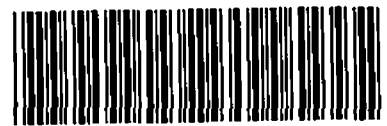


Classic Hospitals Limited

Annual report and financial statements

For the year ended 31 December 2019

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Classic Hospitals Limited

Registration No. 05384616

Company Information**Directors**J J Ash
P J Corfield
J H Sodha**Company secretary**

P W Davies (appointed 31 March 2020)

Registered office3 Dorset Rise
London
EC4Y 8EN**Auditors**Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

Classic Hospitals Limited

Registration No. 05384616

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**Strategic Report
for the Year Ended 31 December 2019**

The Directors of Classic Hospitals Limited (the "Company") present their strategic report for the year ended 31 December 2019.

Principal activities and review of the business

The principal activity of the Company was the operation of private hospitals and the provision of private healthcare facilities until 2016 when the Company sold its entire operating business, including tangible assets, trading assets and liabilities as a going concern to a fellow group undertaking, Spire Healthcare Limited. Since this sale, the Company has not traded.

Results

The loss for the year, after taxation, amounted to £43,000 (2018: £43,000).

Key performance indicators

There are no key financial and other performance indicators for the Company since it is not trading.

Principal risks and uncertainties

Credit risk

Credit risk arises principally from receivables from customers and cash deposits. Exposure to credit risk from trade receivables is considered to be low because of the nature of Spire's customers.

Overall risk management

Overall risk is managed with reference to Spire Healthcare Group plc and its subsidiaries (the "Group") and the principal risks and uncertainties facing the Company are therefore integrated with those facing the Group as a whole. Further information is provided in the Annual Report of Spire Healthcare Group plc, which is available at www.spirehealthcare.com.

Approved by the Board on 8 October 2020 and signed on its behalf by:



.....
J H Sodha

Director

Classic Hospitals Limited

Registration No. 05384616

Directors' Report For the year ended 31 December 2019

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2019.

Directors

The Directors who held office during the year and up to the date of this report were as follows:

| | |
|--------------|-----------------------------|
| J J Ash | |
| P J Corfield | |
| J H Sodha | (appointed 14 January 2019) |
| D F Toner | (resigned 31 March 2020) |

Dividends

No ordinary dividend has been proposed for the year ended 31 December 2019 (2018: £nil).

Future developments

The Directors do not foresee any changes in the Company's activities in the foreseeable future.

Going concern

The Company operates as part of the Group. The day to day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Group. The Directors of the Company have received written confirmations from both the ultimate parent company, Spire Healthcare Group plc, and from the main trading entity in the Group, Spire Healthcare Limited, that, to the extent necessary to meet the Company's liabilities, they will provide financial support to the Company for at least 12 months from the approval of these financial statements.

The Group is financed by a bank loan facility which was due to mature in July 2022, but has been extended by one year. As at 30 June 2020, the Group had cash of £90.9m and access to a further £100.0m through a committed and undrawn credit facility.

Given the economic uncertainty arising from the COVID-19 pandemic, the directors of Spire Healthcare Group plc have taken a number of actions since the year-end, including cancelling the final dividend for the year ended 31 December 2019 and deferring certain capital investment which was planned during 2020, in order to strengthen its liquidity position. In addition, as announced in April, the lenders of the Senior Loan facility have agreed to waive the covenant testing required under the agreement for the next two scheduled test periods on 30 June and 31 December 2020.

In March 2020, the Group agreed to support the NHS during the COVID-19 pandemic, which resulted in certain cash costs being covered, and also confirmed Heads of Terms for a further variation to the NHS England (NHSE) contract in August 2020 allowing the Group to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists whilst increasing private activity at 35 hospitals in England. The varied contract is expected to remain in place until at least 31 October 2020, with a definitive expiry date at the end of December 2020 at latest.

The agreements with NHSE provide the Group with liquidity and a greater degree of certainty as the Group is paid weekly in advance, with the ability to return to normal trading over time.

Classic Hospitals Limited

Registration No. 05384616

Directors' Report

For the year ended 31 December 2019 (continued)

Going concern (continued)

The Group has reached agreement with its lenders to provide the necessary financial flexibility to continue to support the NHS for a longer period than was initially envisaged. In addition to the covenant waivers already announced and agreed for June 2020 and December 2020, a further covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 has been agreed. A new liquidity measure will take effect as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committee facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x, if this measure has not already reduced below 4x. The Group currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The maturity date of the Senior Loan Facility has also been extended by one year to July 2023. The RCF will remain at £100m until July 2022 and £87m thereafter until July 2023.

Notwithstanding the above actions, given the economic uncertainty of the COVID-19 pandemic, the Group has considered its forecasts and projections, including modelling for various scenarios, covering both the risk of a national or extensive regional lockdown in late 2020 and early 2021.

As a result of the above, the directors of Spire Healthcare Group plc are confident that the Group has sufficient headroom to stay within the new covenants, with the mitigations available, even in its severe but plausible downside scenarios, such that it will have the ability to support the Company if required. Therefore, the Directors of the Company have concluded it is appropriate to prepare the accounts on a going concern basis.

Post balance sheet events

Details of post balance sheet events impacting the company are included in note 13.

Directors' indemnity

As at the date of this report and during the year, the Company had in force an indemnity provision in favour of one or more Directors of the Company, against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006.

Disclosure of information to auditor

Having made enquiries of fellow Directors and the Company's auditor, each of the Directors confirms that:

- to the best of their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

Reappointment of auditors

The auditor, Ernst & Young LLP, was the Company's auditor during the year and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 8 October 2020 and signed on its behalf by:



.....
J H Sodha

Director

Classic Hospitals Limited

Registration No. 05384616

Statement of Directors' Responsibilities For the year ended 31 December 2019

The Directors acknowledge their responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report to the Members of Classic Hospitals Limited

Opinion

We have audited the financial statements of Classic Hospitals Limited for the year ended 31 December 2019 which comprise of the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 13, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

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

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to notes 2 and 13 of the financial statements, which describes the economic and social actions that the Company is undertaking as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the Members of Classic Hospitals Limited (continued)

Other information (continued)

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 6 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditor's Report to the Members of Classic Hospitals Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

.....
Debbie O'Hanlon (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor

Reading
8 October 2020

Classic Hospitals Limited

Registration No. 05384616

Income Statement**For the year ended 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|--|-------------|-----------------------|-----------------------|
| Interest payable and similar charges | 6 | (43) | (43) |
| Loss on ordinary activities before taxation | | (43) | (43) |
| Taxation | 7 | - | - |
| Loss for the year | | (43) | (43) |

All the results in the current and prior periods were derived from continuing operations.

No other gains and losses other than those above have occurred, therefore no separate statement of comprehensive income has been prepared.

**Statement of Financial Position
As at 31 December 2019**

| | Note | 2019 £'000 | 2018 £'000 |
|--|-------------|-----------------------|-----------------------|
| Current assets | | | |
| Trade and other receivables | 8 | 50,412 | 50,412 |
| | | 50,412 | 50,412 |
| Payables: amounts falling due within one year | 9 | (917) | (874) |
| Net assets | | 49,495 | 49,538 |
| Capital and reserves | | | |
| Share capital | 10 | 28,649 | 28,649 |
| Retained earnings | | 20,846 | 20,889 |
| Total Equity | | 49,495 | 49,538 |

The notes on pages 13 to 21 are an integral part of these financial statements.

The financial statements on pages 10 to 21 were authorised for issue by the Board of Directors on 8 October 2020 and signed on its behalf by:



.....
J H Sodha

Director

Classic Hospitals Limited

Registration No. 05384616

**Statement of Changes in Equity
For the year ended 31 December 2019**

| | Share Capital £'000 | Retained earnings £'000 | Total £'000 |
|------------------------------------|------------------------------------|--|------------------------|
| At 1 January 2018 | 28,649 | 20,932 | 49,581 |
| Loss for the financial year | - | (43) | (43) |
| Total comprehensive expense | - | (43) | (43) |
| At 31 December 2018 | 28,649 | 20,889 | 49,538 |
| At 1 January 2019 | 28,649 | 20,889 | 49,538 |
| Loss for the financial year | - | (43) | (43) |
| Total comprehensive expense | - | (43) | (43) |
| At 31 December 2019 | 28,649 | 20,846 | 49,495 |

Classic Hospitals Limited

Registration No. 05384616

Notes to the financial statements For the year ended 31 December 2019

1 General information

Classic Hospitals Limited (the "Company") is a limited company incorporated and domiciled in England and Wales. The address of its registered office and principal place of business is disclosed in the Company Information.

The Company's functional and presentational currency is the British Pound, denominated by the symbol "£", and unless otherwise stated, the financial statements have been presented in thousands ('000).

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have, unless otherwise stated, been consistently applied to all periods presented.

2 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 ("FRS 101") 'Reduced Disclosure Framework' and the Companies Act 2006.

The financial statements are prepared under the historical cost convention. The financial statements are presented in sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have, unless otherwise stated, been consistently applied to all periods presented.

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations; and
- the requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The financial statements of the Company are consolidated in the financial statements of Spire Healthcare plc. The consolidated financial statements are available from www.spirehealthcare.com.

Changes in accounting standards

Standards and interpretations which have become effective during the financial year, and did not have a material impact on the Company:

| Standard or interpretation | Effective |
|-------------------------------------|----------------|
| Annual Improvements 2015–2017 Cycle | 1 January 2019 |
| IFRIC 23 – Uncertain tax positions | 1 January 2019 |
| IFRS 16 Leases | 1 January 2019 |

Classic Hospitals Limited

Registration No. 05384616

Notes to the financial statements For the year ended 31 December 2019

2 Accounting policies (continued)

Going concern

As highlighted in the Strategic Report and Directors' Report, the day to day liquidity requirements of the Company are sourced either from within the Company or, where necessary, from the continued support of certain other entities within the Group, such support having been confirmed in writing by Spire Healthcare Group plc and Spire Healthcare Limited as available for at least 12 months from the approval of these financial statements.

The Group is financed by a bank loan facility which was due to mature in July 2022, but has been extended by one year. As at 30 June 2020, the Group had cash of £90.9m and access to a further £100.0m through a committed and undrawn credit facility.

The Group has reached agreement with its lenders to provide the necessary financial flexibility to continue to support the NHS for a longer period than was initially envisaged. In addition to the covenant waivers already announced and agreed for June 2020 and December 2020, a further covenant waiver of the net debt / EBITDA ratio and interest cover test for June 2021 has been agreed. A new liquidity measure will take effect as a consequence of this arrangement. This test requires cash and cash equivalents, including headroom under undrawn committee facilities, to remain above £50m. For December 2021 the agreement allows for a maximum net debt / EBITDA ratio of 6x if this measure has not already reduced below 4x. The Group currently has a Senior Loan Facility of £425m and an undrawn Revolving Credit Facility (RCF) of £100m. The maturity date of the Senior Loan Facility has also been extended by one year to July 2023. The RCF will remain at £100m until July 2022 and £87m thereafter until July 2023.

Notwithstanding the above actions, given the economic uncertainty of the COVID-19 pandemic, the Group has considered its forecasts and projections, including modelling for various scenarios, covering both the risk of a national or extensive regional lockdown in late 2020 and early 2021.

As a result of the above, the Directors are confident that the Group has sufficient headroom to stay within the new covenants, with the mitigations available, even in its severe but plausible downside scenarios, such that it will have the ability to support the Company if required. Therefore, the Directors have concluded it is appropriate to prepare the accounts on a going concern basis.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets other than derivatives

Initial recognition and measurement

Financial assets within the scope of IFRS 9, are classified as financial assets at fair value through profit or loss, amortised cost or fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

**Notes to the financial statements
For the year ended 31 December 2019**

2 Accounting policies (continued)

Financial Instruments (continued)

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Company's financial assets include cash and short-term deposits and trade and other receivables.

Subsequent measurement

Trade receivables are accounted for at amortised cost. The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. Where there is a specific indicator of impairment, the Company makes an estimate of the asset's recoverable amount. Losses arising from impairment are recognised in the Income Statement in Other operating costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are measured at fair value plus directly attributable transaction costs. Subsequently, such assets are measured at amortised cost, using the effective interest rate ('EIR') method, less any allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable in the Income Statement.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset including transferring substantially all the risks and rewards of the asset.

Impairment

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment. To measure the expected credit losses, trade receivables have been grouped based on shared characteristics and the days past due. The Company has concluded that the expected loss rates for trade receivables, are a reasonable

Classic Hospitals Limited

Registration No. 05384616

Notes to the financial statements For the year ended 31 December 2019

2 Accounting policies (continued)

Financial Instruments (continued)

approximation of the loss rates for each ageing bucket based on historical debt trends of our portfolio of customers for the last two reporting periods.

ii) Financial liabilities other than derivatives

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, or at amortised cost. The Company determines the classification of financial liabilities at initial recognition.

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in interest receivable and interest payable in the profit or loss. Amortised cost is calculated by taking in to account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Foreign currency transactions and balances

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate ruling at the balance sheet date. All differences are taken to the income statement.

Current & deferred taxation

The tax expense for the period comprises of current tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Classic Hospitals Limited

Registration No. 05384616

Notes to the financial statements

For the year ended 31 December 2019 (continued)

2 Accounting policies (continued)

Current & deferred taxation (continued)

Current tax assets and liabilities are measured at the amount expected to be received from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Where there is an uncertain tax position, a provision shall be booked based on either the most likely amount, where the range of results is binary, or as a weighted average of possible outcomes where a range of outcomes is possible.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Classification of shares as debt or equity

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Accordingly, a financial instrument is treated as equity if:

- there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- the instrument is a non-derivative that contains no contractual obligations to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Company's own equity instruments.

The proceeds on an issue are allocated to shareholders' equity, net of transactions costs. The carrying amount of equity is not re-measured in subsequent years.

When shares are issued that create a financial liability of the Company they are presented as a liability in the balance sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as an interest expense and the profit and loss.

The Company's preference shares have been accounted for as a financial liability.

Classic Hospitals Limited

Registration No. 05384616

Notes to the financial statements**For the year ended 31 December 2019 (continued)****3 Significant judgements and estimates**

In the application of the Company's accounting policies, the Directors are required to make estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Due to the nature of the business there are no critical accounting judgements or estimates.

4 Staff costs and Directors' remuneration

The Company had no employees during the year (2018: Nil) and consequently incurred no staff costs.

Emoluments for the Directors of the Company are paid for by Spire Healthcare Limited, a fellow subsidiary of Spire Healthcare Group plc. Spire Healthcare Limited has not recharged any amount to the Company (2018: £nil) on the basis that the amount attributable to the Company is negligible.

5 Auditor's remuneration

The audit fee for the Company of £1,000 (2018: £1,000) was borne by another Group company, and no recharge was made to the Company in respect of these costs in the current or comparative year.

6 Interest payable and similar charges

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Finance cost on shares classified as liabilities | 43 | 43 |
| | <u>43</u> | <u>43</u> |

7 Taxation

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Current tax | | |
| UK corporation tax on profit for the year | - | - |
| Total tax charge | <u>-</u> | <u>-</u> |

Notes to the financial statements
For the year ended 31 December 2019 (continued)

Taxation (continued)

Factors affecting the tax expense for the year

The tax assessed for the year is higher (2018: higher) the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

| | 2019 £'000 | 2018 £'000 |
|---|---------------|---------------|
| Loss before tax | (43) | (43) |
| Corporation tax at standard rate | (8) | (8) |
| UK corporation tax adjustment to prior period | 8 | 8 |
| Total tax charge | - | - |

The Government have announced the abolishment of the corporation tax rate reduction to 17% from 1 April 2020. Therefore, the corporation tax rate will remain at 19%. Changes to the UK Corporation tax rate from 17% to 19% have been substantively enacted post year end.

8 Trade and other receivables

| | 2019 £'000 | 2018 £'000 |
|--|---------------|---------------|
| Amounts owed by other Group undertakings | 50,412 | 50,412 |

Amounts owed by other Group undertakings are unsecured and repayable on demand.

9 Payables: amounts falling due within one year

| | 2019 £'000 | 2018 £'000 |
|----------------------------------|---------------|---------------|
| Shares classified as liabilities | 917 | 874 |

Amounts owed to other Group undertakings are unsecured and repayable on demand.

10 Share capital

Allotted, called up and fully paid shares

| | 2019 £'000 | 2018 £'000 |
|---------------------------------------|---------------|---------------|
| 28,648,943 Ordinary shares of £1 each | 28,649 | 28,649 |

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For the year ended 31 December 2019 (continued)

Share capital (continued)

In addition to the Ordinary shares, the company has preference shares in issue. There are as follows:

| | 2019 £'000 | 2018 £'000 |
|--------------------------------------|---------------|---------------|
| 358,000 Preference shares of £1 each | 358 | 358 |

Rights, preferences and restrictions

Preference shares have the following rights, preferences and restrictions:

In accordance with IAS 32, the cumulative preference shares are included in creditors due within one year.

The preference shares carry the rights to receive dividends out of the profits of the Company, at the dividend rate of 12% on the paid up nominal value of the preference shares in priority to any dividend in respect of any other class of shares. These shares carry no voting rights. On winding up, the preference shareholders have a right to receive, in preference to any payments to the ordinary shares, £1 per share plus any accrued dividends.

11 Contingent liabilities

On 23 July 2014, Spire Healthcare Group plc was refinanced, and it entered into a bank loan facility with a syndicate of banks, comprising of a five-year £425.0 million term loan and a five-year £100.0 million revolving facility, which has been guaranteed by the Company and other material subsidiaries of the Group. The loan is non-amortising and carries interest at a margin of 2.50% over LIBOR (2018: 2.25% over LIBOR). In July 2018, the Group extended the maturity of its bank loan facility for a further three years.

At the balance sheet date, the loan amount outstanding was £425,000,000 (2018: £425,000,000), and the revolving facility remains undrawn (2018: Undrawn).

As disclosed in note 13, the Group Covenant testing has been waived by the lender for the two 2020 testing periods, being 30 June 2020 and 31 December 2020, and adjusted the tests for the 2021 period, following the COVID-19 outbreak.

12 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is Classic Hospital Property Limited, a company registered in England and Wales.

The Company's ultimate parent undertaking is Spire Healthcare Group plc, a company registered in England and Wales. Spire Healthcare Group plc heads the smallest and largest group which prepares consolidated financial statements in which the results of the Company are included. The financial statements of Spire Healthcare Group plc are available at www.spirehealthcare.com or from The Company Secretary, 3 Dorset Rise, London EC4Y 8EN, which is also the registered office of the ultimate parent.

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Notes to the financial statements

For the year ended 31 December 2019 (continued)

13 Post balance sheet events

Following the balance sheet date, a global pandemic has arisen which has effected the global economic environment, and created significant uncertainty about future recovery following lockdown procedures in both the UK, and other countries. The scale and duration of these developments remain uncertain but could impact on earnings, cash flow and financial condition. The Group actively assesses the situation across the country to ensure business continuity plans are put in place to sustain operations and supply chains with a focus on safe working environments and safe conditions for patients, consultants and employees.

In March 2020, the Group signed an agreement to assist the NHS in its response to the pandemic for a period of 14 weeks, with the option to extend. In addition, lenders have agreed to waive the two covenant testing periods in 2020, being 30 June 2020 and 31 December 2020. The Directors have reviewed the viability of the Company, and the wider Spire Healthcare Group following the pandemic and the agreement with the NHS and confirmed, whilst there is uncertainty, the Company remains a going concern.

On 13 August 2020, the Group announced a Heads of Terms to vary the NHS England contract. This allows the Spire Group to undertake a phased transition back to normal business, by providing NHS elective care to reduce waiting lists, whilst increasing private activity as its 35 English Hospitals. This contract is expected to remain in place until at least the end of October 2020, but will have a definite expiry date at the end of December 2020 at the latest. Further information can be found in the RNS released by Spire Healthcare Group plc on 13 August 2020.

Following the announcement to support the NHS for a longer period than was initially envisaged, the Group has obtained agreement from its lenders that covenant testing in June 2021 will be limited to certain liquidity measures (such that cash plus cash equivalents, i.e. including headroom under undrawn committed facilities should not fall below £50m) whilst net debt to EBITDA and interest cover ratio covenant tests will be waived. In addition to this, the maturity date of the Senior Loan Facility has also been extended by one year to July 2023.