

**MERCIA HEALTHCARE LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31ST MARCH 2004**



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**COMPANIES HOUSE**

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**17/08/04**

(Registered number 3693524)

# **MERCIA HEALTHCARE LIMITED**

## **DIRECTORS' REPORT**

**Year ended 31st March 2004**

The Directors submit their report and the audited financial statements of the Company for the year ended 31st March 2004.

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

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 the Hereford County Hospital.

The profit generated in the year 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:

S Kibblewhite  
M Woodhams  
N Crowther (Resigned 26<sup>th</sup> April 2004)  
G Lendon  
R Crawford (Appointed 25<sup>th</sup> September 2003)  
R McGlynn (Appointed 6<sup>th</sup> May 2003)  
T Hancock (Appointed 19<sup>th</sup> February 2004)  
L McCormack (Appointed 26<sup>th</sup> April 2004)

### **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.

# MERCIA HEALTHCARE LIMITED

## DIRECTORS' REPORT (continued)

Year ended 31st March 2004

### Auditors

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

### Statement of Directors' responsibilities

Company law requires the Directors to prepare 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 have confirmed that they have complied with the above requirements in preparing the financial statements.

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



S Kibblewhite – Director  
13<sup>th</sup> July 2004

# **MERCIA HEALTHCARE LIMITED**

## **Independent auditors' report to the members of Mercia Healthcare Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the related notes and the statement of accounting policies.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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. The other information comprises only the directors' report.

### **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.

# MERCIA HEALTHCARE LIMITED

## Independent auditors' report to the members of Mercia Healthcare Limited (continued)

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2004 and of the profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Manchester  
13<sup>th</sup> July 2004

# MERCIA HEALTHCARE LIMITED

## PROFIT AND LOSS ACCOUNT

Year ended 31st March 2004

	Notes	2004 £'000	2003 £'000
Turnover		6,356	6,378
Cost of sales		<u>(5,039)</u>	<u>(5,067)</u>
Gross Profit		1,317	1,311
Administrative expenses		<u>(1,098)</u>	<u>(979)</u>
Operating profit	2	219	332
Interest payable and similar charges	3	(5,953)	(6,049)
Interest receivable and similar income	3	<u>6,758</u>	<u>6,271</u>
Profit on ordinary activities before taxation		<u>1,024</u>	<u>554</u>
Taxation	4	<u>(316)</u>	<u>(154)</u>
Profit on ordinary activities after taxation for the year		<u>708</u>	<u>400</u>

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

There were no recognised gains or losses other than those included in the profit and loss account.

# MERCIA HEALTHCARE LIMITED

## STATEMENT OF RESERVES

Year ended 31st March 2004

	2004 £'000	2003 £'000
Accumulated profit as at 1 <sup>st</sup> April	1,380	980
Retained profit for the year	<u>708</u>	<u>400</u>
Accumulated profit as at 31 <sup>st</sup> March	<u>2,088</u>	<u>1,380</u>

The notes on pages 9 to 18 form part of the financial statements.

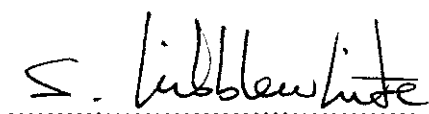
# MERCIA HEALTHCARE LIMITED

## BALANCE SHEET

31<sup>st</sup> March 2004

	Notes	2004 £'000	2003 £'000
<b>Current Assets:</b>			
Debtors:			
-falling due within one year	5	11	230
-falling due after more than one year	5	71,613	69,544
Cash at bank and in hand		<u>6,276</u>	<u>8,827</u>
<b>Total Current Assets</b>		77,900	78,601
 <b>Creditors:</b> Amounts falling due within one year	6	<u>(5,636)</u>	<u>(9,102)</u>
 <b>Net Current Assets</b>		72,264	69,499
 <b>Creditors:</b> Amounts falling due after more than one year	7	(68,645)	(67,131)
Provisions	8	<u>(1,530)</u>	<u>(987)</u>
 <b>Net Assets</b>		<u>2,089</u>	<u>1,381</u>
<b>Capital and Reserves:</b>			
Share capital	9	1	1
Profit and loss account		<u>2,088</u>	<u>1,380</u>
<b>Total Equity Shareholders' Funds</b>	10	<u>2,089</u>	<u>1,381</u>

S Kibblewhite - Director



Approved by the Board on 13<sup>th</sup> July 2004

The notes on pages 9 to 18 form part of the financial statements.



# MERCIA HEALTHCARE LIMITED

## CASH FLOW STATEMENT

Year ended 31st March 2004

	Notes	2004 £'000	2003 £'000
<b>Net cash outflow from operating activities</b>	14	(2,650)	(2,568)
Returns on investment and servicing of finance	15	3,947	2,198
Taxation received		227	865
Financing	15	(4,075)	6,387
<b>(Decrease) / increase in cash in the period</b>		<u>(2,551)</u>	<u>6,882</u>
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease) / increase in cash in the period		(2,551)	6,882
Decrease / (increase) in borrowings		<u>4,075</u>	<u>(6,387)</u>
<b>Change in net debt resulting from cash flows</b>	16	1,524	495
Non cash movement	16	(1,046)	(1,552)
Net debt at 31 <sup>st</sup> March 2003	16	<u>(64,234)</u>	<u>(63,177)</u>
<b>Net debt at 31<sup>st</sup> March 2004</b>	16	<u>(63,756)</u>	<u>(64,234)</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st March 2004

### 1) Accounting Policies

#### I. Basis of Preparation

The financial statements are prepared in accordance with the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

A summary of the major accounting policies, which have been consistently applied, is set out below.

#### 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.

#### III. Deferred taxation

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

*Deferred tax assets are recognised when it is more likely than not they will be recovered.* The deferred tax assets and liabilities are not discounted.

#### IV. Finance receivable

The costs incurred in respect of bid development, design and construction during the period prior to availability of the Acute Facilities are recovered over the contract period. Accordingly these costs are accumulated within the finance receivable as incurred.

Occupational availability payments from Hereford Hospital NHS Trust are allocated between turnover in relation to the service element of the contract, reimbursement of the finance receivable and finance income on the finance receivable so as to generate a constant rate of return over the services provided.

#### V. 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.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

### 2) Operating profit

Operating profit is stated after charging:

	2004	2003
	£'000	£'000
Auditors' remuneration	9	8

The auditors also received remuneration for other services totalling £23,000 (2003 £24,000) during the period under review. The Directors received fees of £300,000 (2003 £200,000); 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 and directors are recharged to the MHL.

### 3) Interest

	2004	2003
	£'000	£'000
Interest payable and similar charges	<u>(5,953)</u>	<u>(6,049)</u>
Interest receivable	244	154
Finance income	<u>6,514</u>	<u>6,117</u>
Interest receivable and similar income	<u>6,758</u>	<u>6,271</u>

Interest payable and similar charges of £5,953,000 (2003 £6,049,000) relates to interest charges and commitment fees with respect to the bank borrowings of £3,462,000 (2003 £3,543,000); plus interest payable of £729,000 (2003 £954,000) as a result of the operation of interest rate swap arrangements; plus sub-ordinated loan interest of £1,471,000 (2003 1,261,000); plus the amortisation of loan issue costs in accordance with FRS 4 of £291,000 (2003 £291,000).

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

### 4) Taxation

	2004 £'000	2003 £'000
Corporation tax at 30%	-	-
Corporation tax – prior year	<u>(227)</u>	<u>(865)</u>
Current tax credit for the period	<u>(227)</u>	<u>(865)</u>
Deferred tax	307	165
Deferred tax – prior year	<u>236</u>	<u>854</u>
Deferred tax charge for the period	<u>543</u>	<u>1,019</u>
Profit and loss account tax charge	<u>316</u>	<u>154</u>

The tax charge assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities	1,025	554
Profit on ordinary activities at the UK rate of 30%	308	166
Expenses not deductible for tax purposes	(1)	(1)
Accelerated capital allowances	<u>(307)</u>	<u>(165)</u>
Adjustments to tax in respect of prior years	<u>(227)</u>	<u>(865)</u>
Profit and loss account tax credit	<u>(227)</u>	<u>(865)</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

### 5) Debtors

	2004 £'000	2003 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	11	123
Tax and social security	-	107
	<u>11</u>	<u>230</u>
<b>Amounts falling due after more than one year:</b>		
Finance receivable	<u>71,613</u>	<u>69,544</u>
<b>Finance receivable</b>		
Balance at 1 April	69,544	69,016
(Amortisation)/net additions	(4,445)	251
Tariff received in advance	-	(5,840)
Finance income recognised	<u>6,514</u>	<u>6,117</u>
Balance at 31 March	<u>71,613</u>	<u>69,544</u>

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

	2004 £'000	2003 £'000
Trade creditors	(446)	(1,096)
Construction retentions	(109)	(769)
Accruals	(3,153)	(766)
Sub-ordinated loans	(753)	-
Bank loans	<u>(1,175)</u>	<u>(6,471)</u>
	<u>(5,636)</u>	<u>(9,102)</u>

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

	2004 £'000	2003 £'000
Amounts owed to related parties	(541)	(541)
Sub-ordinated loans	(9,759)	(9,757)
Bank loans	<u>(58,345)</u>	<u>(56,833)</u>
	<u>(68,645)</u>	<u>(67,131)</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

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

Construction retentions 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 March 2005.

The principal terms and conditions relating to the facilities are summarised below.

	2004 Term loan	2004 Sub- ordinated Loans	2003 Term Loan	2003 Sub- ordinated Loans
	£'000	£'000	£'000	£'000
Repayable within one year	1,175	753	6,471	-
Repayable between one and two years	1,613	-	925	-
Repayable between two and five years	5,938	-	4,869	-
Repayable after five years	<u>52,249</u>	<u>9,759</u>	<u>52,785</u>	<u>9,757</u>
Total loans outstanding	60,975	10,512	65,050	9,757
Loan issue costs	<u>(1,455)</u>	<u>-</u>	<u>(1,746)</u>	<u>-</u>
Total	<u>59,520</u>	<u>10,512</u>	<u>63,304</u>	<u>9,757</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.

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

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

#### Sub-ordinated debt

On the 16<sup>th</sup> April 2002, the shareholders subscribed to £8,496,320 sub-ordinated loan notes (£2,124,080 per shareholder) in Mercia Healthcare Limited.

The loan notes are to mature in full in 2029, however, both the loan holder and the company may redeem all or part of the loan notes at anytime, provided certain conditions are met and relevant consents are given.

The Loan Notes are unsecured and bear interest at 15%. Interest was rolled up on the loan notes until 16<sup>th</sup> October 2003, thereafter the interest is paid 6 monthly.

#### Swap arrangements

The Company has entered into interest rate swap agreements under the Term Loan. A fixed rate of 5.58% applies to all amounts drawn under the Term Loan, and the Shareholder Credit Facility. The swap agreement in relation to the Term Loan Facility expires on 10<sup>th</sup> April 2009. 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) Deferred taxation

	2004 £'000	2003 £'000
Accelerated capital allowance – deferred tax provision	(4,990)	(5,191)
Losses – deferred tax asset	<u>3,460</u>	<u>4,204</u>
Deferred tax provision	<u>1,530</u>	<u>987</u>
Balance at 1 April	987	(32)
Profit and loss account charge	<u>543</u>	<u>1,019</u>
Balance at 31 March	<u>1,530</u>	<u>987</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

### 9) Share Capital

	2004		2003	
	Number	£'000	Number	£'000
<b>Authorised:</b>				
Ordinary shares of £1 each	50,000	50	50,000	50
<b>Allotted called up and fully paid:</b>				
Ordinary shares of £1 each	1,000	1	1,000	1

### 10) Movement in equity shareholders' funds

The movement in equity shareholders' funds during the year relates wholly to the retained profit 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 was committed to payments totalling some £65million in respect of design and construction work from 16<sup>th</sup> April 1999 to 16<sup>th</sup> April 2003. 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 was undertaken by a Joint Venture between Alfred McAlpine Special Projects and Haden Young Ltd.

WS Atkins plc

Alfred McAlpine Construction Limited

Sodexo Investment Services Limited

Sodexo Services Group Limited

HSBC Infrastructure Limited



# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

### 12) Related Party Disclosures (continued)

#### 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 the Hereford County Hospital. Payments to related parties in respect of the above are detailed below.

	Construction contract	Provision of staff and support services	Construction contract	Provision of staff and support services
	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Alfred McAlpine Special Projects/Haden Young	-	-	6,419	80
WS Atkins plc	-	1,866	-	1,748
Sodexo Services Group Limited	-	2,876	-	3,085
HSBC Infrastructure Limited	-	75	-	50
Alfred McAlpine Project Investments Limited	-	75	-	50

#### Amounts outstanding to Related Parties at 31<sup>st</sup> March 2004

	2004 £'000	2003 £'000
Alfred McAlpine Special Projects /Haden Young	109	769
WS Atkins plc	2,795	2,650
Sodexo Investment Services Limited	3,169	-
Sodexo Services Group Limited	256	3,327
HSBC Infrastructure Limited	2,628	2,439
Alfred McAlpine Project Investments Limited	2,628	2,439

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

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

### 13) Parent Undertakings

The Company is a wholly owned subsidiary of Mercia Healthcare (Holdings) Limited, a company which is incorporated in England and Wales.

25% of Mercia Healthcare (Holdings) Limited's shares are held by each of the following, all of which are registered in the United Kingdom:

WS Atkins plc

Alfred McAlpine Project Investments Limited

Sodexo Investment Services Limited

HSBC Infrastructure Limited

### 14) Reconciliation of operating profit to net cash flow from operating activities

	2004 £'000	2003 £'000
Operating profit	219	332
Increase in debtors	(1,850)	(150)
Decrease in creditors	<u>(1,019)</u>	<u>(2,750)</u>
Net cash outflow from operating activities	<u>(2,650)</u>	<u>(2,568)</u>

### 15) Analysis of cash flow movements

	2004 £'000	2003 £'000
<b>Returns on investment and servicing of finance</b>		
Interest received	6,758	6,271
Interest paid	<u>(2,811)</u>	<u>(4,073)</u>
Net cash inflow from returns on investment and servicing of finance	<u>3,947</u>	<u>2,198</u>
<b>Financing</b>		
(Repayment)/new bank loans and sub-debt	<u>(4,075)</u>	<u>6,387</u>
Net cash (outflow)/inflow from financing	<u>(4,075)</u>	<u>6,387</u>

# MERCIA HEALTHCARE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 31st March 2004

### 16) Analysis of net debt

	At 31 March 2003 £'000	Cash Flows £'000	Non-cash Movement £'000	At 31 March 2004 £'000
Cash at bank and in hand	8,827	(2,551)	-	6,276
Bank loans	(63,304)	4,075	(291)	(59,520)
Subordinated loans	<u>(9,757)</u>	<u>-</u>	<u>(755)</u>	<u>(10,512)</u>
	<u>(64,234)</u>	<u>1,524</u>	<u>(1,046)</u>	<u>(63,756)</u>

The non-cash movement relates to the amortisation of loan issue costs £291,000 and rolled up subordinated debt interest £755,000