

Company Registration No. SC248921 (Scotland)

AYRSHIRE HOSPITALS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 AUGUST 2005



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COMPANIES HOUSE **30/06/06**

AYRSHIRE HOSPITALS LIMITED

COMPANY INFORMATION

Directors

Ray Eve
Dylan Fletcher
Donald McKinnon
Ian Robertson

Secretary

James Muir

Company number

SC248921

Registered office

20 North Claremont Street
Glasgow
G3 7LE

Auditors

Wylie & Bisset
168 Bath Street
Glasgow
G2 4TP

Solicitors

Biggart Baillie
7 Castle Street
Edinburgh
EH2 3AP

AYRSHIRE HOSPITALS LIMITED

CONTENTS

	Page
Directors' report	1 - 2
Independent auditors' report	3 - 4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7 - 10

AYRSHIRE HOSPITALS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2005

The directors present their report and financial statements for the year ended 31 August 2005.

Principal activities

The principal activity of the company was the construction and maintenance of a hospital under the PFI/PPP scheme. At the year end, construction of the hospital was ongoing. A contract for the provision of the hospital building and associated facilities management to the Ayrshire & Arran Health Board is expected to commence at the end of the construction period.

Directors

The following directors have held office since 1 September 2004:

Ray Eve
Dylan Fletcher
Donald McKinnon
Ian Robertson

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £ 1 each	
	31 August 2005	1 September 2004
Ray Eve	-	-
Dylan Fletcher	-	-
Donald McKinnon	-	-
Ian Robertson	-	-

Auditors

Wylie & Bisset were appointed auditors to the company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

AYRSHIRE HOSPITALS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2005

Directors' responsibilities

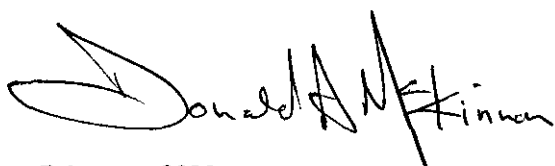
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 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.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

On behalf of the board



7 January 2006

AYRSHIRE HOSPITALS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AYRSHIRE HOSPITALS LIMITED

We have audited the financial statements of Ayrshire Hospitals Limited on pages 5 to 10 for the year ended 31 August 2005. These financial statements have been prepared under the historical cost convention and 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 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.

AYRSHIRE HOSPITALS LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF AYRSHIRE HOSPITALS LIMITED

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 August 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Wylie & Bisset

Wylie & Bisset

7 January 2006

Chartered Accountants
Registered Auditor

168 Bath Street
Glasgow
G2 4TP

AYRSHIRE HOSPITALS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 AUGUST 2005

		Year ended 31 August 2005 £	Period ended 31 August 2004 £
	Notes		
Turnover		46,661	-
Cost of sales		(44,421)	-
Gross profit		<u>2,240</u>	<u>-</u>
Administrative expenses		(34,907)	-
Operating loss	2	<u>(32,667)</u>	<u>-</u>
Other interest receivable and similar income	3	16,891	-
Loss on ordinary activities before taxation		<u>(15,776)</u>	<u>-</u>
Tax on loss on ordinary activities	4	-	-
Loss on ordinary activities after taxation	10	<u>(15,776)</u>	<u>-</u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

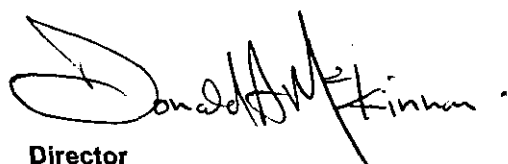
AYRSHIRE HOSPITALS LIMITED

BALANCE SHEET AS AT 31 AUGUST 2005

	Notes	2005 £	£	2004 £	£
Current assets					
Stocks	5	10,239,772		-	
Debtors	6	137,171		-	
Cash at bank and in hand		945,718		2	
		<u>11,322,661</u>		<u>2</u>	
Creditors: amounts falling due within one year	7	<u>(9,939,777)</u>		<u>-</u>	
Total assets less current liabilities			1,382,884		2
Creditors: amounts falling due after more than one year	8		<u>(1,396,660)</u>		<u>-</u>
			<u>(13,776)</u>		<u>2</u>
Capital and reserves					
Called up share capital	9		2,000		2
Profit and loss account	10		<u>(15,776)</u>		<u>-</u>
Shareholders' funds - equity interests	11		<u>(13,776)</u>		<u>2</u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the Board on 7 January 2006.


Director

AYRSHIRE HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

1.2 Turnover and profits

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs to date bear to total expected costs for that contract.

1.3 Stock

Costs incurred in the construction of the hospital unit have been accounted for under SSAP 9 'Stock and Long Term Contracts'. Applying the guidance within the Standard, costs incurred during the design and construction period of the PFI property are debited to work in progress. Costs and revenues which are outwith the contract to provide the PFI property are charged to the profit and loss account in the relevant period.

On completion of the project it is the intention of the directors to account for total costs incurred under Financial Reporting Standard 5, Application Note F. As such the costs incurred on the project will ultimately be treated as a finance debtor, on the basis that the project's principal agreement transfers substantially all the risks and rewards of ownership of the asset to the customer.

1.4 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account.

1.5 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.6 Financial instruments

The company is party to a derivative interest swap agreement, which is used to manage exposures to fluctuations in interest rates.

Finance costs during the construction period of the project are accounted for under SSAP 9 and debited to work in progress. On completion of the project it is the intention of the directors to account for finance costs under Financial Reporting Standard 4, where upon they they will be charged to the profit and loss account over the lives of the relevant loans.

AYRSHIRE HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2005

2	Operating loss	2005	2004
		£	£
	Operating loss is stated after charging:		
	Auditors' remuneration	3,000	-
	Directors' emoluments	15,000	-
		<u> </u>	<u> </u>
3	Investment income	2005	2004
		£	£
	Bank interest	16,891	-
		<u> </u>	<u> </u>
4	Taxation		
	Due to the availability of taxation losses no taxation requires to be provided for the year.		
5	Stocks	2005	2004
		£	£
	Long term contract balances:		
	- Net cost less foreseeable losses	10,239,772	-
		<u> </u>	<u> </u>
6	Debtors	2005	2004
		£	£
	Other debtors	137,171	-
		<u> </u>	<u> </u>
7	Creditors: amounts falling due within one year	2005	2004
		£	£
	Bank loans and overdrafts	8,868,314	-
	Trade creditors	1,068,963	-
	Other creditors	2,500	-
		<u> </u>	<u> </u>
		9,939,777	-
		<u> </u>	<u> </u>

The bank loan is repayable on demand and is secured by a floating charge and standard security over the assets of the company.

Bank loans bear interest based on LIBOR. As part of its interest rate management strategy the company entered an interest rate swap agreement in respect of the debt maturing in September 2033. Under this swap the company pays interest at a fixed rate of 5.285%.

AYRSHIRE HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2005

8	Creditors: amounts falling due after more than one year	2005 £	2004 £
	Subordinated debt	1,396,660	-

The subordinated debt carries an interest rate of 13%. The principal is repayable on 30 September 2033.

9	Share capital	2005 £	2004 £
	Authorised		
	2,000 Ordinary shares of £1 each	2,000	100
	Allotted, called up and fully paid		
	2,000 Ordinary shares of £1 each	2,000	2

During the year 1,998 Ordinary shares of £1 each were issued and fully paid for cash at par.

10	Statement of movements on profit and loss account	Profit and loss account £
	Retained loss for the period	(15,776)

11	Reconciliation of movements in shareholders' funds	2005 £	2004 £
	Loss for the financial year	(15,776)	-
	Proceeds from issue of shares	1,998	2
	Net (depletion in)/addition to shareholders' funds	(13,778)	2
	Opening shareholders' funds	2	-
	Closing shareholders' funds	(13,776)	2

12	Capital commitments	2005 £	2004 £
	At 31 August 2005 the company had capital commitments as follows:		
	Contracted for but not provided in the financial statements	7,609,228	-

AYRSHIRE HOSPITALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2005

13 Related party transactions

Dawn Construction Limited holds a 32.5% shareholding in Ayrshire Hospitals Limited. During the year Dawn Construction Limited were contracted to build the Crosshouse Hospital Maternity Unit (being the PFI/PPP project) and received payments of £8,124,652 from the company for this work, together with £20,000 in respect of professional and administration services. Ray Eve, a director of the company is also a director of Dawn Construction Limited. The balance owed to this company at the year end was £1,055,423.

Arisaig Investments Limited holds a 32.5% shareholding in Ayrshire Hospitals Limited. Both Ian Robertson and Donald McKinnon are directors of the company and both are shareholders of Arisaig Investments Limited. During the year the company paid £3,750 in respect of professional and administration fees to Ian D.W. Robertson Limited. Ian Robertson is a director and shareholder of Ian D.W. Robertson Limited. Ian Robertson is also a director of Arisaig Investments Limited.

MacKenzie Investments (Crosshouse) Limited holds a 25% shareholding in Ayrshire Hospitals Limited. Donald McKinnon, a director of the company, is also a director and shareholder of MacKenzie Investments (Crosshouse) Limited.

FES (Scotland) Limited holds a 10% shareholding in Ayrshire Hospitals Limited. FES Limited, a related company, is a party to the main contract and is also a subcontractor of Dawn Construction Limited.

The company has a subordinated debt with the above shareholding companies. This amounts to £1,243,000 and has been provided in proportion to the respective shareholdings. During the year the company paid a subordinated debt arrangement fee to its shareholders in proportion to the respective shareholdings totalling £48,000. Interest accrued on these loans amounts to £153,660 and is included within the total subordinated debt due per note 8.

During the year the company paid MacKenzie Partnership Services Limited £284,316 in respect of professional and administration services. Donald McKinnon, a director of the company, is also a director and shareholder of MacKenzie Partnership Services Limited. The balance owed to this company at the year end was £4,113.