

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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Registered Number: 4420880

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DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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DIRECTORS AND ADVISORS

Directors

D Asteraki (appointed 22 September 2008, resigned 26 November 2008)
P Cuttance (resigned 22 September 2008)
J Eldridge
J Linney
R Marsden
G Pearce (appointed 12 December 2008)
I Wells

Company secretary and registered office

R Miller
Allington House
150 Victoria Street
London SW1E 5LB

Auditors

Deloitte LLP
Chartered Accountants
London

Principal bankers

Bank of Scotland
38 Threadneedle Street
London
EC2P 2EH

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for the year ended 31 December 2008

The Directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4) of the Companies Act 1985

Company is owned and jointly controlled by Equion Health (Newcastle) Limited and Interserve PFI 2003 Limited

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as the holding company of Healthcare Support (Newcastle) Limited and Healthcare Support (Newcastle) Finance plc

The principal activity of the Healthcare Support (Newcastle) Limited is to design, finance, build and operate a PFI hospital construction project on behalf of Newcastle Healthcare National Health Trust

The Directors have considered the use of the going concern basis in the preparation of the financial statements in light of current market conditions and concluded that it is appropriate. In reaching this conclusion, the Directors have specifically considered the Company's relationships with its shareholders. More information is provided in note 1 to the financial statements

FUTURE DEVELOPMENTS

The Directors of the Company are not aware of any circumstances by which the principal activity of the Company would alter or cease

RESULTS AND DIVIDENDS

The loss for the year before taxation amounted to £121,348 (2007 - profit of £64,337), after taxation charge of £2,949 (2007 - charge of £8,824) the loss for the period was £124,297 (2007 - profit of £55,513)

The Directors do not recommend the payment of a dividend (2007 - £nil)

PRINCIPAL RISKS AND UNCERTAINTIES

The risk of subcontractor insolvency and revenue deductions are dealt with and mitigated by Healthcare Support (Newcastle) Limited by the use of a surety bond supplied by the construction subcontractor and passing performance deductions in revenue onto the facilities management subcontractor

The risk of certain types of asset renewal expenditure is dealt with and mitigated by Healthcare Support (Newcastle) Limited by passing the cost onto the facilities management subcontractor for a fixed annual sum

FINANCIAL RISK MANAGEMENT

Healthcare Support (Newcastle) Limited has an indexed linked inter-company loan with Healthcare Support (Newcastle) Finance plc, who raised an index linked public bond and bank loan. The Group is therefore exposed to an RPI risk, which it mitigates with an indexed linked unitary contract with Newcastle Healthcare National Health Service Trust, therefore all inflationary risk is transferred outside the Group

DIRECTORS

The Directors who served throughout the period, except as noted, are shown on page 1

DIRECTORS' REPORT (continued)

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The Director at the date of approval of this report confirms that

- as far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

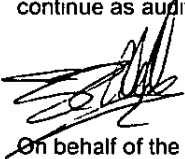
This confirmation is given and should be interpreted in accordance with the provision of S234ZA of the Companies Act 1985

EMPLOYEES

Details of the number of employees and related costs can be found in note 5 to the financial statements on page 11

AUDITORS

Pursuant to s386 Companies Act 1985, an elective resolution was passed on 23 May 2007 dispensing with the requirement to appoint auditors annually. This election was in force immediately before 1 October 2008. Therefore, Deloitte LLP are deemed to continue as auditors.



On behalf of the Board
I J Wells
15 April 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 year. In preparing these 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 UK accounting standards have been followed, 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 the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

We have audited the financial statements of Healthcare Support (Newcastle) Holdings Limited for the year ended 31 December 2008 which comprise the consolidated profit and loss account, the consolidated balance sheet, the company balance sheet, the consolidated cash flow, the related notes 1 to 18 and the principal subsidiaries. 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 auditors' 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 misstatements 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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's and the Group's affairs as at 31 December 2008 and of the Group's loss 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.

Debitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
15 April 2009

CONSOLIDATED PROFIT AND LOSS ACCOUNT**FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	2008 £	2007 £
Turnover	2	75,441,019	91,939,710
Cost of sales		<u>(74,632,292)</u>	<u>(91,770,422)</u>
Operating profit	3	808,727	169,288
Net interest payable	7	(930,075)	(104,951)
(Loss)/profit on ordinary activities before taxation		<u>(121,348)</u>	<u>64,337</u>
Tax on result on ordinary activities	8	(2,949)	(8,824)
(Loss)/profit for the financial year	13	<u>(124,297)</u>	<u>55,513</u>

A reconciliation of movements in shareholders' funds is given in note 14

All items in the profit and loss account relate to continuing operations

There is no material difference between the results stated in the profit and loss account and their historical cost equivalents


All gains and losses are recognised in the profit and loss account in the current year, and therefore no separate statement of total recognised gains and losses has been presented

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	2008 £	2007 £
Current assets			
Debtors		321,552,576	253,931,700
- due within one year	9	4,526,188	4,248,440
- due after more than one year	9	317,026,388	249,683,260
Cash at bank and in hand		46,614,206	101,105,721
		368,166,782	355,037,421
Current liabilities			
Creditors amounts falling due within one year	10	(8,684,405)	(10,310,678)
Net current assets		359,482,377	344,726,743
Total assets less current liabilities		359,482,377	344,726,743
Creditors amounts falling due after more than one year	10	(359,171,463)	(344,291,532)
Net assets		310,914	435,211
Capital and reserves			
Called up share capital	12	51,000	51,000
Profit and loss account	13	259,914	384,211
Shareholders' funds	14	310,914	435,211

The financial statements were approved by the Board of Directors on 15 April 2009 and were signed on its behalf by


 J Wells
 Director
 15 April 2009

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	2008 £	2007 £
Fixed assets			
Investments	6	51,000	51,000
Net assets		<u>51,000</u>	<u>51,000</u>
Capital and reserves			
Called up share capital	12	51,000	51,000
Shareholders' funds		<u>51,000</u>	<u>51,000</u>

The financial statements were approved by the Board of Directors on 15 April 2009 and were signed on its behalf by


I J Wells
Director
15 April 2009

CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £	2007 £
Net cash outflow from operating activities	15	(50,320,487)	(70,081,393)
Returns on Investment and servicing of finance			
Interest received		3,417,990	7,010,332
Interest paid		<u>(7,581,302)</u>	<u>(7,297,615)</u>
Net cash outflow from returns on Investments and servicing of finance		(4,163,312)	(287,283)
Net cash outflow before use of liquid resources and financing		(54,483,799)	(70,368,676)
Taxation paid		(7,717)	(81,381)
Decrease in cash in the year	16	<u>(54,491,516)</u>	<u>(70,450,057)</u>
Balance as at 1 January		101,105,721	171,555,778
Balance as at 31 December		<u>46,614,206</u>	<u>101,105,721</u>

Notes to the financial statements for the year ended 31 December 2008

1 ACCOUNTING POLICIES

a) Basis of preparation of accounts

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. A summary of the principal accounting policies adopted by the Directors, which have been applied consistently in the current and prior year, is shown below.

Basis of consolidation

The Group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or the date on which control passed. Acquisitions are accounted for under the acquisition method.

The Company did not trade during the year and has made neither profit nor loss, nor any other recognised gain or loss. As permitted by s230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company. A reconciliation of movements in shareholders' funds is given in note 14.

The Company exists to hold investments in its subsidiary that provides services under certain private finance agreements. The subsidiary is set up as a Special Purpose Company under non-recourse arrangements and therefore the Company has limited its exposure to the liabilities. In the event of default of the subsidiary, the exposure is limited to the extent of the investment it has made. Having reviewed the Company's investment portfolio including the associated future cash requirements and forecast receipts, the Directors are satisfied that they have a reasonable expectation that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

b) Turnover

All Turnover is derived entirely in the United Kingdom and is net of VAT.

c) Finance debtor

The Company is an operator under a PFI contract. Under the terms of the contract, substantially all the risks and rewards of ownership of the property asset remain with Newcastle Healthcare National Health Service Trust. The underlying asset is therefore not a fixed asset of the Company under FRS5 Application Note F and SSAP 21.

d) Finance debtor and income recognition

During the construction phase of the project, all attributable expenditure including finance costs is included in amounts recoverable on contracts and turnover. Upon the asset becoming operational, the costs are transferred to the finance debtor. During the operational phase, income is allocated between interest receivable and turnover using a constant operating margin on costs. The remainder of the PFI income will be allocated to the finance debtor.

e) Capitalised interest

Interest costs on borrowings used to fund the construction of the hospital are added to the amount recoverable on contract during the construction period. This treatment ceases on commissioning.

f) Operating costs

Operating costs are added to the amounts recoverable on contract during the construction period. Following commissioning, regular operating and maintenance costs and Healthcare Support (Newcastle) Limited central costs will be expensed to the profit and loss account as incurred.

g) Interest payable

Interest costs on borrowings are added to amounts recoverable on contract during the construction phase of the contract, and then written off to the profit and loss account over the period of concession.

h) Taxation

Current tax, including United Kingdom Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

i) Debt

The Group secured bond debt with Royal Bank of Canada and a loan with European Investment Bank "EIB". Both the loan and the bond are indexed link and subject to calculations based on RPI (all items) tables published by the Office of National Statistics. Interest is payable bi-annually at an interest rate stated in note 11 on an accruals basis.

j) Debtors

Debtors are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts.

HEALTHCARE SUPPORT (NEWCASTLE) HOLDINGS LIMITED

Notes to the financial statements for the year ended 31 December 2008 (continued)

2 TURNOVER

	2008 £	2007 £
Turnover in the period is analysed as follows		
Construction income	69,862,144	90,308,805
Concession unitary income	2,395,391	252,013
Other	3,183,484	1,378,892
	<u>75,441,019</u>	<u>91,939,710</u>

3 OPERATING PROFIT

	2008 £	2007 £
Operating profit is stated after charging		
Fee payable for the audit of the Company's annual accounts	2,416	2,334
Fee payable for the audit of the Healthcare Support (Newcastle) Limited	11,969	11,564
Fee payable for the audit of the Healthcare Support (Newcastle) Finance plc	<u>3,094</u>	<u>2,989</u>

4 DIRECTORS' REMUNERATION

No Directors received any remuneration for services to the Company during the current year (2007 - £nil) The Company is managed by secondees from the shareholders under a management services contract

5 STAFF NUMBERS

The Company had no employees during the period (2007 - nil)

6 INVESTMENTS

	Shares in group undertaking £
Cost and net book value	
At 1 January 2008	51,000
At 31 December 2008	<u>51,000</u>

The Company's principal subsidiary undertakings are listed on page 15

In the opinion of the Directors the aggregate value of the investment in subsidiaries is not less than the amount stated in the balance sheet

7 NET INTEREST PAYABLE

	2008 £	2007 £
Interest receivable and similar income		
Interest receivable on bank deposits	3,417,990	7,010,332
Interest receivable on finance debtor	5,143,063	1,102,684
Interest receivable capitalised	<u>(3,417,990)</u>	<u>(7,010,332)</u>
	5,143,063	1,102,684
Interest payable and similar charges		
Interest payable on bank loans and overdrafts	(8,421,482)	(8,024,879)
Amortised debt issue costs	(471,014)	(453,251)
Interest payable capitalised	<u>2,819,358</u>	<u>7,270,495</u>
	(6,073,138)	(1,207,635)
Net interest payable	<u>(930,075)</u>	<u>(104,951)</u>

Notes to the financial statements for the year ended 31 December 2008 (continued)

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2008 £	2007 £
<u>Analysis of charge for the period</u>		
Current tax		
UK corporation tax	(7,940)	(12,707)
Prior year adjustments	4,991	3,883
Total tax credit/(charge) on (loss)/profit on ordinary activities	<u>(2,949)</u>	<u>(8,824)</u>

Factors affecting the tax credit for the current period

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows

	2008 £	2007 £
(Loss)/profit on ordinary activities before tax	<u>(121,348)</u>	<u>64,337</u>
(Loss)/Profit on ordinary activities multiplied by the applicable rate of corporation tax in the UK of 28.5% (2007 - small companies rate of 19.75%)	34,584	(12,707)
Subsidiary taxed at small companies rate of 20.75% (2007- 19.75%)	2,965	-
Subsidiary tax losses not recognised for deferred tax purposes	(45,489)	-
Total current tax credit/(charge) for the year	<u>(7,940)</u>	<u>(12,707)</u>

For the year ended 31 December 2008, the blended UK rate of 28.5% is applied due to the change in the UK corporation tax rate from 30% to 28% with effect from 1 April 2008

As at 31 December 2008 there is a deferred tax asset not recognised of £159,609 (2007 £nil)

9 DEBTORS

	2008 £	2007 £
Due within one year		
Finance debtor	2,073,061	168,867
Amounts recoverable on contract	541,633	771,078
Trade debtors	349,114	45,314
VAT debtor	320,446	2,221,707
Corporation tax	18,536	13,768
Prepayments and accrued income	1,223,398	1,027,706
	<u>4,526,188</u>	<u>4,248,440</u>
Due after more than one year		
Finance debtor	127,782,697	20,503,097
Amounts recoverable on contract	189,243,691	229,180,163
	<u>317,026,388</u>	<u>249,683,260</u>

The amounts recoverable on contract and finance debtor includes cumulative net interest capitalised of £786,111 (2007 - £3,778,311)

10 CREDITORS

	2008 £	2007 £
Amounts falling due within one year		
Trade creditors	8,706	55,609
Contractor retentions	3,275,219	1,364,648
Other creditors	245,087	223,923
Accruals and deferred income	3,063,824	6,709,549
Interest payable	2,091,569	1,956,949
	<u>8,684,405</u>	<u>10,310,678</u>
Amounts falling due after more than one year		
Interest payable	4,206,310	3,029,736
Contractor retentions	2,307,331	3,377,232
Bank loans and overdrafts (note 11)	364,393,036	350,090,792
Less unamortised debt issue costs	(11,735,214)	(12,206,228)
	<u>359,171,463</u>	<u>344,291,532</u>
Analysis of debt.		
Debt can be analysed as falling due		
Between one and two years	5,203,891	-
Between two and five years	34,054,025	27,589,810
In five years or more	325,135,120	322,500,982
	<u>364,393,036</u>	<u>350,090,792</u>
Less unamortised debt issue costs	(11,735,214)	(12,206,228)
	<u>352,657,822</u>	<u>337,884,564</u>

Notes to the financial statements for the year ended 31 December 2008 (continued)

11 LOANS

The Group has a publicly offered bond from Royal Bank of Canada for £197.8 million, a loan with European Investment Bank of £115 million and a surety bond with Laing O' Rourke of £8.5 million. The surety bond is repayable at the end of construction in July 2013, the other debt is repayable in installments based on an agreed percentage amount of the total facilities per annum over the next 32 years.

Interest on the public bond is fixed at 2%, interest on the EIB loan is fixed at 2% and interest on the surety bond is fixed at 9%. Both the public bond and EIB loan are index-linked.

12 CALLED UP SHARE CAPITAL

	2008 No.	2007 No.
Authorised:		
Ordinary Shares at £1 each	<u>51,000</u>	<u>51,000</u>
	£	£
Allotted, called up and fully paid.		
Ordinary Shares at £1 each	<u>51,000</u>	<u>51,000</u>

13 MOVEMENT IN RESERVES

	Profit and loss account £
At 1 January 2008	384,211
Retained loss for the financial year	(124,297)
At 31 December 2008	<u>259,914</u>

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2008 £	2007 £
(Loss)/profit for the financial year	(124,297)	55,513
Opening shareholders' funds	435,211	379,698
Closing shareholders' funds	<u>310,914</u>	<u>435,211</u>

15 RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2008 £	2007 £
Operating Profit	808,727	169,288
Increase in debtors	(63,071,677)	(89,577,947)
Increase in creditors	11,942,464	19,327,266
Net cash outflow from operating activities	<u>(50,320,487)</u>	<u>(70,081,393)</u>

Notes to the financial statements for the year ended 31 December 2008 (continued)

16 ANALYSIS OF NET DEBT

	At 1 January 2008 £	Cashflow £	Non cash Items £	At 31 December 2008 £
Cash in hand and at bank	101,105,721	(54,491,515)	-	46,614,206
Debt due more than 1 year	(337,884,564)	-	(14,773,258)	(352,657,822)
NET GROUP DEBT	(236,778,843)	(54,491,515)	(14,773,258)	(306,043,615)

17 TRANSACTIONS WITH RELATED PARTIES

Company name	Service provided	Cost £	Outstanding amount £
Laing Investment Management Services Limited	Management services 3rd party cost recharged	978,277 5,000 <u>983,277</u>	<u>92,802</u>
John Laing Social Infrastructure Limited	Letter of credit charges	<u>220,000</u>	<u>55,000</u>
Commonwealth Bank of Australia	Letter of credit charges	<u>212,000</u>	<u>53,000</u>
Interserve Investments Plc	Facilities management of MSCP site Letter of credit charges	1,180,853 110,000 <u>1,290,853</u>	<u>35,553</u>
Total transactions with related parties		<u>2,706,130</u>	<u>236,355</u>

Commonwealth Bank of Australia, Interserve Investments Plc and Henderson Infrastructure (Holdco) Jersey Limited are the ultimate shareholders of Healthcare Support (Newcastle) Holdings Limited. John Laing Social Infrastructure Limited and Laing Investment Management Services Limited are subsidiaries of John Laing plc.

18 ULTIMATE PARENT COMPANY

At 31 December 2008 the Company is owned and jointly controlled by Equion Health (Newcastle) Limited and Interserve PFI 2003 Limited. The Directors consider there to be no ultimate controlling party or ultimate parent company.

PRINCIPAL SUBSIDIARIES

Company name	Class and percentage of shares held	Principal activity	Country of incorporation
Healthcare Support (Newcastle) Finance Plc	100% of ordinary shares	To issue the Bonds and Loan Stock, borrow the EIB Loan and lend on the proceeds thereof to the Project Company	Great Britain
Healthcare Support (Newcastle) Limited	100% of ordinary shares	The construction of RVI and Freeman hospitals for Newcastle Healthcare National Health Service Trust	Great Britain