Derby Healthcare Plc

Directors' Report and Financial Statements

For the year ended 31 December 2006

Registered number 04668140

Contents

Company information

Directors
R A Pett (Chairman)
T R Pearson
C L Mitchell
J R Pedretti
J E Gemmell

Secretary
R S West

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 activities and business review

The principal activity of the Company is the finance, design and construction and partial operation of the new Derby City General Hospital under the Government's Private Finance Initiative The company also provides non-clinical services at the current Derby City General Hospital and the Derby Royal Infirmary

The Company has entered into a Project Agreement with the Southern Derbyshire Acute Hospitals NHS Trust, together with an associated construction contract, funding agreements, hard and soft services contracts and ancillary project agreements

The Company's Project Agreement requires it to finance, design, develop, construct, maintain and deliver certain non-clinical services within the new Derby City General Hospital for a primary term of forty years from the date of signing the Project Agreement

The Company is also providing non-clinical services at the current Derby City General Hospital and the Derby Royal Infirmary under the terms of a Mobilisation Services Agreement

The construction works are progressing satisfactorily The new hospital is due to be fully commissioned in December 2008

Key performance indicators (KPIs)

(a) Completion of the various sections in the building contract
Completion according to the timetable is a key indicator of satisfactory performance under the design and build contract and the unitary charge income derives from completed sections In May 2006 the first section was opened on schedule

(b) Performance deductions under the service contract
Financial penalties are levied by the Southern Derbyshire Acute Hospitals NHS Trust 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 providers but the quantum is an indication of unsatisfactory performance During 2006 deductions of £68k were levied by the Trust and passed onto the service providers This deduction relates to only 0 3% of the total fees charged by the service providers This low level of deduction was considered satisfactory

(c) Financial performance
The company has modeled the anticipated financial outcome of the Project across its full term 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 construction works are progressing satisfactorily and the new hospitals are due to be fully commissioned by December 2008

Principal risks and uncertainties

The Southern Derbyshire Acute Hospitals NHS Trust is the sole client of the company but the directors consider that no risk arises from such a small client base since the Secretary of State for Health has underwritten the Trust's obligations

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

Details relating to interest rate risk and liquidity risk are set out in note 14 to the accounts

Directors' report *(continued)*

Financial risk management policies and objectives

The company's principal financial instruments comprise short term bank deposits, an index linked bond, guaranteed investment contracts and subordinated loan stock Further details are given in note 14 to the accounts

Dividends

The directors do not recommend the payment of a dividend *(2005 £nil)*

Directors

The following persons were directors of the company during the year

T R Pearson (resigned January 2007)
C L Mitchell
J R Pedretti
J E Gemmell (resigned December 2006)

Since the year end G Birley-Smith, J Wrinn and J Fegan have been appointed as Directors of the Company J Fegan has subsequently resigned as Director

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

Political and charitable contributions

The company made no political or charitable contributions during the year *(2005 £nil)*

Policy on payment of creditors

It is the Company's policy to comply with the payment terms agreed with suppliers Where payment terms are not negotiated the Company endeavours to adhere with suppliers' standard terms The Company had £11,666,297 *(2005 £9,406,136)* of trade creditors at 31 December 2006 and an average payment period of 79 days *(2005 46 days)*

Statement as to 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 he/ she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

KPMG Audit Plc are the 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

R S West
Company Secretary

18 July 2007

3 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Statement of directors' responsibilities

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 UK Accounting Standards

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 year

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

Under applicable law the Directors are also responsible for preparing a Directors' Report that complies with that law

Independent auditors' report to the members of Derby Healthcare Plc

We have audited the financial statements of Derby Healthcare Plc for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the 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 5

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

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 company's affairs as at 31 December 2006 and of its 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

18 July 2007

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Profit and loss account
for the year ended 31 December 2006

	Note	2006 £	2005 £
Turnover	3	**66,346,728**	89,584,541
Net operating costs	4	**(63,505,679)**	(89,574,003)
Operating profit		**2,841,049**	10,538
Interest payable and similar charges	6	**(23,740,413)**	(23,649,445)
Other interest receivable and similar income	7	**13,207,790**	8,342,150
Loss on ordinary activities before taxation		**(7,691,574)**	(15,296,757)
Taxation on loss on ordinary activities	8	**2,303,890**	4,583,702
Loss for the financial year		**(5,387,684)**	(10,713,055)

There were no other recognised gains and losses for the period 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 16

The notes on pages 10 to 19 form part of these financial statements

Balance sheet
as at 31 December 2006

	Note	**2006** **£**	2005 £
Current assets			
Debtors amounts falling due within one year	**9**	**22,566,388**	15,475,499
Debtors amounts falling due in more than one year	**10**	**260,492,891**	224,286,906
		283,059,279	239,762,405
Cash at bank and in hand	**11**	**107,530,120**	151,032,015
		390,589,399	390,794,420
Current liabilities			
Creditors amounts falling due within one year	**12**	**(27,016,784)**	(22,675,508)
Net current assets		**363,572,615**	368,118,912
Total assets less current liabilities		**363,572,615**	368,118,912
Creditors amounts falling due after more than one year	**13**	**(389,405,980)**	(388,564,593)
Net liabilities		**(25,833,365)**	(20,445,681)
Capital and reserves			
Called up share capital	**15**	**50,000**	50,000
Profit and loss account	**16**	**(25,883,365)**	(20,495,681)
Equity shareholders' deficit		**(25,833,365)**	(20,445,681)

The notes on pages 10 to 19 form part of these financial statements

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

Director

Reconciliation of movements in shareholders' deficit
for the year ended 31 December 2006

	2006 £	2005 £
Opening equity shareholders' deficit	**(20,445,681)**	(9,732,626)
Loss for the year	**(5,387,684)**	(10,713,055)
Closing equity shareholders' deficit	**(25,833,365)**	(20,445,681)

Notes
(forming part of the financial statements)

1. Basis of preparation of the financial statements

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

The shareholders' funds for the period ending 31 December 2006 show a deficit of £25,833,365 *(2005 £20,445,681)* 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 net assets deficit will reverse in the future and therefore consider that, given the continuing access to funds, it is appropriate to prepare these financial statements on the going concern basis

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As the company is a subsidiary of Derby Healthcare (Holdings) Limited, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Derby Healthcare (Holdings) Limited, within which the company is included, can be obtained from the address given in note 20

2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

(a) Turnover
Turnover is recognised in accordance with the finance debtor and services contract accounting policy below Turnover represents value of work done entirely in the UK and excludes value added tax

(b) Finance debtor and services contract
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

(c) Interest
Interest costs are expensed during the construction phase of the contract

(d) 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 reverse in the foreseeable future

Notes *(continued)*

(e) Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument The principal financial assets and liabilities of the Company are as follows

Trade debtors

Trade receivables are initially recognised at fair value and then are stated at amortised cost

Cash at bank and Guaranteed Investment Contracts (GICs)

Cash at bank are carried in the balance sheet at nominal value

GICs are readily convertible into known amounts of cash at or close to their carrying values and are classified as cash They are treated as held-to-maturity instruments as defined in paragraph 9 of FRS 26 which are initially recognised at fair value and then are stated at amortised cost

Trade creditors

Trade payables are initially recognised at fair value and then are stated at amortised cost

Bank and other borrowings

Interest bearing bank loans, bonds, subordinated debt and other loans are recognised initially at fair value All borrowings are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the income statement over the period to redemption

Finance debtor and contract receivables

Finance debtor and contract receivables are classified as loans and receivables as defined in paragraph 9 of FRS 26, which are initially recognised at fair value and then are stated at amortised cost

3 Turnover

	2006	2005
	£	£
Services income	**27,422,424**	20,320,194
Construction services	**38,902,684**	69,264,347
Other turnover	**21,620**	-
	66,346,728	89,584,541

Services income relates to the provision of soft and hard facilities management services at the Derby City General Hospital and the Derby Royal Infirmary

Notes *(continued)*

4. Net operating costs

		2006	2005
		£	£
Materials, site and production costs		**39,844,063**	69,211,331
Services costs		**23,617,782**	20,320,194
Auditor's remuneration	- audit fees	**16,155**	15,000
	- other	**6,000**	6,300
Directors' fees		**21,679**	21,178
		63,505,679	89,574,003

5. Directors and staff costs

There were no employees during the year *(2005 £nil)* Directors' emoluments were paid to the shareholders of the parent undertaking The Company does not operate a pension scheme for its directors

6. Interest payable and similar charges

	2006	2005
	£	£
Amounts payable on bonds	**(22,900,756)**	(22,806,643)
Amortisation of finance arrangement costs	**(839,657)**	(842,802)
	(23,740,413)	(23,649,445)

7 Other interest receivable and similar income

	2006	2005
	£	£
Interest receivable on bank deposits	**5,555,353**	8,342,150
Interest receivable on finance debtor	**7,652,437**	-
	13,207,790	8,342,150

Notes *(continued)*

8. Taxation

(a) Analysis of the charge in the year

	2006 £	2005 £
Current tax		
UK corporation tax on income for the year	-	-
Total current tax	-	-
Deferred tax		
Tax on loss on ordinary activities	**2,306,612**	4,589,027
Adjustment to tax losses recognised in prior period	**(2,722)**	(5,325)
Total deferred tax (note 19)	**2,303,890**	4,583,702
Tax on loss on ordinary activities	**2,303,890**	4,583,702

Tax losses have been recognised as the Directors consider the balance to be recoverable over the life of the PFI contract with Derby Hospitals NHS Foundation Trust

(b) Factors affecting the tax charge for the current year

The constituent elements of the tax charge for the year are set out below -

	2006 £	2005 £
Current tax reconciliation		
Loss on ordinary activities before tax	**(7,691,574)**	(15,296,757)
Current tax at 30% (2005 30%)	**(2,307,472)**	(4,589,027)
Effects of		
Adjustment to tax losses recognised in prior period	**2,722**	5,325
Disallowable expenditure	**860**	-
Tax losses carried forward	**2,303,890**	4,583,702
	-	-

(c) Factors that may affect future and total tax charges

The Company has tax losses of £36 9 million (*2005 £29 2 million*) which has been carried forward and will be offset against future trading profits

Notes *(continued)*

9. Debtors: amounts falling due within one year

	2006 £	2005 £
Finance debtor	**1,370,257**	-
Trade debtors	**5,915,430**	3,047,107
Prepayments and accrued income	**2,747,695**	2,886,678
Deferred tax asset (note 19)	**11,055,902**	8,752,012
Other debtors	**1,477,104**	789,702
	22,566,388	15,475,499

10. Debtors: amounts falling due after more than one year

	2006 £	2005 £
Finance debtor	**187,621,152**	-
Contract receivable	**70,336,140**	220,972,995
Prepayments and accrued income	**2,535,599**	3,313,911
	260,492,891	224,286,906

11. Cash at bank and in hand

	2006 £	2005 £
Fixed rate guaranteed investment contract	**89,968,325**	134,712,443
RPI linked guaranteed investment contract	**-**	390,867
Other bank balances	**17,561,795**	15,928,705
	107,530,120	151,032,015

£89,968,325 (*2005 £135,103,310*) comprises balances held in fixed interest guaranteed income and index linked guaranteed income contracts Cash will be released from these contracts over the period of construction of the hospital so as to match the forecast profile of construction and debt service costs

12. Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	**11,666,297**	9,406,136
Accruals and deferred income	**15,350,487**	13,269,372
	27,016,784	22,675,508

Notes *(continued)*

13. Creditors: amounts falling due after more than one year

	2006	2005
	£	£
Guaranteed secured 5 564% bonds 2041	**411,588,000**	411,588,000
Unsecured unsubordinated 13 465% loan notes 2041	**3,744**	2,014
Total borrowings	**411,591,744**	411,590,014
Finance arrangement costs capitalised	**(24,966,355)**	(24,966,355)
Less amortization of finance arrangement costs capitalised	**2,780,591**	1,940,934
	389,405,980	388,564,593

Guaranteed secured bonds 2041

The Company has created £446 588m 5 564% guaranteed secured bonds 2041 pursuant to a Trust Deed and Collateral Deed dated 9 September 2003 of which £411 588m were issued for cash on 9 September 2003 at an issue price of 99 993%

The bonds bear interest at 5 564% which is payable semi - annually in arrears on 30 June and 31 December each year The bonds are repayable in installments which commence in June 2009 and end in June 2041

The Company retained £35m of bonds (the "variation bonds") which it may sell, subject to certain restrictions in the Collateral Deed, to fund variations to the project

The bonds, excluding the variation bonds, have the benefit of an unconditional and irrevocable financial guarantee issued by MBIA Assurance S A in favour of BNP Paribas Trust Corporation UK Limited as security trustee over all of the undertaking and assets of the company

Unsecured subordinated 13 465% loan notes 2041

The Company is a wholly owned subsidiary of Derby Healthcare (Holdings) Limited Together Skanska ID UK Limited is legal and beneficial owner, and Innisfree Nominees Limited acting on behalf of Innisfree PFI Continuation Fund and Innisfree Fund III is legal owner, of the entire issued share capital of Derby Healthcare (Holdings) Limited

Under the terms of Deed Polls made on 9 September 2003 both Derby Healthcare (Holdings) Limited and Derby Healthcare Plc authorised and approved the issue of up to £39 07m unsecured subordinated loan notes 2041 on like terms Under the terms of an Equity Subscription Agreement dated 9 September 2003 Skanska ID UK Limited and Innisfree Nominees Limited each agreed to subscribe in installments between December 2003 and December 2008 for £39 07m of the Loan Notes in Derby Healthcare (Holdings) Limited, which in turn agreed to subscribe for the £39 07m Loan Notes in its subsidiary Derby Healthcare Plc

Derby Healthcare (Holdings) limited and Derby Healthcare Plc have each issued £3,744 of Loan Notes at par for cash The loan notes do not bear interest until December 2008, from December 2008 the Loan Notes bear interest at 13 465% which is payable semi-annually on 30 June and 31 December each year The Loan Notes are repayable in installments on 30 June and 31 December 2041, save that they may be redeemed early with the consent of MBIA Assurance S A

Notes *(continued)*

14 Financial instruments

The Company's principal financial instruments comprise guaranteed investment contracts ("GICs"), short term bank deposits, fixed rate bonds and fixed rate subordinated loans The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Project Agreement

The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements

Exposure to liquidity, credit and interest rate risks arise in the normal course of the Company's business

Liquidity risk
The Company has entered into indexed-linked and fixed rate GICs with a periodic withdrawal schedule to match the payment requirements during the construction of the Hospital

Repayment of fixed rate bonds and fixed rate subordinated loans are not required until the Hospital is operational and revenue is receivable under the terms of the Project Agreement

Credit risk
Although the South Derbyshire Acute Hospitals NHS Trust (the Trust) is the only client of the Derby Healthcare Plc, the directors are satisfied that the Trust will be able to fulfil its collateral obligations under the PFI contract that are in turn underwritten by the Secretary of State for Health

Effective interest rates and repricing analysis
In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and their maturity profile

2006	**Effective interest rate**	**Total £'000**	**1 year or less £'000**	**1-2 years £'000**	**2-5 years £'000**	**5 + years £'000**
Guaranteed secured bonds	5 59%	(411,588)	-	-	(333)	(411,255)
Unsecured subordinated loan notes	13 47%	(4)	-	-	-	(4)
Finance debtor*	5.48%	188,991	1,370	1,457	4,951	181,213
Contract receivable*	5.48%	70,336	510	542	1,843	67,441
Fixed rate GICs	4 52%	89,968	76,991	12,977	-	-
Bank balances*	4.53%	17,562	17,562	-	-	-
Total		(44,735)	96,433	14,976	6,461	(162,605)

*Floating rate

Notes *(continued)*

14. Financial instruments (continued)

2005	Effective interest rate	Total £'000	1 year or less £'000	1-2 years £'000	2-5 years £'000	5 + years £'000
Guaranteed secured bonds	5 59%	(411,588)	-	-	(290)	(411,298)
Unsecured subordinated loan notes	13 47%	(2)	-	-	-	(2)
Contract receivable*	5 31%	220,973	1,425	1,514	7,069	210,965
Fixed rate GICs	4 52%	134,712	44,744	76,991	12,977	-
RPI linked GICs*	3 96%	391	391	-	-	-
Bank balances*	4 15%	15,929	15,929	-	-	-
Total		(39,585)	62,489	78,505	19,756	(200,335)

*Floating rate

Fair values
The fair values together with the carrying amounts shown in the balance sheet of all financial assets and financial liabilities are as follows -

	2006		2005	
	Carrying value	**Fair value**	Carrying value	Fair value
Guaranteed secured bonds	**(411,588,000)**	**(465,770,997)**	(411,588,000)	(479,257,077)
Unsecured subordinated loan notes	**(3,744)**	**(3,744)**	(2,014)	(2,014)
Finance debtor	**188,991,410**	**210,262,519**	-	-
Contract receivable	**70,336,140**	**78,252,518**	220,972,995	249,589,990
Fixed rates GICs	**89,968,325**	**89,519,214**	134,712,444	134,893,881
RPI linked GICs	**-**	**-**	390,867	373,481
Bank balances	**17,561,795**	**17,561,795**	15,928,705	15,928,705
Total	**(44,734,074)**	**(70,178,695)**	(39,585,003)	(78,473,034)

Estimation of fair values
The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table

The fair value of the guaranteed secured bonds is the quoted price of the bonds

The fair value of the unsecured subordinated loan notes is not believed to be materially different to the carrying value of the liability

Fair value of contract receivable and finance debtor is calculated by discounting future cash flows at an appropriate discount rate The discount rate used is calculated by adding an appropriate premium to the relevant gilt yield for the project The guilt yield reflects the unexpired term of the project agreement and the premium reflects market spread that would be required by investors in bonds issued by the PFI project companies with similar risk profiles, plus the market wrapping fee that would normally be charged to enhance the project cashflows to investment grade The discount rate that has been applied to the finance debtor and contract receivable at 31 December 2006 is 5 48% *(2005 5 31%)*

Notes *(continued)*

14. Financial instruments (continued)

Fair value of the Guaranteed Investment Contracts is calculated based upon discounted expected future principal and interest cash flows The discount rates used for computing the fair value Guaranteed Investment Contracts are the gilt yield rates for a similar period as the contracts and are as follows

	2006	2005
Fixed Rate Guaranteed Investment Contract	5 44%	4 50%
RPI Linked Guaranteed Investment Contract	-	4 54%

Sensitivity analysis
Since the Company has significant fixed rate financial assets and liabilities, a general increase of one percentage point in interest rates is not expected to significantly impact the profits of the Company

15. Called up share capital

	2006 £	2005 £
Equity		
Authorised		
50,000 ordinary shares of £1	50,000	50,000
Called up and fully paid		
50,000 ordinary shares of £1	50,000	50,000

16. Reserves

	2006 £	2005 £
At the beginning of the year	(20,495,681)	(9,782,626)
Retained loss for the year	(5,387,684)	(10,713,055)
At the end of the year	(25,883,365)	(20,495,681)

17. Contingent liabilities

There are no contingent liabilities (*2005 £nil*)

18. Capital commitments

	2006 £	2005 £
Amounts contracted for but not provided for in the financial statements	94,398,186	129,723,085

Notes *(continued)*

19. Deferred tax asset

A deferred tax asset has been recognised on those tax losses which can be set off against future profits of the Group The future profits of the Group have been estimated on the forecasted cash flows and its estimated contractual rights and obligations as an operator of a Private Finance Initiative contract

The elements of deferred taxation are as follows -

	2006	2005
	£	£
Tax losses for prior periods	**8,752,012**	4,168,310
Adjustment to tax losses for prior periods	**(2,722)**	(5,325)
Tax losses for current year	**2,306,612**	4,589,027
	11,055,902	8,752,012

The corporation tax rate applicable to the company will change from 30% to 28% from 1 April 2008, but as this rate was substantively enacted after the balance sheet date, the deferred tax assets and liabilities recorded at the balance sheet date have been calculated at 30% in accordance with FRS 19 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% and the deferred tax assets is estimated to reduce by £737,060

20. Ultimate parent company and parent undertaking of a larger group of which the company is a member

The Company is a subsidiary undertaking of Derby Healthcare (Holdings) Limited which is incorporated in the United Kingdom The largest and smallest group in which the results of the Company are consolidated is that headed by Derby Healthcare (Holdings) Limited The consolidated accounts of this group are available to the public and may be obtained from 3 White Oak Square, London Road, Swanley, Kent BR8 7AG