

Derby Healthcare Plc

Directors' Report and Financial Statements

For the year ended 31 December 2007

Registered number 04668140

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Company information

Directors

C Mitchell (Chairman)
G Birley-Smith
J Pedretti
J Wynn

Secretary

M Brooks

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 2007

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 December 2007 the first section of the second phase was opened 3 months behind schedule. The Company's performance against this measure was considered satisfactory.

(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 2007 deductions of £47k (2006 £68k) were levied by the Trust and passed onto the service providers. This deduction relates to only 0.2% (2006 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 2007, the Company's performance against this measure was considered 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 (2006 £nil)

Directors

The following persons were directors of the company during the year

T Pearson (resigned January 2007)
G Birley-Smith
C Mitchell
J Pedretti
J Wrinn

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 (2006 £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 £16,212,176 (2006 £11,666,297) of trade creditors at 31 December 2007 and an average payment period of 62 days (2006 79 days).

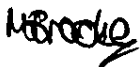
Statement as to disclosure of information to auditors

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



M Brooks
Company Secretary

21 May 2008

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 2007 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 2007 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
KPMG Audit Plc
Chartered Accountants
Registered Auditor

21/05/08

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Profit and loss account
for the year ended 31 December 2007

	<i>Note</i>	2007 £	2006 £
Turnover	3	105,814,904	66,346,728
Net operating costs	4	(101,537,271)	(63,505,679)
Operating profit		<u>4,277,633</u>	<u>2,841,049</u>
Interest payable and similar charges	6	(21,803,380)	(23,740,413)
Other interest receivable and similar income	7	14,897,511	13,207,790
Loss on ordinary activities before taxation		<u>(2,628,236)</u>	<u>(7,691,574)</u>
Taxation on loss on ordinary activities	8	(3,855)	2,303,890
Loss for the financial year		<u>(2,632,091)</u>	<u>(5,387,684)</u>

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 2007

	<i>Note</i>	2007 £	2006 £
Current assets			
Debtors amounts falling due within one year	9	33,951,205	22,566,388
Debtors amounts falling due in more than one year	10	326,391,802	260,492,891
		360,343,007	283,059,279
Cash at bank and in hand	11	19,052,633	107,530,120
		<u>379,395,640</u>	<u>390,589,399</u>
Current liabilities			
Creditors amounts falling due within one year	12	(19,552,492)	(27,016,784)
Net current assets		<u>359,843,148</u>	<u>363,572,615</u>
Total assets less current liabilities		<u>359,843,148</u>	<u>363,572,615</u>
Creditors amounts falling due after more than one year	13	(388,308,604)	(389,405,980)
Net liabilities		<u>(28,465,456)</u>	<u>(25,833,365)</u>
Capital and reserves			
Called up share capital	15	50,000	50,000
Reserves	16	(28,515,456)	(25,883,365)
Equity shareholders' deficit		<u>(28,465,456)</u>	<u>(25,833,365)</u>

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

These financial statements were approved by the Board of Directors on 21 May 2008 and signed its behalf by



Director

Reconciliation of movements in shareholders' deficit
for the year ended 31 December 2007

	2007 £	2006 £
Opening equity shareholders' deficit	(25,833,365)	(20,445,681)
Loss for the year	(2,632,091)	(5,387,684)
Closing equity shareholders' deficit	<u>(28,465,456)</u>	<u>(25,833,365)</u>

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 2007 show a deficit of £28,465,456 (2006 £25,833,365). 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.

During the year, the Company has adopted FRS 29 'Financial Instruments: Disclosures'. The adoption of FRS 29 had not had any effect on the net assets as at 31 December 2007.

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 and other borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

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

	2007 £	2006 £
Services income	32,454,214	27,422,424
Construction services	73,360,204	38,902,684
Other turnover	486	21,620
	<u>105,814,904</u>	<u>66,346,728</u>

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

	2007 £	2006 £
Materials, site and production costs	74,920,902	39,844,063
Services costs	26,569,745	23,617,782
Auditor's remuneration - audit fees	15,500	16,155
- other	8,400	6,000
Directors' fees	22,724	21,679
	<u>101,537,271</u>	<u>63,505,679</u>

5. Directors and staff costs

There were no employees during the year (2006 £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

	2007 £	2006 £
Amounts payable on bonds	(21,061,941)	(22,900,756)
Amortisation of finance arrangement costs	(741,439)	(839,657)
	<u>(21,803,380)</u>	<u>(23,740,413)</u>

7. Other interest receivable and similar income

	2007 £	2006 £
Interest receivable on bank deposits	2,977,464	5,555,353
Interest receivable on finance debtor	11,920,047	7,652,437
	<u>14,897,511</u>	<u>13,207,790</u>

Notes (continued)

8. Taxation

(a) Analysis of the charge in the year

	2007 £	2006 £
<i>Current tax</i>		
UK corporation tax on income for the year	-	-
Total current tax	<u>-</u>	<u>-</u>
<i>Deferred tax</i>		
Tax on loss on ordinary activities	787,982	2,306,612
Adjustment to tax losses recognised in prior period	(2,404)	(2,722)
Effects of decreased tax rate	(789,433)	-
Total deferred tax (note 19)	<u>(3,855)</u>	<u>2,303,890</u>
Tax on loss on ordinary activities	<u>(3,855)</u>	<u>2,303,890</u>

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 -

	2007 £	2006 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	<u>(2,628,236)</u>	<u>(7,691,574)</u>
Current tax at 30% (2006 30%)	(788,471)	(2,307,472)
<i>Effects of</i>		
Adjustment to tax losses recognised in prior period	2,404	2,722
Disallowable expenditure	489	860
Effects of decreased tax rate	789,433	-
Tax losses carried forward	(3,855)	2,303,890
	<u>-</u>	<u>-</u>

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

The Company has tax losses of £39.6 million (2006 £36.9 million) which has been carried forward and will be offset against future trading profits

The corporation tax rate applicable to the Company will change from 30% to 28% from 1 April 2008

Notes (continued)

9. Debtors: amounts falling due within one year

	2007 £	2006 £
Finance debtor	1,740,211	1,370,257
Contract receivable	800,553	-
Trade debtors	8,680,831	5,915,430
Prepayments and accrued income	2,956,113	2,747,695
Deferred tax asset (note 19)	11,052,047	11,055,902
Other debtors	8,721,450	1,477,104
	<u>33,951,205</u>	<u>22,566,388</u>

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

	2007 £	2006 £
Finance debtor	222,307,437	187,621,152
Contract receivable	102,268,585	70,336,140
Prepayments and accrued income	1,815,780	2,535,599
	<u>326,391,802</u>	<u>260,492,891</u>

11. Cash at bank and in hand

	2007 £	2006 £
Fixed rate guaranteed investment contract	12,976,994	89,968,325
Other bank balances	6,075,639	17,561,795
	<u>19,052,633</u>	<u>107,530,120</u>

£12,976,994 (2006 £89,968,325) 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

	2007 £	2006 £
Trade creditors	16,212,176	11,666,297
Accruals and deferred income	3,340,316	15,350,487
	<u>19,552,492</u>	<u>27,016,784</u>

Notes (continued)

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

The Company holds interest bearing loans and borrowings, which are measured at amortised cost, as follows

	2007 £	2006 £
Guaranteed secured 5.564% bonds 2041	411,588,000	411,588,000
Unsecured unsubordinated 13.465% loan notes 2041	3,744	3,744
Total borrowings	411,591,744	411,591,744
Finance arrangement costs capitalised	(24,966,355)	(24,966,355)
Less amortisation of finance arrangement costs capitalised	3,522,030	2,780,591
Less adjustment on effective interest rate*	(1,838,815)	-
	388,308,604	389,405,980

* This represents the difference between the interest charged at the effective interest rate and actual interest payable based on the coupon rate

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 risk management policies and objectives

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. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December 2007 was

	2007 £	2006 £
Trade debtors	8,680,831	5,915,430
Prepayments and accrued income	2,956,112	2,747,695
Other debtors	8,721,450	1,477,104
Cash at bank and in hand	19,052,633	107,530,120
	<u>39,411,026</u>	<u>117,670,349</u>

Interest rate risk

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.

2007	Effective interest rate	Total £'000	1 year or less £'000	1-2 years £'000	2-5 years £'000	5 + years £'000
Guaranteed secured bonds	5.38%	(411,588)	-	(268)	(482)	(410,838)
Unsecured subordinated loan notes	13.47%	(4)	-	-	-	(4)
Finance debtor	6.35%	224,048	1,740	1,851	6,288	214,169
Contract receivable	6.35%	103,069	801	851	2,893	98,524
Fixed rate GICs	4.52%	12,977	12,977	-	-	-
Bank balances*	5.19%	6,076	6,076	-	-	-
Total		(65,422)	21,594	2,434	8,699	(98,149)

*Floating rate

Notes (continued)

14. Financial risk management policies and objectives (continued)

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	6.35%	188,991	1,370	1,457	4,951	181,213
Contract receivable	6.35%	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

The Company is exposed to interest rate risk on those interest bearing assets with floating interest rates. However, the directors do not consider this to be a significant risk to the Company.

The guaranteed secured bonds and unsecured subordinated loan notes both have a fixed rate until 2041. Thus there is no interest rate risk associated with these financial liabilities.

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 -

	2007		2006	
	Carrying value £	Fair value £	Carrying value £	Fair value £
Guaranteed secured bonds	(411,588,000)	(423,470,546)	(411,588,000)	(465,770,997)
Unsecured subordinated loan notes	(3,744)	(3,744)	(3,744)	(3,744)
Finance debtor	224,047,648	255,002,255	188,991,410	210,262,519
Contract receivable	103,069,138	117,309,255	70,336,140	78,252,518
Fixed rates GICs	12,976,994	12,951,026	89,968,325	89,519,214
Bank balances	6,075,639	6,075,639	17,561,795	17,561,795
Total	(65,422,325)	(32,136,115)	(44,734,074)	(70,178,695)

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

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 gilt 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 2007 is 5.33% (2006 5.48%).

Notes (continued)

14. Financial risk management policies and objectives (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 5.94% (2006: 5.44%).

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

	2007 £	2006 £
Equity		
<i>Authorised</i>		
50,000 ordinary shares of £1	<u>50,000</u>	<u>50,000</u>
<i>Called up and fully paid</i>		
50,000 ordinary shares of £1	<u>50,000</u>	<u>50,000</u>

16. Reserves

	2007 £	2006 £
At the beginning of the year	(25,883,365)	(20,495,681)
Loss for the year	(2,632,091)	(5,387,684)
At the end of the year	<u>(28,515,456)</u>	<u>(25,883,365)</u>

17. Contingent liabilities

There are no contingent liabilities (2006: £nil).

18. Capital commitments

	2007 £	2006 £
Amounts contracted for but not provided for in the financial statements	<u>24,158,042</u>	<u>94,398,186</u>

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 -

	2007 £	2006 £
Tax losses for prior periods	11,055,902	8,752,012
Adjustment to tax losses for prior periods	(2,404)	(2,722)
Tax losses for current year	787,982	2,306,612
Effect of decreased tax rate	(789,433)	-
	<u>11,052,047</u>	<u>11,055,902</u>

The corporation tax rate applicable to the company will change from 30% to 28% from 1 April 2008. However, as this rate was substantively enacted before the balance sheet date, the deferred tax assets and liabilities recorded at the balance sheet date have been calculated at 28% in accordance with FRS 19.

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.