,052
Amortised issue costs	194
Indexation of outstanding capital:	
Guaranteed secured bonds	662
Loan	652
	<u>6,080</u>

Interest of £734,000 has been capitalised in the period.

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax benefit on the losses on ordinary activities for the period is lower than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	2002 £000
Loss on ordinary activities before tax	11,794
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(3,538)
Expenses not deductible for tax purposes	463
Short term timing differences	61
Accelerated tax depreciation	(220)
Losses arising in the year carried forward	3,234
Total current tax	<u>—</u>

The group has tax losses arising in the UK of £10,700,000 that are available independently for offset against future taxable profits of those companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as, due to the long term nature of the company's operations, there is insufficient certainty regarding likelihood of taxable profits in the foreseeable future.

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS

at 31 March 2002

9. FIXED ASSETS

Group

*Assets under
the course of
construction
£000*

Cost:

On incorporation

—

Additions

30,355

At 31 March 2002

30,355

Depreciation:

On incorporation and at 31 March 2002

—

Net book value:

At 31 March 2002

30,355

10. INVESTMENTS

Company:

*Ordinary
Shares
£000*

Investment in subsidiary undertakings:

Additions

60

At 31 March 2002

60

The company owns the entire ordinary issued share capital of Dudley Summit PLC and Summit Healthcare (Dudley) Limited companies registered in England and Wales.

The principal activities of these companies are given in the Directors' Report.

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS at 31 March 2002

11. DEBTORS

<i>Group</i>	2002 £000
Trade debtors	11
Other debtors	674
Prepayments and accrued income	229
	<u>914</u>

12. CURRENT ASSET INVESTMENTS

<i>Group</i>	2002 £000
Money market investments	84,310

13. CREDITORS: amounts falling due within one year

<i>Group</i>	2002 £000
Trade creditors	460
Accruals and deferred income	5,054
	<u>5,514</u>

14. CREDITORS: amounts falling due after more than one year

<i>Group</i>	2002 £000
Guaranteed secured bonds (note 15)	71,662
Committed term loan facility (note 16)	70,652
	<u>142,314</u>
Less unamortised issue costs	(4,032)
	<u>138,282</u>
Issue costs to be amortised in less than one year	194
	<u>138,476</u>
Other Creditors	1,444
	<u>139,920</u>

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS

at 31 March 2002

15. LONG TERM BONDS

	2002 £000
Not wholly repayable within five years:	
3.7772% Guaranteed Secured Bonds of £71,000,000, due 2038, repayable in six monthly instalments commencing March 2005	71,000
Bond Indexation, to 31 March 2002	662
	<u>71,662</u>
Amounts falling due:	
In one year or less or on demand	—
In more than one year but not more than two years	—
In more than two years but not more than five years	5,630
In more than five years	66,032
	<u>71,662</u>

The terms of the bonds are such that all payments of principal and interest are indexed to retail price inflation. The payment schedule above is based on the indexed principal outstanding as at 31 March 2002.

The bonds are secured under the terms of a Security Trust Deed.

16. LOANS

	2002 £000
Not wholly repayable within five years:	
2.9516% index-linked committed term facility of £70,000,000 due 2034, repayable in six monthly instalments commencing March 2005	70,000
Indexation on the loan, to 31 March 2002	652
	<u>70,652</u>
Amounts falling due:	
In one year or less or on demand	—
In more than one year but not more than two years	—
In more than two years but not more than five years	5,555
In more than five years	65,097
	<u>70,652</u>

The terms of the loan are such that all payments of principal and interest are indexed to retail price inflation. The payments schedule above is based on the indexed principal outstanding as at 31 March 2002.

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS

at 31 March 2002

17. SHARE CAPITAL

	2002 No.	2002 £000
<i>Authorised, allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	60,000	60

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

<i>Group</i>	<i>Share Capital £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
On incorporation	-	-	-
Issue of shares	60	-	60
Result for the year	-	(11,794)	(11,794)
At 31 March 2002	60	(11,794)	(11,734)
<i>Company</i>			<i>Share capital £000</i>
Issue of shares			60
At 31 March 2002			60

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The group issued the Guaranteed Secured Bond in order to finance the design, build and operation of various hospital buildings under the Governments PFI Initiative. The net proceeds from the bond issue have been invested in a guaranteed investment contract portfolio managed by Ambac Capital Funding. The objective of the portfolio is to maximise gross return. There is a further undrawn committed facility consisting of £15 million of variation bonds, which all expire in more than two years.

The disclosures below do not include short-term debtor and creditors.

Financial assets

The group's financial assets are its current asset investments of £84,310,000, invested at variable rates and cash of £18,121,000 invested at floating rates, all of which are denominated in sterling. The investments are held in three portfolios, the weighted average interest rates, excluding indexation, being 4.97%, 2.89% and 2.51%. The latter two portfolios are increased by indexation on a monthly basis.

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS

at 31 March 2002

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

Financial liabilities

The group's financial liabilities are its listed bonds and its committed term loan facility as described in notes 15 and 16 respectively, all of which are denominated in sterling and bear interest at a variable rate. These loans are increased for indexation in March and September of each year.

Currency exposures

As at 31 March 2002 the company had no currency exposures.

Fair value of financial assets and financial liabilities

	<i>Book value</i>	<i>Fair value</i>
	<i>2002</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>
Current asset investments	84,310	84,310
Cash	18,121	18,121
Committed term loan	(70,652)	(70,652)
Listed bonds	(71,662)	(71,662)

The fair values of the listed bonds and the committed term loan facility are shown at book value as there is not an active market for either of these debt instruments. In the opinion of the directors there is not a material difference between the book and fair value of these debt instruments.

20. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash inflow from operating activities:

	<i>2002</i>
	<i>£000</i>
Operating loss	11,191
Increase in debtors	715
Increase in creditors	(1,190)
Net cash outflow from operating activities	10,716

(b) Analysis of net debt:

	<i>Cash</i>	<i>Non-cash</i>	<i>At</i>
	<i>flow</i>	<i>movements</i>	<i>March</i>
	<i>£000</i>	<i>£000</i>	<i>2002</i>
			<i>£000</i>
Cash at bank and in hand	18,121	–	18,121
Liquid resources*	84,020	290	84,310
Guaranteed secured bonds	(67,330)	(662)	(67,992)
Committed term loan facility	(69,440)	(652)	(70,092)
	(34,629)	(1,024)	(35,653)

* Liquid resources are included in the group balance sheet as 'investments'.

Summit Holdings (Dudley) Limited

NOTES TO THE ACCOUNTS at 31 March 2002

20. NOTES TO THE CASH FLOW STATEMENT (continued)

- (c) Non cash movements accrued indexation and interest charges for the period.

21. CAPITAL COMMITMENTS

The group has entered into a contract with Sir Robert McAlpine Limited, to pay £122.5 million in respect of the design and construction of the required hospital buildings. At the year end, £32 million had been completed, with the remainder being scheduled for completion by 31 October 2004.

22. CONTROLLING PARTIES

Summit Holdings (Dudley) Limited is jointly owned in equal shares by Uberior Investments plc (a subsidiary of HBOS plc), PFI Investors Limited (a fellow subsidiary of Sir Robert McAlpine Limited) and Interservefm Limited (a subsidiary of Interserve plc). In the directors' opinion there are no controlling parties as no shareholder has a majority shareholding.

23. RELATED PARTIES

During the period the following related party transactions were entered into:

Sir Robert McAlpine Limited

The company contracted with Sir Robert McAlpine Limited, a fellow subsidiary of the shareholder, to design and construct the required buildings, for a fixed price sum of £122.5 million, of which £32 million had been completed by 31 March 2002.

Of this amount £4.3 million was accrued but not yet invoiced by the period end. Additional construction work of £150,000 had been completed by 31 March 2002, of which £5,000 was accrued but not yet invoiced by the period end.

A further £3.1 million has been charged by Sir Robert McAlpine Limited in respect of reimbursement of costs and work performed on behalf of the company. Of this amount, £40,000 was owed at the period end in respect of outstanding invoices.

Interservefm Limited

During the period £19.4 million was paid to Interservefm Limited and its subsidiaries for reimbursement of costs and work performed on behalf of the company.

At the period end £10,000 was owed to Interservefm Limited and a further £8,000 to Interserve Investments plc, as outstanding invoices.

Bank of Scotland

During the period £2 million was paid to Bank of Scotland, a fellow subsidiary of the shareholder, in respect of reimbursement of costs incurred on behalf of the company.