Commercial in confidence

Company Registration No. 03854193

KMC (PEMBROKE) LIMITED

Annual Report and Financial Statements

For the Year ended 31 December 2019

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D J Harding
P Would

COMPANY SECRETARY

Asset Management Solutions Limited

REGISTERED OFFICE

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BANKERS

Barclays Bank Plc
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Leicester
LE87 2BB

AUDITOR

Grant Thornton UK LLP
30 Finsbury Square
London
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DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of KMC (Pembroke) Limited for the year ended 31 December 2019.

Principal activity

The company's principal activity is that of operating and maintaining a school under a Private Finance Initiative contract with Pembrokeshire County Council ('the Authority'). The Directors consider both the operating performance and the year end financial position satisfactory.

Key performance indicators (KPIs)

1. Performance deductions under the service contract

Financial penalties are levied by the Authority in the event of performance standards not being achieved according to detailed criteria set out in the Project Agreement. The deductions are passed on to the service provider but the quantum is an indication of unsatisfactory performance. In the year ended 31 December 2019 there were no deductions (2018: £nil).

2. Financial Performance

The Directors have modelled the anticipated financial outcome of the concession across its full term. The Directors monitor actual performance against this anticipated performance. As at 31 December 2019 the Company's performance against the measure was satisfactory.

Principal risks and uncertainties

The Authority is the sole client of the Company. The Directors consider that no strategic risk arises from such a small client base since the Secretary of State for Education has underwritten the Authority's obligations under the Project Agreement.

Performance risk under the Project Agreement and related contracts are passed on to the service providers and to the building contractor. The obligations of these subcontractors are underwritten either by performance guarantees issued by banks or by parent Company guarantees.

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The financial risks and the measures taken to mitigate them are detailed in the following section.

Financial Risk Management

The Company has exposures to a variety of financial risks which are managed with the purpose on minimising any potential adverse effect on the Company's performance. The Directors have policies for managing each of these risks and they are summarised below:

Interest rate risk

The Company aims to manage exposure to interest rate fluctuations through a balance of fixed rate borrowings along with floating rate borrowings. The Company has also entered into swap contracts covering the debt projected to be drawn down which hedges the Company's interest rate exposure on bank loans. The subordinated debt interest rate has been fixed.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.
The Company's financial obligations, including the repayment of its borrowings which are provided on a long-term basis, have been structured to be met from the income which, under normal operating conditions, will be earned from its long-term concession contract with the Authority.

DIRECTORS' REPORT *(continued)*

Credit Risk

Although the Authority is the sole client of the Company, the directors are satisfied that the Authority will be able to fulfil its obligations under the Project Agreement as it is underwritten by the Secretary of State for Education.

COVID-19 risk

The Company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. The Board have assessed the risk to the Company and concluded that it is not significantly exposed and it is well placed to continue to operate and manage the situation. Due to the evolving nature of the risk, the Board continue to actively monitor developments. For further information, please refer to the basis of preparation note 1.2, p12

Results and dividends

The results for the year are shown in the statement of comprehensive income on page 7.

Dividends paid during the year were £230,000 (2018 - £90,000).

Directors

The Directors of the Company, who served throughout the financial year and subsequently, are as shown on page 1.

Strategic Report exemption

No Strategic Report has been prepared, on the basis that the Company is entitled to the small company exemption.

Employees

The Company has no employees (2018: Nil)

Political and charitable contributions

The Company made no political or charitable contributions during the year (2018: £nil).

Disclosure of information to auditors

The directors confirm that:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

Grant Thornton UK LLP have indicated their willingness to continue in office as the company's auditor and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

D J Harding
Director

Date 30 June 2020

Statement of Directors' Responsibilities in Respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' 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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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 auditor's report to the members of KMC (Pembroke) Limited

Opinion

We have audited the financial statements of KMC (Pembroke) Limited (the 'company') for the year ended 31 December 2019 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland.'

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and parent company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the company's business model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit and analysed how those risks might affect the company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report to the members of KMC (Pembroke) Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 2-4, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit. or
- the directors were not entitled to take advantage of the small companies' exemption from preparing a strategic report.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of KMC (Pembroke) Limited

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Grant Thornton UK LLP

Richard Hagley, BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 30/6/2020

Statement of Comprehensive Income
Year ended 31 December 2019

	Note	2019 £	2018 £
TURNOVER	2	1,214,147	1,220,185
Cost of sales		(490,627)	(448,963)
GROSS PROFIT		723,520	771,222
Administrative expenses		(123,247)	(112,509)
OPERATING PROFIT		600,273	658,713
Interest receivable	5	6,247	4,219
Interest payable	6	(270,531)	(298,828)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		335,989	364,104
Tax on profit on ordinary activities	7	(63,838)	(69,002)
PROFIT FOR THE FINANCIAL YEAR		272,151	295,102
Other comprehensive income			
Fair value changes in cash flow hedges	14	81,157	231,515
Tax recognised in relation to change in fair value cash flow hedges		(15,420)	(39,358)
Other comprehensive income for the year		65,737	192,157
Total comprehensive income for the year		337,888	487,259

All activities derive from continuing operations.

The notes on pages 11 to 22 form an integral part of these financial statements

Statement of Financial Position
As at 31 December 2019

	Note	2019 £	2018 £
Non Current Assets			
Debtors – due after more than one year	9	5,708,759	6,022,808
Current Assets			
Debtors – due within one year	9	463,119	451,231
Cash at bank and in hand	10	1,093,945	1,127,508
		1,557,064	1,578,739
CREDITORS: amounts falling due within one year	11	(638,442)	(628,223)
NET CURRENT ASSETS		918,622	950,516
TOTAL ASSETS LESS CURRENT LIABILITIES		6,627,381	6,973,324
CREDITORS: amounts falling due after more than one year	12	(4,062,434)	(4,516,265)
NET ASSETS		2,564,947	2,457,059
CAPITAL AND RESERVES			
Called-up share capital	13	13,357	13,357
Profit and loss account		3,215,561	3,173,410
Cash flow hedge reserve		(663,971)	(729,708)
SHAREHOLDER'S FUNDS		2,564,947	2,457,059

The financial statements of KMC (Pembroke) Limited, registration number 03854193, were approved by the Board of Directors and authorised for issue on 30 June 2020.

Signed on behalf of the Board of Directors

D J Harding
Director

The notes on pages 11 – 22 form part of these financial statements.

Statement of Changes in Equity

	Called up share capital £	Cash flow hedge reserve £	Profit and loss account £	Total Equity £
Balance at 1 January 2018	13,357	(921,865)	2,968,191	2,059,683
Total comprehensive income for the period				
Profit	-	-	295,219	295,219
Other comprehensive income	-	192,157	-	192,157
Total comprehensive income for the period	-	192,157	295,219	487,376
Dividend Paid	-	-	(90,000)	(90,000)
Balance at 31 December 2018	13,357	(729,708)	3,173,410	2,457,059

	Called up share capital £	Cash flow hedge reserve £	Profit and loss account £	Total Equity £
Balance at 1 January 2019	13,357	(729,708)	3,173,410	2,457,059
Total comprehensive income for the period				
Profit	-	-	272,151	272,151
Other comprehensive income	-	65,737	-	65,737
Total comprehensive income for the period	-	65,737	272,151	337,888
Dividend Paid	-	-	(230,000)	(230,000)
Balance at 31 December 2019	13,357	(663,791)	3,215,561	2,564,947

The notes on pages 11 – 22 form part of these financial statements.

Cashflow Statement
Year ended 31 December 2019

	2019	2018
Cash flows from operating activities		
Profit for the financial year	272,152	295,102
Interest received	(6,247)	(4,219)
Taxation	63,838	69,002
Interest payable and similar charges	270,531	298,828
Decrease in Debtors	286,740	261,287
Increase/(decrease) in Creditors	23,896	(288,710)
Income tax paid	(69,180)	(53,195)
Net Cash Flow from operating activities	**841,729**	**578,095**
Cash flows from investing activities		
Interest received	6,247	4,219
Net cash from investing activities	**6,247**	**4,219**
Cash flows from financing activities		
Interest and fees paid	(278,876)	(307,705)
Repayment of bank loan	(354,978)	(354,978)
Repayment of Shareholder Loan	(17,696)	(17,696)
Dividends paid	(230,000)	(90,000)
Net cash from financing activities	**(881,541)**	**(770,379)**
(Decrease) in cash and cash equivalents	**(33,564)**	**(188,065)**
Cash and cash equivalents at 1 January	**1,127,508**	**1,315,573**
Cash and cash equivalents at 31 December	**1,093,945**	**1,127,508**

Notes to the Financial Statements *(continued)*

1 Accounting policies

KMC (Pembroke) Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The registered office of the Company is Second Floor, 46 Charles Street, Cardiff, CF10 2GE and is registered in England and Wales. The company registration no is 03854193.

These financial statements have been prepared accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102")*. The presentation currency of these financial statements is sterling.

The accounting policies set out below have, unless otherwise stated been applied consistently to all periods presented in these financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 18

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except the derivative financial liabilities which are stated at their fair value.

1.2 Going concern

The Company had net assets of £2,582,531 as at December 2019 and generated a profit for the year then ended of £272,151.

The Directors have prepared cash flow forecasts covering a period of 14 months from the date of approval of these financial statements, through to 31 August 2021 which indicate that, the Company will have sufficient funds to meet its liabilities as they fall due for that period. Those forecasts are dependent on the underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Education.

In making this assessment the Directors have considered the potential impact of the emergence and spread of COVID-19.

The Company's operating cash inflows are largely dependent on availability unitary charge receipts receivable from Pembrokeshire County Council, underwritten by the Secretary of State for Education, for the provision of the Pembroke Dock Primary School. The Directors expect these amounts to be received even in plausible downside scenarios. The Company is aware of the Government guidance for public bodies on payment to suppliers to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance that payment will continue to be received.

The Company continues to provide the asset in accordance with the PFI contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.

The Directors have assessed the viability of its main sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to the Company, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19.

The Directors believe the Company has sufficient funding in place and expect the Company to be in compliance with its debt covenants.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes to the Financial Statements *(continued)*

1. Accounting policies *(continued)*

1.3 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments.

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Restricted cash

The Company is obliged to keep a separate cash reserve in respect of future major maintenance costs and financing cost. This restricted cash balance, which is shown on the statement of financial position within the "cash at bank and in hand" balance amounts to £685,660 at the year end (2018: £836,684).

1.4 Non-basic financial instruments

Derivatives

Financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- hedging instruments in a designated hedging relationship shall be recognised as set out below,

Cash flow hedges

The Company has entered into interest rate swaps and designated this hedge as a highly probable forecast transaction. The effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative gain or loss recognised in equity is recognised in the statement of comprehensive income immediately.

Notes to the Financial Statements *(continued)*

1. Accounting policies *(continued)*

1.5 Impairment excluding deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying value and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

Interest on the impaired asset continued to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through the profit or loss.

1.6 Finance debtor and services income

The Company is an operator of a PFI contract. The underlying asset is not deemed to be a tangible asset of the Company under FRS102 section 34C because the risks and rewards of ownership as set out in the standard are deemed to lie principally with Pembrokeshire County Council.

During the construction phase of the project, all attributable expenditure, excluding interest, was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the financial debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS 102 section 23. The Company recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when the services are performed.

1.7 Expenses

Interest receivable and Interest payable

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees.

Other interest receivable and similar income include interest receivable on funds invested and interest recognised on the finance debtor based upon the finance debtor accounting policy above.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Notes to the Financial Statements *(continued)*

1. Accounting policies ***(continued)***

1.8 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences, which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Notes to the Financial Statements *(continued)*

2 Analysis of turnover

	2019	2018
	£	£
Services income	1,214,147	1,220,185

3 Profit on ordinary activities before taxation

	2019	2018
	£	£
This is stated after charging		
Auditor's remuneration		
For audit services	10,000	6,500
Taxation compliance services	3,400	3,200

4 Staff costs and Directors' remuneration

The company had no employees during the current and the prior financial year. The directors are remunerated by other group companies for their services to the group as a whole and are not remunerated from this company. The company paid fees of £21,921 (2018 - £21,336) to Equitix Healthcare Limited for the services of the directors to KMC (Pembroke) Limited during the financial year.

5 Interest receivable

	2019	2018
	£	£
Bank interest	6,247	4,219

6. Interest Payable

	2019	2018
	£	£
Bank loan interest	250,733	277,370
Loan note interest	19,798	21,458
	270,531	298,828

Bank loan interest represents amounts payable during the financial years in respect of interest accumulated on bank loans. These loans bear interest at variable rates and are being repaid in six-monthly intervals until 31 August 2029 at varying amounts. The company does, however, have interest rate swaps in place to fix the interest as discussed within note 14. Loan note interest represents interest on the loan notes owned by the parent company, details of which are disclosed further in note 12.

Notes to the Financial Statements *(continued)*

7. **Taxation**

	2019 £	2018 £
UK corporation tax		
Current tax on income for the year	(63,838)	(69,180)
Prior year adjustment	-	178
Total tax charge	(63,838)	(69,002)

Factors affecting the tax charge for the current period

The total tax charge for the period is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%)

	2019 £	2018 £
Profit on ordinary activities before taxation	335,989	364,104
Current tax at 19% (2018: 19%)	(63,838)	(69,180)
Prior year adjustment	-	178
Total tax charge (see above)	(63,838)	(69,002)

Deferred tax

Deferred tax is recognised on the revaluation of the interest rate swap held by the company. These are accounted for under cash flow hedges (see note 14).

Tax is provided at 19% (2018: 17%) in the financial statements as follows:

	2019 £	2018 £
Deferred tax on revaluation of fair value of derivatives	134,038	149,458

Movement in deferred tax asset	2019 £	2018 £
At beginning of the year	149,458	188,816
Charged to other comprehensive income	(15,420)	(39,358)
At end of the year	134,038	149,458

Notes to the Financial Statements *(continued)*

7. Taxation *(continued)*

Factors that may affect future current and total tax charges

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 2 July 2013. Planned further reductions announced in the budget on 16 March 2016 by the Chancellor to 17% by April 2020, have since been reversed in the March 2020 budget, and the corporation tax rate remains at 19%.

8 Dividends

	2019 £	2018 £
Dividend for the year ended 31 December 2019 of £17.22 (2018: £6.74) per ordinary share	230,000	90,000

9 Debtors

	2019 £	2018 £
Prepayments and other debtors	15,033	14,595
Amounts receivable under PFI contracts	6,022,808	6,309,986
Deferred tax on cash flow hedge (note 7)	134,038	149,458
	6,171,879	6,474,039

Amounts receivable under PFI contracts includes £5,708,759 (2018 - £6,022,808) due after more than one year.

10 Cash At Bank And In Hand

Included in cash at bank and in hand is cash of £685,660 (2018 - £836,684) which is restricted for use in pre-defined circumstances.

11 Creditors: amounts falling due within one year

	2019 £	2018 £
Bank loans	354,977	354,977
Trade creditors	48,215	43,222
Amounts owed to group undertakings – loan notes	24,111	24,554
Amount owed to group company – group relief	63,838	69,180
Other taxation and social security	26,857	28,433
Accruals and deferred income	120,443	107,857
	638,441	628,223

Included above are amounts due to other group companies in relation to consortium relief.

Notes to the Financial Statements *(continued)*

12 Creditors: amounts falling due after more than one year

	2019 £	2018 £
Bank loans	3,025,508	3,380,486
Amount owed to group undertakings – Loan notes	238,917	256,613
Fair Value of swap	798,009	879,166
	4,062,434	4,516,265

	£	£
Bank loans are repayable as follows:		
On one year or less, or on demand	354,978	354,977
Between one and two years	354,978	354,978
Between two and five years	1,064,933	1,064,933
After more than five years	1,605,598	1,960,575
	3,380,487	3,735,463

The amount owed to group undertakings bears fixed interest of 7.5% and is being repaid in six-monthly intervals with a final payment on 31 August 2030.

The bank loans bear interest at variable rates and are being repaid in six-monthly intervals until 31 August 2029 at variable amounts.

The bank loans due within one year and after one year are secured by a fixed and floating charge over all of the company's assets.

To mitigate exposure to interest rate fluctuations, the company has entered into interest rate swap agreements for the duration that the loans remain outstanding.

The company has two interest rate swap contracts to hedge the Bank loan. The first swap was entered into at the same time as the original loan. The loan was later restated and so an additional swap was entered into, to hedge the additional loan amount. The first expires on 30 August 2029; the fair value of the interest rate swap on 31 December 2019 was a liability of £310,957 (2018 – liability of £302,746). The second expires on 30 August 2026; the fair value of the contract as at 31 December 2019 was a liability of £487,052 (2018 – liability of £576,420).

13 Called up share capital

	2019 £	2018 £
Allotted, called up and fully paid		
13,357 ordinary shares of £1 each	13,357	13,357

Notes to the Financial Statements *(continued)*

14. Financial instruments

(a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include;

	2019 £	2018 £
Assets measured at amortised cost		
- Finance debtor	6,022,808	6,309,986
	6,022,808	6,309,986
Assets measured at cost less impairment		
- Cash and cash equivalents	1,093,945	1,127,508
	1,093,945	1,127,508
Liabilities measured at amortised cost		
- Trade and other payables	(48,216)	(43,222)
- Bank loan	(3,380,486)	(3,735,464)
- Subordinated debt	(256,613)	(274,309)
	(3,685,315)	(4,052,995)
Liabilities measured at fair value through profit and loss		
Interest rate swaps	(798,009)	(879,166)

(b) Financial instruments measured at fair value

Derivative financial instruments

The fair value of the interest rate swap is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Notes to the Financial Statements *(continued)*

14. Financial instruments *(continued)*

(c) Hedge accounting

The following table indicates the periods in which the cash flows associated with the cash flow hedging instrument are expected to occur as required by FRS 102 12.29(a) for the cash flow hedge accounting models and also the associated cash flow hedging instruments are expected to affect the statement of comprehensive income. Amount reclassified from equity is £81,157 (2018: from equity £231,515).

2019

	Carrying Amount	**Within 1 year**	**Between 1-2 years**	**Between 2-5 years**	**5 years and over**
Interest Rate Swap	798,009	83,797	83,797	251,392	379,023

2018

	Carrying Amount	**Within 1 year**	**Between 1-2 years**	**Between 2-5 years**	**5 years and over**
Interest Rate Swap	879,166	83,546	83,547	250,639	461,434

(d) Fair values

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	2019 **£**	**2018** **£**
Interest rate swap contract	(798,009)	(879,166)

15 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent company is Equitix Healthcare Limited, a company incorporated in Great Britain and registered in England and Wales. The company's ultimate parent and controlling entity is Equitix Fund I LP, a limited partnership registered in England and Wales. The largest and smallest group into which the company is consolidated is Equitix Capital Eurobond Limited. Copies of its financial statements can be obtained from Companies House, Crown Way, Cardiff CF14 3UZ.

Notes to the Financial Statements *(continued)*

16 RELATED PARTY TRANSACTIONS

The directors consider the material transactions undertaken by the company during the year with related parties were as follows:

Name of party	Relationship	Nature of transaction	Transaction amount	Amount owed (to)/by related parties at 31 December 2019 £
Equitix Healthcare Limited	Shareholder	Loan	17,696	(256,613)
Equitix Healthcare Limited	Shareholder	Interest	19,798	(6,415)
Equitix Healthcare Limited	Shareholder	Provision of services	21,921	-
				(263,028)

The Corporation tax will be paid to a group company that will be surrendering its losses. At the current time, which group company it will be is unknown.

Transactions with related parties in the prior year are set out below.

Name of party	Relationship	Nature of transaction	Transaction amount	Amount owed (to)/by related parties at 31 December 2018 £
Equitix Healthcare Limited	Shareholder	Loan	17,696	(274,309)
Equitix Healthcare Limited	Shareholder	Interest	21,458	(6,858)
Equitix Healthcare Limited	Shareholder	Provision of services	21,336	-
				(281,167)

17 Amendment to FRS 102 in respect of interest rate benchmark reform

Interest rate benchmarks such as the London Interbank Offered Rate (LIBOR) are being reformed, and it is anticipated that LIBOR will not be available after 2021. There is increasing uncertainty about the long-term viability of some interest rate benchmarks and this gives rise to issues affecting financial reporting in the period before the reform, particularly in relation to hedge accounting. The Company has chosen to adopt the amendment early, hence ensuring that the assessment over whether there are highly probably cash flows in the hedging relationship is unaffected by the transition from LIBOR to an alternative benchmark.

Notes to the Financial Statements *(continued)*

18 Accounting estimates and judgements

The preparation of financial statements in conformity with FRS 102 requires management to make judgements estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis on making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.
Certain critical accounting judgements in applying the Company's accounting policies are described below:

- Accounting for the service concession contract and finance debtors requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the PFI contract.
- Fair value of the SWAPs are based on Mark to Market estimates provided by Barclays. Please see note 1.4 for further details of the treatment.
- It is expected that changes to the hedging instrument and the loan will be materially consistent and limited to the transition from Libor to the new benchmark, as both the loan and the swap will be transitioned to the new benchmark at similar times in a broadly matching fashion.

19 Post balance sheet events

The COVID-19 pandemic continues to cause significant impact to the UK's economy; however, the Company has continued to be paid in full since the year end in accordance with Government guidance and the concession contract and does not expect this position to change. The school has been partially closed since March 2020 but is fully available for use by the client in line with the terms of the PFI contract and, as a result, continues to be entitled to the receipt of the Unitary Payment in full.