

CAPITAL HOSPITALS (ISSUER) PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

COMPANIES HOUSE

CAPITAL HOSPITALS (ISSUER) PLC

COMPANY INFORMATION

Directors

Mr T Pearson
Mrs G Birley-Smith
Ms J Acred
Mr L J Falero
Ms S Sidhu
Mr J D Sutcliffe (Appointed 21 June 2021)
Mr A Thakrar (Appointed 21 June 2021)

Ms J Acred is a non-executive director.

Secretary

Vercity Social Infrastructure (UK) Limited
(previously known as HCP Social Infrastructure (UK) Limited)

Company number

05462494

Registered office

8 White Oak Square
London Road
Swanley
Kent
BR8 7AG

Auditor

BDO LLP
55 Baker Street
London
W1U 7EU

Bankers

Lloyds Bank
25 Gresham Street
London
EC2V 7HN

CAPITAL HOSPITALS (ISSUER) PLC

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CAPITAL HOSPITALS (ISSUER) PLC

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the strategic report for the year ended 31 December 2020.

Fair Review of the Business

On 27 April 2006 the Company issued 1.703% Index Linked Guaranteed Secured Bonds due 2046 at a nominal value of £745,400,000, drew down sums from the European Investment Bank under two £125,000,000 loan facilities and issued 10.5% mezzanine notes at a value of £20,000,000. These sums were immediately on-lent of the same terms to the Company's fellow subsidiary, Capital Hospitals Limited, pursuant to a proceeds on-loan agreement.

The principal activity of Capital Hospitals Limited is to design, build, finance, maintain and deliver certain non-clinical services to the Barts and Royal London Hospitals in accordance with a forty two year contract (the "Project Agreement") with the Barts and The London NHS Trust. Contract negotiations were successfully completed on 27 April 2006 and construction commenced immediately. Barts and The London NHS Trust merged with Newham University Hospital NHS Trust and Whipps Cross University Hospital NHS Trust on 1 April 2013 to become the Barts Health NHS Trust (the "Trust"). On 29 March 2016 the project reached "Actual Global Completion" when the final construction phase was handed over. From this point 100% of the unitary charge was invoiced to the Trust.

The directors do not foresee any change in the activities of the Company.

Principal Risks and Uncertainties

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

Liquidity and Credit Risk

The company is exposed to risk in respect of the cash flows required to meet its obligations associated with financial instruments and liabilities as they fall due. The company aims to mitigate these risks by closely monitoring the timing of cash flows of its sole client, a fellow subsidiary company. The directors consider that no significant risk arises from this fellow subsidiary company and its sole client as there are no indications that the Trust will not be able to fulfil their obligations to the fellow subsidiary company and the Secretary of State for Health has underwritten the Trust's obligations.

Interest Rate Risk

The company is exposed to interest rate risk on interest rate bearing liabilities with floating interest rates. The directors do not consider this exposure to be significant, this is because the secured bonds and bank loan are subject to UK Retail Price Index adjustment calculated on a half yearly basis. This is offset by having on-lent the loans to its fellow subsidiary entity on the same terms effectively hedging this risk. There is therefore no overall interest rate risk associated with these financial liabilities. The mezzanine debt and subordinated loan notes both have fixed interest rates until the end of the concession.

Sole client

The Trust is the sole client of Capital Hospitals Limited, but the directors consider that no risk arises from a single client base as the Trust's obligations under the Project Agreement are underwritten by the Secretary of State for Health.

During the operational phase the principal source of funds available to the Company's fellow subsidiary, Capital Hospitals Limited, to meet its liabilities under the on-loan agreements has been the unitary charge received from the Trust under the Project Agreement. The Trust is the sole client of Capital Hospitals Limited, but the directors consider that no risk arises from a single client base as the Trust's obligations under the Project Agreement are underwritten by the Secretary of State for Health.

Going Concern

The Directors have prepared cash flow forecasts which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due. Further information of the Directors' assessment including the consideration of the impact of COVID-19 is contained within note 1.2.

CAPITAL HOSPITALS (ISSUER) PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

Results and dividends

The results for the year are set out on page 14.

No interim dividends were paid. (2019: nil). The directors do not recommend payment of a final dividend.

Directors

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr T Pearson	
Mrs G Birley-Smith	
Ms J Acred	
Ms J Fegan	(Resigned 30 April 2021)
Mr P Bannister	(Resigned 21 June 2021)
Mr L J Falero	
Ms S Sidhu	
Mr J F Dingle	(Resigned 21 June 2021)
Mr J D Sutcliffe	(Appointed 21 June 2021)
Mr A Thakrar	(Appointed 21 June 2021)

Ms J Acred is a non-executive director.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found in note 1.2 in the notes to the financial statements.

COVID-19 risk

The company is exposed to the COVID-19 risk as a result of the inherent uncertainty around the impact of the pandemic on UK society and economy. Whilst the company itself is not considered to be significantly exposed, subcontractors of its fellow subsidiary company which it engages with are considered to have exposure in relation to labour and the ability to continue to perform required services. The company is aware of the Government guidance for public bodies on payment to suppliers of its fellow subsidiary to ensure service continuity during and after the coronavirus outbreak, which provides additional assurance. Nevertheless, 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. Due to the evolving nature of the risk, the Board continue to actively monitor developments.

CAPITAL HOSPITALS (ISSUER) PLC

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Directors Appointment and Replacement, Allotments of Shares and Control Provisions

The rules about the appointment and replacement of directors are contained in the company's Articles of Association. Changes to the Articles of Association must be approved by the shareholders in accordance with the legislation in force at the time. The powers of the directors and authority to issue and allot ordinary shares are determined by UK legislation and the Memorandum and Articles of Association of the company in force from time to time. Subject to UK legislation the directors are empowered by the Articles to authorise the company to purchase its own shares.

The company does not have agreements with any director that would provide compensation for loss of office or employment following a takeover.

The directors confirm that:

(a) the financial statements, prepared in accordance with UK Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and

(b) the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principle risks and uncertainties that they face.

On behalf of the board

Sabrina Sidhu

Ms S Sidhu

Director

29 June 2021

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 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.

We have audited the financial statements of Capital Hospitals (Issuer) Plc ('the Company') for the year ended 31 December 2020, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 18 February 2021 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. This is the first period of engagement. 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our audit work included, but was not restricted to, the following:

- We critically assessed the directors' going concern assessment, including the reasonableness of the assumptions used by the Company and the counterparty (the intra-group related party) in their cash flow forecasts in order to settle the payments of principal and interest on the onward loan.
- We evaluated the achievability of the actions the Directors consider they would take to improve the position should risks materialise in relation to COVID 19 in the counterparty. This evaluation considered the potential impact of COVID 19 on the counterparty's contract performance, subcontractor performance and compliance with borrowing covenants.
- We assessed the accuracy and completeness of the matters covered in the going concern disclosures in the financial statements.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	2020 £m
Materiality	£10.95 million
Basis for determining materiality	Benchmark of total assets of £1,425m of which it represents 0.77%
Rationale for the benchmark applied	The Company is asset driven, with the bond liability matching the receivable balance provided to the related party counterparty.
Performance materiality	65% of financial statement materiality to reflect that this is the first year audited by BDO LLP.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £219,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <p>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</p> <p>the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.</p> <p>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 the Directors' report.</p>
Matters on which we are required to report by exception	<p>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:</p> <p>adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or</p> <p>the Company financial statements are not in agreement with the accounting records and returns; or</p> <p>certain disclosures of Directors' remuneration specified by law are not made; or</p> <p>we have not received all the information and explanations we require for our audit.</p>

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, 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.

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.

CAPITAL HOSPITALS (ISSUER) PLC

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF CAPITAL HOSPITALS (ISSUER) PLC

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Company and industry, we identified the principal risk of non-compliance with laws and regulations that might have a material effect on the financial statements and direct impact on the preparation of the financial statements, to be Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and posting inappropriate journal entries to manipulate the fair value of the Company's assets.

Audit procedures performed by the engagement team included:

- We considered the processes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and how management monitors those processes and controls;
- We challenged assumptions and judgements made by management in areas involving significant estimates, with the key sources of estimation identified as the recoverability of intra-group receivable balances;
- We agreed all large journal entries in the year to supporting documentation; and
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Cassie Forman-Kotsapa

Cassie Forman-Kotsapa (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

29 June 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CAPITAL HOSPITALS (ISSUER) PLC

BALANCE SHEET

AS AT 31 DECEMBER 2020

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
Current assets					
Debtors falling due after more than one year	10	1,370,177		1,384,020	
Debtors falling due within one year	10	54,463		60,758	
		1,424,640		1,444,778	
Creditors: amounts falling due within one year	11	(54,462)		(60,797)	
Net current assets			1,370,178		1,383,981
Creditors: amounts falling due after more than one year	12		(1,370,163)		(1,383,966)
Net assets			15		15
Capital and reserves					
Called up share capital	15		50		50
Profit and loss account			(35)		(35)
Total equity			15		15

The accompanying notes on pages 17-27 form an integral part of the financial statements.

The financial statements were approved by the board of directors and authorised for issue on 29 June 2021 and are signed on its behalf by:

Sabrina Sidhu

Ms S Sidhu
Director

Company Registration No. 05462494

CAPITAL HOSPITALS (ISSUER) PLC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2019	50	(525)	(475)
Year ended 31 December 2019:			
Profit and total comprehensive income for the year	-	490	490
	<u>50</u>	<u>(35)</u>	<u>15</u>
Balance at 31 December 2019	50	(35)	15
Year ended 31 December 2020:			
Profit and total comprehensive income for the year	-	-	-
	<u>50</u>	<u>(35)</u>	<u>15</u>
Balance at 31 December 2020	<u>50</u>	<u>(35)</u>	<u>15</u>

The accompanying notes on pages 15-27 form an integral part of the financial statements.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

Company information

Capital Hospitals (Issuer) PLC is a private company limited by shares incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Capital Hospitals (Holdings) Limited. These consolidated financial statements are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

1.2 Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The Directors have prepared cash flow forecasts covering a period of 15 months from the date of approval of these financial statements, through to 30 September 2022, which indicate that, taking account of severe but plausible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period. In order to settle its own financial obligations and meet the compliance requirements of its external borrowings the Company is dependent on Capital Hospitals Limited, a fellow group company with common Directors, generating sufficient cashflows to settle the payments of principal and interest on the onward loan of the funding which the Company raised. Those forecasts are dependent on Capital Hospitals Limited's underlying customer continuing to meet its obligations under the Project Agreement which are underwritten by the Secretary of State for Health.

In making this assessment the Directors have considered the ongoing impact of COVID-19. Capital Hospitals Limited's operating cash inflows are largely dependent on unitary charge receipts receivable from Barts Health NHS Trust and the Directors expect these amounts to be received even in severe but plausible downside scenarios. Capital Hospitals Limited continues to provide the asset in accordance with the contract and is available to be used. As a result, the Company does not believe there is any likelihood of a material impact to the unitary payment.

The Directors have assessed the viability of Capital Hospitals Limited's main sub-contractors and reviewed the contingency plans of the sub-contractors and are satisfied in their ability to provide the services in line with the contract without significant additional costs to Capital Hospitals Limited, even in downside scenarios, due to the underlying contractual terms. To date, there has been no adverse impact on the services provided by the Company or its sub-contractors arising from COVID-19. However, in the unlikely event of a subcontractor failure, Capital Hospitals Limited has its own business continuity plans to ensure that service provision will continue.

The Directors believe Capital Hospitals Limited has sufficient funding in place and expect the Company to be in compliance with its debt covenants even in severe but plausible downside scenarios.

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

1.3 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

Basic financial assets

Basic financial assets, which include interest bearing loans and receivables, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest

Interest-bearing loans classified as basic financial instruments

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

Trade debtors, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

Basic financial liabilities

Basic financial liabilities, including bank loans, Bonds and unsecured subordinated and mezzanine loans, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Interest-bearing borrowings classified as basic financial instruments

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

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Derecognition of financial liabilities

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.4 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.5 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

(Continued)

1.6 Interest Receivable and Payable

Interest payable and similar charges include interest payable on borrowings and associated ongoing financing fees. Interest payable and similar charges is recognised under the effective interest rate method.

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

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Other than the recoverability of amounts receivable from the company's fellow subsidiary management are not aware of any sources of estimation uncertainty which affect these financial statements not already disclosed.

3 Auditor's remuneration

	2020	2019
	£'000	£'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the company	10	10
	<u>10</u>	<u>10</u>

4 Employees

The company had no employees during the year (2019: nil).

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

5 Directors' remuneration

Directors remuneration (including directors fees) is paid by Capital Hospitals Limited for the group as a whole. The portion attributable to qualifying services of directors for the Company is £20,000 (2019: £20,000).

6 Interest receivable and similar income

	2020 £'000	2019 £'000
Interest income		
Interest receivable from group undertakings	62,689	70,484

7 Interest payable and similar expenses

	2020 £'000	2019 £'000
Interest on financial liabilities measured at amortised cost:		
Bond Interest	38,904	43,900
Mezzanine Interest	2,098	2,113
Loan Interest	12,213	13,956
Sub-debt Interest	9,474	10,515
	62,689	70,484
Other finance costs:		
Other interest	-	4
	62,689	70,488

8 Taxation

	2020 £'000	2019 £'000
Current tax		
UK corporation tax on profits for the current period	-	20
Deferred tax		
Origination and reversal of timing differences	-	(514)
Total tax credit	-	(494)

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

9 Financial instruments

(Continued)

Capital risk management

The Company manages its capital to ensure it is able to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Company comprises of equity attributable to equity holders consisting of ordinary share capital, reserves and retained earnings.

10 Debtors

	2020 £'000	2019 £'000
Amounts falling due within one year:		
Amounts owed by fellow group undertakings	54,276	60,244
Deferred tax asset (note 14)	187	514
	<u>54,463</u>	<u>60,758</u>
Amounts falling due after more than one year:		
Amounts owed by fellow group undertakings	1,370,177	1,384,020
	<u>1,424,640</u>	<u>1,444,778</u>

Amounts due from fellow group undertakings disclosed above are measured at amortised cost.

Debtors consist of the proceeds of the debt drawn and on-lent to Capital Hospitals Limited on exactly the same terms as in note 11 and 12.

11 Creditors: amounts falling due within one year

	Note	2020 £'000	2019 £'000
Loans	13	54,276	60,244
Amounts owed to fellow group undertaking		186	553
		<u>54,462</u>	<u>60,797</u>

12 Creditors: amounts falling due after more than one year

	Notes	2020 £'000	2019 £'000
Loans	13	1,370,163	1,383,966

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

13 Loans

	2020 £'000	2019 £'000
Bank loans	322,649	326,973
Bonds	987,290	998,262
Subordinated loans	94,687	99,202
Mezzanine loans	19,813	19,773
	<u>1,424,439</u>	<u>1,444,210</u>
Payable within one year	54,276	60,244
Payable after one year	1,370,163	1,383,966
	<u>1,424,439</u>	<u>1,444,210</u>
Amounts included above which fall due after 5 years:	<u>1,177,841</u>	<u>1,196,693</u>

The Bonds are secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (Europe) Limited (50%) and Ambac Assurance UK Limited (50%) respectively.

The bank loan is secured by an irrevocable and unconditional financial guarantee issued by Assured Guaranty (Europe) Limited (50%) and Ambac Assurance UK Limited (50%) respectively.

The subordinated loan and mezzanine notes are unsecured.

The Bonds are repayable in half yearly instalments which commenced 30 September 2016 and are subject to an interest rate of 1.703% subject to UK Retail Price Index adjustment calculated on a half yearly basis. The Company has released its right to retain £275,000,000 of Bonds as a result of the project reaching Actual Global Completion at which point the project was not required to retain the ability to access the funds.

The bank loan is repayable in half yearly instalments which commenced 30 September 2016 and is subject to an interest rate of 1.550% subject to UK Retail Price Index adjustment calculated on a half yearly basis.

The subordinated loan notes are unsecured and are repayable in half yearly instalments commencing March 2026 and move subject to an interest rate of 9.5% which increased to 11% following Actual Global Completion of the project on 29 March 2016.

Mezzanine Notes are unsecured and are repayable in half yearly instalments which commenced March 2020 and are subject to an interest rate of 10.5%.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

14 Deferred taxation

The following is the analysis of the deferred tax balances for financial reporting purposes:

	Assets 2020 £'000	Assets 2019 £'000
Balances:		
Subordinated debt interest allowable	187	514
	<u>187</u>	<u>514</u>
Movements in the year:		2020 £'000
Asset at 1 January 2020		514
Other		(327)
		<u>187</u>
Asset at 31 December 2020		<u>187</u>

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so.

The Company had unpaid sub-debt interest relating to 2017 as at 31 December 2018 and was required to pay corporation tax of £514,000. The Company paid the tax liability on 29 March 2019.

The Company was able to claim £327,000 as an allowable deduction for late paid interest in the tax computations for the year ended 31 December 2019 and the remaining deduction is forecast to be claimed in the year ended 31 December 2020 tax computation based on the unpaid sub-debt interest being fully paid by 31 December 2021. A balance of deferred tax has therefore been recognised of £187,000 as at 31 December 2020.

The tax losses created by the late paid interest deduction is being surrendered for payment to Capital Hospitals Limited and therefore there is no movement through the income statement (see note 8).

15 Share capital

	2020 Number	2019 Number	2020 £'000	2019 £'000
Ordinary share capital Issued and fully paid				
Ordinary shares of £1 each	50,000	50,000	50	50
	<u>50,000</u>	<u>50,000</u>	<u>50</u>	<u>50</u>

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

16 Controlling party

The Company is a wholly owned subsidiary undertaking of Capital Hospitals (Holdings) Limited incorporated in the United Kingdom. The registered office is 8 White Oak Square, London Road, Swanley, BR8 7AG.

The smallest and largest Group in which the financial statements of the Company are consolidated is Capital Hospitals (Holdings) Limited. The consolidated accounts of the Group are available to the public and may be obtained from 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

17 Related party transactions

The immediate Parent company, Capital Hospitals (Holdings) Limited, is owned by Skanska TAM Ltd (22.5%), Skanska TAM (Nordic) Ltd (15%), Innisfree Nominees Ltd acting in its capacity as nominee for Innisfree PFI Secondary Fund 2 LP (25.5%), Innisfree Nominees Ltd acting in its capacity as nominee for Innisfree PFI Secondary Fund (12%) and Healthcare (Barts) Ltd (25%). Healthcare (Barts) Ltd is owned by Innisfree Nominees Ltd (50%) acting in its capacity as nominee for Innisfree PFI Secondary Fund and DIF Infra Yield 1 finance B.V (50%). The Skanska group of companies together with Innisfree Limited, in its capacity as manager of Innisfree PFI Secondary Fund 2 LP and Innisfree PFI Secondary Fund, have interests in contracts placed by the parent company for the financing, construction and management of the Barts & The Royal London Hospitals project.

None of the company's ordinary shares carry any special rights with regard to the control of the company. There are no known arrangements under which financial rights are held by a person other than the beneficial owner of the shares and no known agreements on restrictions on share transfers (other than pre-emption rights between existing shareholders) or on voting rights.

Skanska TAM Ltd, Skanska TAM (Nordic) Ltd, Innisfree Nominees Ltd acting in its capacity as nominee for Innisfree PFI Secondary Fund and Innisfree PFI Secondary Fund 2 LP and DIF Infra Yield 1 Finance B.V hold Mezzanine Notes in proportion to their shareholdings and interest paid on these notes during the year totalled £2,098,000 (2019: £2,100,000). As at 31 December 2020 accruals included £516,000 in respect of Mezzanine Note interest.

Subordinated debt is held based upon the ownership split and interest paid on the subordinated debt during the year totalled £13,990,000 (2019: £9,908,000). As at 31 December 2020 accruals included £6,868,000.

CAPITAL HOSPITALS (ISSUER) PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

18 Events after the reporting date

On 22 February 2021 Skanska TAM Limited and Skanska TAM (Nordic) Limited issued a transfer notice to the group in connection with its proposed sale of shares held in Capital Hospitals (Holdings) Limited and loan note stock held in Capital Hospitals (Issuer) plc. The sale was completed on 21 June 2021 whereby Equitix Noble Bidco Limited became a 37.5% shareholder, together with holding Mezzanine Notes and Subordinated debt in proportion to this shareholding.