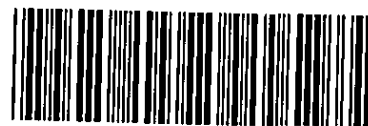


**The Coventry and Rugby Hospital Company  
(Holdings) Limited**

**Directors' report and consolidated financial  
statements**

31 December 2006

Registered number 04129835



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## **Company information**

### **Directors**

G Birley-Smith (appointed 8 January 2007)  
CL Mitchell (appointed 9 February 2006)  
J Pedretti (appointed 20 February 2006)  
J Wrinn (appointed 9 May 2007)

### **Secretary**

DC Howe

### **Registered office**

3 White Oak Square  
London Road  
Swanley  
Kent BR8 7AG

### **Auditors**

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

### **Principal activity**

The principal activity of the company is the holding of investments

### **Business review**

The Company did not trade during the year

In December 2002 a subsidiary, The Coventry and Rugby Hospital Company PLC, entered into a contract with the University Hospitals Coventry and Warwickshire NHS Trust (The Trust) for the financing, design and construction of and the provision of certain services in connection with the redevelopment of hospital, mental health and a clinical sciences facility at the current hospital site in Walsgrave and the provision of certain services to the Hospital of St Cross. During 2006 the remaining clinical facilities, the final 3 tower sections, were completed and handed over to The Trust. The Company now provides full facilities management services throughout the hospital whilst the final areas of construction are completed.

### *Key performance indicators (KPI's)*

#### **1 Performance deductions under the service contracts**

Financial penalties are levied by The Trust in the event of performance standards not being achieved or parts of the hospital becoming unavailable for their anticipated use in accordance with the detailed criteria set out in the Project Documents. Where appropriate deductions are passed on to the service provider but the quantum is an indication of the Company's performance. For the year ending 31 December 2006 £90,608 deductions had been levied against the Company (2005 £49).

#### **2 Financial performance**

The Company has modelled the anticipated financial outcome of the project across the term of the agreement up to the end of the concession in 2046. The Company monitors actual financial performance against this anticipated performance. As at 31 December 2006, the Company's performance against this measure was satisfactory.

### *Position of the Company at the year end*

The Company is providing a full range of facilities management services as required under the Project Documents at a satisfactory level.

### **Principal risks and uncertainties**

The University Hospitals Coventry and Warwickshire NHS Trust and the Coventry and Warwickshire Partnership Trust (together The Trusts) are the only clients of the Company but the directors consider that no risk arises from such a small client base since the Secretary for Health has underwritten The Trusts' obligations.

Performance risk under the Project Agreement and related contracts is passed on to the service providers. The obligations of the subcontractors are underwritten by parent company guarantees.

### **Dividends**

The directors do not recommend the payment of a dividend (2005 £Nil).

## **Director's report** *(continued)*

### **Directors**

The directors who held office during the year were as follows

N JE Crowther (resigned 9 February 2006)  
JE Gemmell (resigned 10 December 2006)  
AR Gillman (resigned 19 January 2006)  
CL Mitchell (appointed 9 February 2006)  
TR Pearson (resigned 8 January 2007)  
J Pedretti (appointed 20 January 2006)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the group companies

### **Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

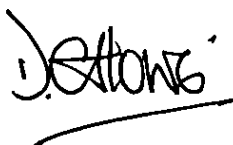
### **Auditors**

During the year KPMG Audit Plc acted as auditors of the company. In accordance with Section 385 of the Companies Act 1985, a resolution to reappoint KPMG Audit Plc as auditors is to be proposed at the next Annual General Meeting

By order of the board

DC Howe  
Secretary

25 July 2007



3 White Oak Square  
London Road  
Swanley  
Kent BR8 7AG

## **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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

## **Independent auditors' report to the members of The Coventry and Rugby Hospital Company (Holdings) Limited**

We have audited the financial statements of The Coventry and Rugby Hospital Company (Holdings) Limited for the year ended 31 December 2006 which comprise Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Reconciliation of movements in Shareholders' deficit and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

**Independent auditors' report to the members of The Coventry and Rugby Hospital Company (Holdings) Limited (*continued*)**

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent's company's affairs as at 31 December 2006 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*KPMG Audit Plc*

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*

*25 / 7 / 07*

**Consolidated profit and loss account**  
*for the year ended 31 December 2006*

	<i>Note</i>	2006 £	2005 £
Turnover	3	52,368,398	70,936,928
Net operating costs	4	(47,196,924)	(68,180,407)
		<hr/>	<hr/>
<b>Operating profit</b>		5,171,474	2,756,521
Interest payable and similar charges	6	(24,512,746)	(26,299,594)
Other interest receivable and similar income	7	16,430,871	8,298,237
		<hr/>	<hr/>
<b>Loss on ordinary activity before taxation</b>		(2,910,401)	(15,244,836)
Taxation on loss on ordinary activities	8	1,579,560	4,428,507
		<hr/>	<hr/>
<b>Loss for the financial year</b>		(1,330,841)	(10,816,329)
		<hr/>	<hr/>

There were no other recognised gains and losses for the year other than the loss stated above

There is no difference between the historical cost loss and the loss stated above. All of the results relate to continuing activities.

Movements on reserves are shown in note 17

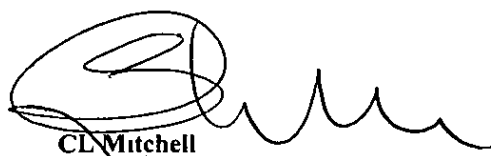
The notes on pages 12 to 20 form part of these financial statements

**Consolidated balance sheet**  
at 31 December 2006

	Note	2006	2005
		£	£
<b>Current assets</b>			
Debtors			
amounts falling due within one year	10	27,768,131	24,734,420
amounts falling due in more than one year	11	355,606,556	332,018,629
		<u>383,374,687</u>	<u>356,753,049</u>
Cash at bank and in hand	12	30,270,557	34,309,801
		<u>413,645,244</u>	<u>391,062,850</u>
<b>Creditors, amounts falling due within one year</b>	13	(20,553,176)	(17,445,028)
		<u>393,092,068</u>	<u>373,617,822</u>
<b>Net current assets</b>		<u>393,092,068</u>	<u>373,617,822</u>
		<u>393,092,068</u>	<u>373,617,822</u>
<b>Total assets less current liabilities</b>			
<b>Creditors, amounts falling due after more than one year</b>	14	(388,038,194)	(380,881,440)
<b>Subordinated loan</b>	15	(34,508,906)	(20,860,573)
		<u>(29,455,032)</u>	<u>(28,124,191)</u>
<b>Net liabilities</b>		<u>(29,455,032)</u>	<u>(28,124,191)</u>
<b>Capital and reserves</b>			
Called up share capital	16	50,000	50,000
Profit and loss account	17	(29,505,032)	(28,174,191)
		<u>(29,455,032)</u>	<u>(28,124,191)</u>
<b>Equity shareholders' deficit</b>		<u>(29,455,032)</u>	<u>(28,124,191)</u>

The notes on pages 12 to 20 form part of these financial statements

These financial statements were approved by the board of directors on 18 July 2007 and were signed on its behalf by

  
CL Mitchell  
Director

**Company balance sheet**  
*at 31 December 2006*

	<i>Note</i>	<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
<b>Fixed assets</b>			
Investment in subsidiary undertakings	9	50,000	50,000
<b>Current assets</b>			
Debtors			
Amounts falling due within 1 year	10	1	1
Amounts falling due in more than 1 year	11	34,508,906	20,443,332
		34,508,907	20,443,333
Cash at bank and in hand	12	-	417,241
		34,508,907	20,860,574
<b>Creditors: amounts falling due within one year</b>	13	(1)	(1)
<b>Net current assets</b>		<b>34,508,906</b>	<b>20,860,573</b>
<b>Subordinated loan</b>	15	<b>(34,508,906)</b>	<b>(20,860,573)</b>
<b>Net assets</b>		<b>50,000</b>	<b>50,000</b>
<b>Capital and reserves</b>			
Called up share capital	16	50,000	50,000
<b>Equity shareholders' funds</b>		<b>50,000</b>	<b>50,000</b>

The notes on pages 12 to 20 form part of these financial statements

These financial statements were approved by the board of directors on 18 July 2007 and were signed on its behalf by

  
CL Mitchell  
Director

**Consolidated cash flow statement**  
*for the year ended 31 December 2006*

	<i>Note</i>	2006 £	2005 £
Net cash outflow from operating activities	18	(21,178,695)	(40,044,502)
Returns on investment and servicing of finance	19	3,491,116	948,954
		<hr/>	<hr/>
Cash outflow before financing		(17,687,579)	(39,095,548)
Financing	19	13,648,333	20,860,573
		<hr/>	<hr/>
Decrease in cash in the year		(4,039,246)	(18,234,975)
		<hr/>	<hr/>
<b>Reconciliation of net cash flow to movement in net debt</b>			
Decrease in cash in the period		(4,039,246)	(18,234,975)
Issue of subordinated loan	20	(13,648,333)	(20,860,573)
		<hr/>	<hr/>
Change in net debt resulting from cash flows	20	(17,687,579)	(39,095,548)
Change in net debt resulting from non-cash transactions	20	(10,381,167)	(12,499,774)
Net debt at 1 January 2006	20	(392,475,601)	(340,880,279)
		<hr/>	<hr/>
Net debt at 31 December 2006	20	(420,544,347)	(392,475,601)
		<hr/>	<hr/>

The notes on pages 12 to 20 form part of these financial statements

**Consolidated movements in shareholders' deficit**  
*For the year ended 31 December 2006*

	2006 £	2005 £
Opening equity shareholders' deficit	(28,124,191)	(17,307,862)
Loss for the year	(1,330,841)	(10,816,329)
	<hr/>	<hr/>
Closing equity shareholders deficit	(29,455,032)	(28,124,191)
	<hr/>	<hr/>

The notes on pages 12 to 20 form part of these financial statements

## **Notes**

*(forming part of the financial statements)*

### **1 Basis of preparation of the accounts**

The financial statements have been prepared in accordance with applicable accounting standards and under historical accounting rules

The shareholders funds for the year ending 31 December 2006 show a deficit of £29,455,032 (2005 £28,124,191) This is a result of the timing of cashflows and is not considered permanent This has not resulted in breach of the covenant terms relating to the bond

The directors have reviewed the forecast cashflows and believe that the financial position will strengthen in the future and therefore consider that it is appropriate to prepare these financial statements on a going concern basis

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2006 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Under Section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account

### **2 Accounting policies**

#### **(i) Turnover**

Turnover is recognised in accordance with the finance debtor and long term contracts accounting policies below Turnover represents value of work done entirely in the UK and excludes value added tax

#### **(ii) Finance debtor**

A subsidiary of the Company is an operator of a Private Finance Initiative ("PFI") contract The underlying asset is not deemed to be an asset of the Company under Financial Reporting Standard 5 Application Note F

During the construction phase of the project, all attributable expenditure is included in contract receivable and turnover Upon becoming operational, the costs are transferred to the finance 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 5 Application Note G 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 these services are performed

## Notes (continued)

### 2 Accounting policies (continued)

#### (iii) Interest

Interest costs are expensed to profit and loss account during the construction phase of this project

#### (iv) Taxation

The charge to taxation takes into account taxation deferred because of timing differences in the treatment of certain items for taxation and accounting purposes. Deferred taxation is not recognised unless there is reasonable evidence that it will be reversed in the foreseeable future.

### 3 Analysis of turnover

	2006 £	2005 £
Construction income	27,532,534	57,955,067
Facilities management income	24,835,864	12,981,861
	<u>52,368,398</u>	<u>70,936,928</u>

### 4 Net operating costs

	2006 £	2005 £
Materials site and production costs	27,532,534	57,955,067
Service costs	18,251,288	8,734,479
Auditors remuneration – audit fees	20,794	15,000
Auditors remuneration – other fees	11,300	5,000
Operating insurance	364,880	584,244
Other charges	1,016,128	886,617
	<u>47,196,924</u>	<u>68,180,407</u>

### 5 Directors and staff costs

There were no employees in the year (2005 nil). Directors' emoluments were incurred by the shareholders of the parent undertaking.

### 6 Interest payable and similar charges

	2006 £	2005 £
Amounts payable on other loans	(13,405,683)	(13,073,926)
Indexation on loans	(10,381,167)	(12,499,773)
Amortisation of finance costs	(725,896)	(725,895)
	<u>(24,512,746)</u>	<u>(26,299,594)</u>

## Notes (continued)

### 7 Other interest receivable and similar income

	2006 £	2005 £
Finance debtor interest receivable	14,005,830	6,448,613
Interest receivable on bank deposits	2,425,041	1,849,624
	<u>16,430,871</u>	<u>8,298,237</u>

### 8 Tax on loss on ordinary activities

#### *Analysis of credit in year*

	2006 £	2005 £
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
	<u>-</u>	<u>-</u>
Total current tax	-	-
Deferred tax	878,590	4,560,578
Adjustment in respect of prior year	700,970	(132,071)
	<u>1,579,560</u>	<u>4,428,507</u>
Tax on loss on ordinary activities	1,579,560	4,428,507

#### *Factors affecting the current tax for the year*

	2006 £	2005 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(2,910,401)	(15,244,836)
	<u>(873,120)</u>	<u>(4,573,451)</u>
Current tax at 30% (2005 30%)	(873,120)	(4,573,451)
<i>Effects of</i>		
Disallowable expenses	(5,470)	12,873
Capital allowances in excess of finance debtor amortisation	(800,017)	(210,325)
Reversal of timing differences	-	(90)
Tax losses carried forward	1,678,607	4,770,993
	<u>-</u>	<u>-</u>
Total current tax (see above)	-	-

#### *Factors that may affect future current and total tax charges*

The group has trading losses of approximately £44,279,523 (2005 41,638,824), which may be utilised against future tax liabilities. A deferred tax asset has been recognised in the current year in the books of a subsidiary undertaking as it is felt that this amount will be recoverable from future profits (see note 23)

It has been announced that the corporation tax rate applicable to the group is expected to change from 30% to 28% from 1 April 2008. The deferred tax asset has been calculated at 30% in accordance with FRS19. Any timing differences which reverse before 1 April 2008 will be relieved at 30%, any timing differences which exist at 1 April 2008 will reverse at 28%. The company expects that there will be a charge to the profit and loss account in the region of £949,811.

## Notes (continued)

### 9 Investment in subsidiary undertaking

Investments in subsidiary undertakings comprise 49,999 (2005 49,999) £1 ordinary shares in The Coventry and Rugby Hospital Company PLC, a company registered in England and Wales and engaged in the building, financing and part operating of the Walsgrave and St Cross hospitals under the Government's Private Finance Initiative, and 1 (2005 1) £1 ordinary share in The Coventry and Rugby Hospital Company Nominee Limited, a company registered in England and Wales

### 10 Debtors: amounts falling due within one year

	Company		Group	
	2006	2005	2006	2005
	£	£	£	£
Finance debtor (note 11)	-	-	2,950,823	822,812
Trade debtors	1	1	3,477,726	764,691
Other debtors	-	-	5,937,075	9,628,917
Prepayments and accrued income	-	-	1,955,356	1,650,409
Deferred taxation asset (note 23)	-	-	13,447,151	11,867,591
	<u>1</u>	<u>1</u>	<u>27,768,131</u>	<u>24,734,420</u>

### 11 Debtors: amounts falling due after more than one year

	Company		Group	
	2006	2005	2006	2005
	£	£	£	£
Finance debtor				
Instalments due within 1 year	-	-	2,950,823	822,812
1-2 years	-	-	3,130,529	872,922
2-5 years	-	-	10,582,630	2,950,877
Over 5 years	-	-	341,893,397	102,245,730
	<u>-</u>	<u>-</u>	<u>358,557,379</u>	<u>106,892,341</u>
Less: Amount due within 1 year	-	-	(2,950,823)	(822,812)
	<u>-</u>	<u>-</u>	<u>355,606,556</u>	<u>106,069,529</u>
Amount due from group undertakings	34,508,906	20,443,332	-	-
Contract receivable*	-	-	-	225,949,100
	<u>34,508,906</u>	<u>20,443,332</u>	<u>355,606,556</u>	<u>332,018,629</u>

\*On completion of construction, the contract receivable is reclassified as finance debtor

## Notes (continued)

### 12 Cash at bank and in hand

	Company		Group	
	2006	2005	2006	2005
	£	£	£	£
RPI linked Guaranteed Investment Contracts	-	-	-	2,225,711
Other bank balances		417,241	30,270,557	32,084,090
		<u>417,241</u>	<u>30,270,557</u>	<u>34,309,801</u>

### 13 Creditors: amounts falling due within one year

	Company		Group	
	2006	2005	2006	2005
	£	£	£	£
Bonds instalments due within 1 year	-	-	5,388,665	-
Inter group balances	1	1	-	-
Trade creditors	-	-	3,685,257	5,872,254
Accruals and deferred income	-	-	10,876,837	8,907,901
Other liabilities	-	-	602,417	2,664,873
	<u>1</u>	<u>1</u>	<u>20,553,176</u>	<u>17,445,028</u>

### 14 Creditors amounts falling due after more than one year

	Group	
	2006	2005
	£	£
Bonds at the beginning of the period	405,924,829	393,425,055
Inflation on the bond	10,381,167	12,499,774
	<u>416,305,996</u>	<u>405,924,829</u>
Less unamortized debt insurance costs	(24,317,493)	(25,043,389)
	<u>391,988,503</u>	<u>380,881,440</u>
Bonds at the end of the period	391,988,503	380,881,440
Deferred income	1,479,452	-
	<u>393,467,955</u>	<u>380,881,440</u>
Less amounts due within 1 year	(5,429,761)	-
	<u>388,038,194</u>	<u>380,881,440</u>

## Notes (continued)

### 14 Creditors: amounts falling due after more than one year (continued)

Amounts due	within 1 year	5,429,761	-
	1-2 years	9,910,878	5,274,587
	2-5 years	31,167,642	29,601,256
	Over 5 years	371,277,167	371,048,986
		<hr/>	<hr/>
		417,785,448	405,924,829
Less amounts due within 1 year		(5,429,761)	-
		<hr/>	<hr/>
		412,355,687	405,924,829
Less un amortised debt issuance costs		(24,317,493)	(25,043,389)
		<hr/>	<hr/>
		388,038,194	380,881,440
		<hr/>	<hr/>

The bond is secured by an irrevocable financial guarantee policy. The bond is repayable in half-yearly instalments starting in 2007 and is subject to an interest rate of 3.246% indexed linked.

### 15 Subordinated loan

The shareholders' subordinated debt is unsecured and repayable in 2042 subsequent to the repayment of the group bank loans. Interest is payable half yearly at a rate of zero per cent until June 2007 and at a rate of 14.52% per year thereafter.

	Company 2006 £	2005 £	Group 2006 £	2005 £
Subordinated loans				
Instalments due over 5 years	34,508,906	20,860,573	34,508,906	20,860,573
	<hr/>	<hr/>	<hr/>	<hr/>

### 16 Called up share capital

	2006 £	2005 £
<b>Equity</b>		
<i>Authorised</i>		
50,000 ordinary shares of £1.00 each	50,000	50,000
	<hr/>	<hr/>
<i>Called up and fully paid</i>		
50,000 shares of £1 each	50,000	50,000
	<hr/>	<hr/>

### 17 Reserves

	Company 2006 £	2005 £	Group 2006 £	2005 £
At the beginning of the year	-	-	(28,174,191)	(17,357,862)
Retained loss for the year	-	-	(1,330,841)	(10,816,329)
	<hr/>	<hr/>	<hr/>	<hr/>
At the end of the year	-	-	(29,505,032)	(28,174,191)
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 18 Reconciliation of operating profit to net cash flow from operating activities

	2006 £	2005 £
Operating profit	5,171,474	2,756,521
Increase in debtors	(25,323,279)	(41,058,686)
Decrease in creditors	(1,026,890)	(1,742,337)
	<hr/>	<hr/>
Net cash outflow from operating activities	(21,178,695)	(40,044,502)
	<hr/>	<hr/>

### 19 Analysis of cash flow movements

	2006 £	2005 £
<i>Returns on investment and servicing of finance</i>		
Interest received	17,972,535	8,043,057
Interest paid	(14,481,419)	(7,094,103)
	<hr/>	<hr/>
Net cash inflow from returns on investment and servicing of finance	3,491,116	948,954
	<hr/>	<hr/>
<i>Financing</i>		
Issue of subordinated loan	13,648,333	20,860,573
	<hr/>	<hr/>
Net cash inflow from financing	13,648,333	20,860,573
	<hr/>	<hr/>

### 20 Analysis of net debt

	At 1 January 2006 £	Cash Flows £	Other non cash movement*	At 31 December 2006 £
Cash at bank and in hand	34,309,801	(4,039,246)	-	30,270,555
Bank loans	(405,924,829)	-	(10,381,167)	(416,305,996)
Subordinated loans	(20,860,573)	(13,648,333)	-	(34,508,906)
	<hr/>	<hr/>	<hr/>	<hr/>
	(392,475,601)	(17,687,579)	(10,381,167)	(420,544,347)
	<hr/>	<hr/>	<hr/>	<hr/>

\*Non cash movements primarily relate to inflation on the bonds

### 21 Contingent liabilities

There are no contingent liabilities

## Notes (continued)

### 22 Capital commitments

	2006 £	2005 £
Amounts contracted for but not provided in the financial statements	1,237,000	15,290,000

### 23 Deferred tax asset

The Group has a net deferred taxation asset as it is felt that this amount will be recoverable from future profits  
The elements of deferred taxation are as follows

	Group 2006 £	2005 £
Tax losses for prior periods	12,492,752	7,439,084
Adjustments in respect of prior periods	700,970	282,765
Reversal of timing differences	-	(90)
Tax losses for the current year	1,678,607	4,770,993
	<hr/>	<hr/>
Total deferred tax asset	14,872,329	12,492,752
	<hr/>	<hr/>
Balance brought forward	(625,161)	
Adjustment for prior periods	-	(414,836)
Capital allowances in excess of finance debtor amortisation	(800,017)	(210,325)
	<hr/>	<hr/>
Total deferred tax liability	(1,425,178)	(625,161)
	<hr/>	<hr/>
Deferred tax asset (net)	13,447,151	11,867,591
	<hr/>	<hr/>

## **Notes (continued)**

### **24 Related party transactions**

The Coventry and Rugby Hospital Company (Holdings) Limited is owned by Skanska Infrastructure Development UK Limited (25%) (formerly Skanska BOT UK Limited) and Innisfree PFI Fund III (75%) (acting through its manager Innisfree Limited, or Innisfree Nominees Limited as its nominee where appropriate). The Skanska and Innisfree groups of companies have interests in certain contracts placed by the Company for the financing, design and construction of and the provision of certain services in connection with the redevelopment of hospital, mental health and a clinical sciences facility at the current hospital site in Walsgrave and the provision of certain services to the Hospital of St Cross.

On 3 December 2002 the company entered into contracts with Skanska Construction Limited and Skanska Rashleigh Weatherfoil Limited for the design, construction and provision of certain services in connection with the redevelopment of an acute hospital, mental health facilities and a clinical sciences facility on the hospital site at Walsgrave and for the provision of certain services to the Hospital of St Cross, Rugby and with Skanska AB (publ) who guarantee the performance of Skanska Construction Limited and Skanska Rashleigh Weatherfoil Limited. The value of the work in the period under the contracts with Skanska Construction Limited and Skanska Rashleigh Weatherfoil Limited was £21,558,291 (2005 £64,901,044) inclusive of £1,750,166 (2005 £2,541,795) owing at the year end.

Skanska and Innisfree are parties to a Subordinated Debt Subscription Agreement to subscribe for subordinated debt in proportion to their shareholdings, details of which are given in note 13 to the accounts.

### **25 Parent Undertaking**

The Company's immediate parent undertaking is Innisfree Nominees Limited, a company registered and incorporated in England and Wales. The results of the company are consolidated into the accounts of Innisfree Group Limited which are available to the public.