

**MERCIA HEALTHCARE LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE 15 MONTH PERIOD TO 31<sup>st</sup> MARCH 2000**

(Registered number 3693524)



# **MERCIA HEALTHCARE LIMITED**

## **DIRECTORS' REPORT**

**15 month period to 31<sup>st</sup> March 2000**

The Directors submit their report and the audited financial statements of the Company for the 15 month period to 31<sup>st</sup> March 2000.

### **Principal Activity and Business Review**

The Company was incorporated on 11<sup>th</sup> January 1999 and commenced trading on 16<sup>th</sup> April 1999. The Company is engaged in a 30-year contract with Hereford Hospitals NHS Trust in the design and construction an Acute Care Facility at the Hereford County Hospital.

The loss incurred in the 15 month period under review as set out in the profit and loss account on page 5 relates to the activities undertaken in respect of this project.

### **Dividends and transfers to reserves**

No dividend is proposed. The amount transferred to reserves is set out in the profit and loss account on page 5.

### **Directors**

The following Directors served during the period under review:

P.Aitchison - appointed 22<sup>nd</sup> February 1999  
R.Baldwin - appointed 22<sup>nd</sup> February 1999, and resigned 11<sup>th</sup> April 2000  
D.Clements - appointed 22<sup>nd</sup> February 1999, and resigned 11<sup>th</sup> April 2000  
G Pigache - appointed 16<sup>th</sup> April 1999  
R McGlynn - appointed 11<sup>th</sup> April 2000  
R Thompson - appointed 11<sup>th</sup> April 2000

### **Directors' interests in shares**

The Directors have no interest in the share capital of the Company according to the Register maintained by the Company under Section 325 of the Companies Act 1985.

### **European Monetary Union**

The Directors are aware of the implications of European Monetary Union, both for the information systems and other aspects of the Company's operations. Management has assessed the risks associated with these issues and is reviewing the actions required to ensure that any necessary systems modifications and other initiatives are planned and completed within the time available. It is not anticipated that significant incremental expenditure will be incurred to ensure compliance with the necessary requirements within the context of on-going expenditure plans to develop and upgrade the Company's systems.

# MERCIA HEALTHCARE LIMITED

## DIRECTORS' REPORT (continued)

15 month period to 31st March 2000

### Auditors

The Auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution to re-appoint PricewaterhouseCoopers will be proposed at the next Annual General Meeting.

### Statement of Directors' responsibilities

Company law requires the Directors to prepare the financial statements for each financial period which give a true and fair view of the state of affairs of the Company 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 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.

By Order of the Board

P Aitchison - Director



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13 June 2000

# MERCIA HEALTHCARE LIMITED

## AUDITORS' REPORT

15 month period to 31st March 2000

### To the shareholders of Mercia Healthcare Limited

We have audited the financial statements set out on pages 5 to 16 which have been prepared under the accounting policies set out on page 8.

### Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether those financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

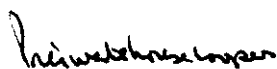
### Basis of audit opinion

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 the Company's affairs as at 31<sup>st</sup> March 2000 and of its loss and cashflows for the 15 months then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**

Chartered Accountants and Registered Auditors

13 June 2000

Manchester

# MERCIA HEALTHCARE LIMITED

## PROFIT AND LOSS ACCOUNT

15 month period to 31st March 2000

	Notes	2000 £'000
<b>Turnover</b>		4,291
Cost of sales		<u>(3,574)</u>
<b>Gross profit</b>		717
Administrative expenses		<u>(697)</u>
<b>Operating profit</b>	2	20
Net interest payable and similar charges	3	<u>(1,652)</u>
<b>Loss on ordinary activities before and after taxation and retained loss for the period</b>		<u>(1,632)</u>

The loss for the period under review relates solely to continuing activities in a single class of business within the United Kingdom.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2000 £'000
Loss for the period	(1,632)
Total recognised loss for the period	<u>(1,632)</u>

## STATEMENT OF RESERVES

	2000 £'000
As at 11 <sup>th</sup> January 1999	-
Retained loss for the period	(1,632)
Retained loss as at 31 <sup>st</sup> March 2000	<u>(1,632)</u>

The notes on pages 7 to 16 form part of the financial statements.

# MERCIA HEALTHCARE LIMITED

## BALANCE SHEET

31<sup>st</sup> March 2000

	Notes	2000 £'000
<b>Current Assets:</b>		
Debtors:	5	
-falling due within one year		586
-falling due after more than one year		26,556
Cash at bank and in hand		693
<b>Total Current Assets</b>		<u>27,835</u>
<b>Creditors: Amounts falling due within one year</b>	6	(3,394)
<b>Net Current Assets</b>		<u>24,441</u>
<b>Creditors: Amounts falling due after more than one year</b>	7	(26,072)
<b>Net Liabilities</b>		<u>(1,631)</u>
<b>Capital and Reserves:</b>		
Share capital	9	1
Profit and loss account		(1,632)
<b>Total Equity Shareholders' Funds</b>	10	<u>(1,631)</u>

P Aitchison - Director



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Approved by the Board on 13 June 2000

The notes on pages 7 to 16 form part of the financial statements.

# MERCIA HEALTHCARE LIMITED

## CASH FLOW STATEMENT

15 month period to 31st March 2000

	NOTE	2000 £'000
Net Cash outflow from operating activities	14	(23,119)
Returns on investment and servicing of finance	15	(4,465)
Financing	15	28,277
		<hr/>
<b>Increase in cash in the period</b>		693
		<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash in the period		693
New bank loan		(28,276)
		<hr/>
<b>Change in net debt resulting from cash flows</b>	16	(27,583)
Net debt at 11 <sup>th</sup> January 1999	16	-
		<hr/>
<b>Net debt at 31<sup>st</sup> March 2000</b>	16	(27,583)
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# **MERCIA HEALTHCARE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**15 month period to 31st March 2000**

### **1) Accounting Policies**

A summary of the principal accounting policies of the Company, all of which have been applied consistently, is set out below:

#### **I. Basis of Preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Financial Reporting Standards. They include the results of the activities described in the Directors' Report, all of which are continuing.

#### **II. Turnover and cost of sales**

Turnover represents amounts due from Hereford Hospitals NHS Trust 'the Trust' in respect of the activities described in the Directors' Report. All turnover originates in the United Kingdom and is stated exclusive of value added tax.

Cost of sales represents amounts invoiced in respect of services by certain of the related parties

Turnover and cost of sales includes amounts recharged by the company in respect of certain services provided to the Trust outside of the main 30 year contract totalling £674,000.

#### **III. Taxation**

Corporation Tax is provided on taxable profits at the applicable rate. Provision for Deferred Tax is made under the liability method in respect of those timing differences which are expected to become payable in the foreseeable future.

#### **IV. Finance receivable**

The costs incurred in respect of bid development, design and construction during the period prior to final occupational availability of the Acute Health Care Facilities are recovered over the contract period. Accordingly these costs are accumulated within the finance receivable as incurred. Once the construction is complete, occupational availability payments from Hereford Hospitals NHS Trust will be allocated between turnover and reimbursement of the finance receivable so as to generate a constant rate of return over the contract period. Interest payable and similar charges and administration costs relating to the day to day running of the Company are written off as incurred.



# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15 month period to 31st March 2000

### 2) Operating profit

Operating profit is stated after charging:

	2000 £'000
Auditors' remuneration	8

The Auditors also received remuneration for other services totalling £ Nil during the period under review. The Directors received fees of £8,000 ,no other salary, fees or other benefits were received in the performance of their duties. The Company had no employees throughout the period under review. Management and administrative staffing resources are provided by secondee staff that are employed by certain related parties (see Note 12). The employment costs relating to the secondees are recharged to the Company.

### 3) Net interest payable and similar charges

	2000 £'000
Interest payable and similar charges	(1,695)
Interest receivable	43
Net interest payable and similar charges	<u>(1,652)</u>

Interest payable and similar charges of £1,695,000 relates to interest charges and commitment fees with respect to the bank borrowings of £1,329,000; plus £9,000 interest payable as a result of the operation of interest rate swap arrangements; plus the amortisation of loan issue costs in accordance with FRS 4 of £357,000.

### 4) Taxation

There is no credit to UK Corporation tax at 30% in the period as no tax credit for current year losses has been recognised.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15 month period to 31st March 2000

### 5) Debtors

	2000 £'000
<b>Amounts falling due within one year:</b>	
Trade debtors	45
Tax and social security	541
	<u>586</u>
<b>Amounts falling due after more than one year:</b>	
Finance receivable	26,556
	<u>27,142</u>

### 6) Creditors: Amounts falling due within one year

	2000 £'000
Trade creditors	(3,110)
Accruals	<u>(284)</u>
	<u>(3,394)</u>

### 7) Creditors: Amounts falling due after more than one year

	2000 £'000
Construction retentions	(609)
Bank loans	<u>(25,463)</u>
	<u>(26,072)</u>

Construction retention's represent those amounts that will be paid to Alfred McAlpine Special Projects/Haden Young following the completion of design and construction work and, subject to certain restrictions, will be paid in full by April 2003.

Bank loans represent amounts borrowed under two Facilities Agreements, a Term Loan Facility and a Shareholder Credit Facility. The principal terms and conditions relating to both facilities are summarised below.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15 month period to 31st March 2000

### 7) Creditors: Amounts falling due after more than one year (continued)

	2000	2000
	Term Loan	Shareholder
	£'000	Credit Facility
		£'000
Repayable within one year	-	-
Repayable between one and two years	-	-
Repayable between two and five years	3,126	3,124
Repayable after five years	22,026	-
Total loans outstanding	<u>25,152</u>	<u>3,124</u>
Loan issue costs	(2,510)	(303)
Total	<u>22,642</u>	<u>2,821</u>

#### Term Loan Facility

The tenure of the Term Loan is 25 years and it is repayable in 43 semi-annual installments commencing on 16<sup>th</sup> April 2003. Interest charged on amounts drawn under the facility is based on the floating LIBOR rate. The Term Loan Facility has been syndicated to a consortium of banks. All amounts drawn under the Term Loan Facility are secured by a fixed charge over all leasehold interests, book debts, project accounts and intellectual property of the Company and by a floating charge over the Company's undertakings and assets.

As at 31<sup>st</sup> March 2000, £25,152,000 has been drawn under the Term Loan Facility. The total facility is for a maximum of £67,800,000.

An additional standby facility of £6,000,000 remains unused at 31 March 2000.

#### Shareholder Credit Facility

The tenure of the Shareholder Credit Facility is 3 years and it is repayable in full on 16<sup>th</sup> April 2002. Interest charged on amounts drawn under the facility is based on the floating LIBOR rate. Security under the facility is in the form of irrevocable letters of credit, which have been issued by the respective banks of the related parties as detailed at Note 12). The Shareholder Credit Facility has not been syndicated.

As at 31<sup>st</sup> March 2000, £3,124,000 has been drawn under the Shareholder Credit Facility. The total facility is for a maximum of £7,800,000.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15 month period to 31st March 2000

### 7) Creditors: Amounts falling due after more than one year (continued)

#### Loan issue costs

Arrangement fees and certain costs directly relating to the facilities have been offset against the related loans and are being amortised over the duration of each respective swap as part of the finance cost, in accordance with FRS 4. The duration of the swap has been used for the amortisation period as the Company can repay the facilities without penalty at any time, however, this is unlikely to occur in practice until after the related swap has expired.

#### Swap arrangements

The Company has entered into interest rate swap agreements under both the Term Loan and Shareholder Credit Facilities. A fixed rate of 5.58% applies to all amounts drawn under the Term Loan, with a fixed rate of 5.58% applying to the Shareholder Credit Facility. The swap agreement in relation to the Term Loan Facility expires on 10<sup>th</sup> April 2009. The swap agreement in relation to the Shareholder Credit Facility expires on 10<sup>th</sup> April 2002. The swap agreements operate by monthly exchanges of payments between the Company and its banks. The amounts exchanged represent the difference between floating and fixed interest rates calculated on pre-determined notional principal amounts.

### 8) Provisions for Liabilities and Charges:

No deferred tax asset has been recognised in respect of tax losses.

### 9) Share Capital

		2000
Authorised:	Number	£'000
Ordinary shares of £1 each	<u>50,000</u>	<u>50</u>
Allotted and issued:		
Ordinary shares of £1 each	<u>1,000</u>	<u>1</u>

On 11 January 1999, the company issued 2 ordinary shares nil paid. On 16 April 1999 the company called up and received the full nominal amount of £1 on each of the shares in issue.

# **MERCIA HEALTHCARE LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (continued)**

**15 month period to 31st March 2000**

### **10) Movement in equity shareholders' funds**

The movement in equity shareholders' funds during the 15 month period relates wholly to the retained loss for the period under review.

### **11) Capital Commitments**

Under the terms of the contract with Hereford Hospitals NHS Trust dated 16<sup>th</sup> April 1999 the Company is committed to payments totalling some £65 million in respect of design and construction work from 16<sup>th</sup> April 1999 through to 16<sup>th</sup> April 2002. The Company is also committed to payments of some £15 million for capital expenditure over the remaining contract term.

### **12) Related Party Disclosures**

The following Companies, together with undertakings within the individual Groups of Companies, are considered to be Related Parties to the Company, as defined in Financial Reporting Standard 8. The construction is undertaken by a Joint Venture between Alfred McAlpine Special Projects and Haden Young Ltd.

WS Atkins plc

Alfred McAlpine Construction Limited

Sodexo Services Group Limited

Charterhouse Project Equity Investments Limited

#### **Provision of Facilities and Services under the Concession Agreement**

The Company is engaged in a 30-year contract with Hereford Hospitals NHS Trust in the design and construction of an Acute Care Facility, and in the provision of certain non-clinical support services at Hereford County Hospital. Payments to related parties in respect of the above are detailed below.

#### **Costs incurred to Financial Close**

During the process of securing the contract, certain bid development costs were incurred by related parties on behalf of the Company and were reimbursed following financial close as detailed below.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15 month period to 31st March 2000

	Bid development costs	Construction contract	Provision of staff and support services
	£'000	£'000	£'000
Alfred McAlpine Special Projects/Haden Young	-	22,691	-
WS Atkins plc	1,107	-	1,267
Sodexho Services Group Limited	107	-	2,436
Charterhouse Project Equity Investments Limited	32	-	2
Alfred McAlpine Special Projects	495	-	81

### Amounts outstanding to Related Parties at 31<sup>st</sup> March 2000

	£'000
Alfred McAlpine Special Projects/Haden Young	2,561
WS Atkins plc	175
Sodexho Services Group Limited	340
Charterhouse Project Equity Investments Limited	2
Alfred McAlpine Special Projects	-

All transactions with Related Parties were carried out at arms length.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15 month period to 31st March 2000

### 13) Parent Undertaking

The Company is a wholly owned subsidiary of Mercia Healthcare (Holdings) Limited, a Company which files consolidated financial statements in England. The share capital of Mercia Healthcare (Holdings) Limited is held by the following, all of which are registered in the United Kingdom:

WS Atkins plc	25%
Alfred McAlpine Construction Limited	25%
Sodexo Services Group Limited	25%
Charterhouse Project Equity Investments Limited	25%

### 14) Reconciliation of Operating Profit to Net Cash Flow From Operating Activities

	2000 £'000
Operating profit	20
(Increase) in debtors	(27,142)
Increase in creditors	4,003
Net cash outflow from operating activities	(23,119)

### 15) Analysis of Cash Flow Movements

Returns on investment and servicing of finance	
Interest received	43
Interest paid	(1,338)
Issue costs of new loan	(3,170)
Net cash outflow from returns on investment and servicing of finance	(4,465)
Financing	
Issue of share capital	1
New bank loans	28,276
Net cash flow from financing	28,277

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

15 month period to 31st March 2000

### 16) Analysis of new debt

	At 11 January 1999 £'000	Cash Flows £'000	At 31 March 2000 £'000
Cash at bank and in hand	-	693	693
Bank loans	-	(28,276)	(28,276)
	<hr/>	<hr/>	<hr/>
	-	(27,583)	(27,583)
	<hr/>	<hr/>	<hr/>