

**NewHospitals (St Helens and Knowsley)  
Holdings Limited**

**Directors' Report and Financial  
Statements  
31 March 2011**

Registered number 05603625



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## **Company information**

### **Directors**

N Crowther (Chairman)  
P Goodridge  
D Bowler

### **Secretary**

G Perez-Luna

### **Registered office**

8 White Oak Square  
London Road  
Swanley  
Kent  
BR8 7AG

### **Auditors**

KPMG LLP  
100 Temple Street  
Bristol  
BS1 6AG

## Directors' report

The Directors present their report and financial statements for the year ended 31 March 2011

### Results and dividends

The loss for the year, after taxation, amounted to £3,115,000 (*2010 loss of £3,203,000*) The directors are unable to recommend the payment of a dividend (*2010 £Nil*)

### Principal activities and business review

The Company was incorporated on 26 October 2005 and commenced trading on 7 June 2006 The principal activity of NewHospitals (St Helens and Knowsley) Holdings Limited (the "Company") is that of a holding company

The principal activities of the group are the financing, design, construction and maintenance of two new hospital facilities at the Whiston and St Helens sites, together with the operation of certain non-clinical services within the existing and new hospital facilities, as part of the strategic redevelopment scheme for the St Helens and Knowsley Hospitals NHS Trust (the "Trust") under the Government's Private Finance Initiative ("PFI") The directors are not aware, at the date of this report, of any likely major changes in the group's activities in the next year

The Company is the immediate parent undertaking of NewHospitals (St Helens and Knowsley) Limited On 7 June 2006, NewHospitals (St Helens and Knowsley) Limited entered into a Project Agreement with the Trust, together with an associated construction contract, funding agreements, hard and soft facilities management services contracts, a medical equipment supplies contract and other ancillary project related agreements The Project Agreement requires NewHospitals (St Helens and Knowsley) Limited to provide and maintain two new hospital facilities for the Trust, and to deliver certain non-clinical services over the 41 year concession term The St Helens Diagnostic and Treatment Centre (the "St Helens DTC") achieved Practical Completion on 26 September 2008 and has been fully operational since 21 November 2008 NewHospitals (St Helens and Knowsley) Limited has been providing fully operational steady state hard and soft facilities management services and medical equipment supplies services to the St Helens DTC since 21 November 2008 The Whiston Hospital Phase 1A and 1B Practical Completions occurred on 22 January 2010 and 1 April 2010 respectively (one and three months respectively earlier than envisaged under the construction contract) Full patient occupation of the Whiston Phase 1A and Phase 1B facilities occurred on 14 April 2010 and NewHospitals (St Helens and Knowsley) Limited has been providing fully operational steady state hard and soft facilities management services and medical equipment supplies services to the Whiston Hospital since 14 April 2010 NewHospitals (St Helens and Knowsley) Limited is also currently providing interim services to the residual existing Whiston Hospital estate which is forecast to continue until 31 March 2012 when construction of the remaining Whiston Hospital estate is due to be complete From this date onwards NewHospitals (St Helens and Knowsley) Limited will provide steady state hard and soft facilities management along with medical equipment supplies services to all aspects of both hospital sites

The Company is the immediate parent undertaking of NewHospitals (St Helens and Knowsley) Finance Plc On 7 June 2006, NewHospitals (St Helens and Knowsley) Finance Plc authorised the creation of £178,300,000 of 1 7774% Index-Linked Guaranteed Secured Bonds due 2047 of which £153,000,000 were issued It also entered into a loan agreement with the European Investment Bank (the "EIB") under which the EIB granted it £149,186,000 of a 1 743% index-linked guaranteed secured bank loan due 2038 The proceeds from both the bond issue and bank loan were onward loaned to a fellow subsidiary undertaking, NewHospitals (St Helens and Knowsley) Limited with identical terms for payment of interest and principal The bonds and bank loan have the benefit of an unconditional and irrevocable financial guarantee as to all payments of interest and principal issued by the monoline insurer Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited)

On 20 March 2008, £6,800,000 of the remaining £25,300,000 Index-Linked Guaranteed Secured Bonds created but not issued, the 'Committed Variation Bonds', were cancelled as they expired on 31 December 2007 in accordance with the Terms of the Bond Trust Deed and Collateral Deed

On 26 May 2009 the Company's shareholders commenced subscription for tranches of unsecured 11 96% fixed interest subordinated loan stock created, constituted and issued by NewHospitals (St Helens and Knowsley) Finance Plc on 7 June 2006 The amount subscribed as at the year ended 31 March 2010 was £19,313,000 During the year a further tranche of £10,177,000 was issued bringing the total amount subscribed to £29,490,000 as at 31 March 2011

NewHospitals (St Helens and Knowsley) Finance Plc has onward loaned the proceeds of the loan stock issue to NewHospitals (St Helens and Knowsley) Limited on exactly the same payment terms for interest and principal Further details of the loan stock issue are set out in note 15 to the financial statements The proceeds of the loan stock issue are being used by the group to finance its obligations under the Project Agreement with the Trust

## **Directors' report** *(continued)*

### **Key performance indicators**

- **Historical performance**

The Group is obliged to meet the conditions laid down in the Bond Trust Deed and Collateral Deed. To the best of the Directors' knowledge the Group has met all of the obligations contained within these Deeds and there have been no Events of Default, Potential Event of Defaults or Trigger Events with regard to the Collateral Deed.

- **Completion of construction sections in line with the construction contract**

The achievement of sectional completions in accordance with the contractual timetable is a key indicator of satisfactory performance under the design and build contract as the unitary charge income from the Trust increases with each completed section. The St Helens DTC construction Practical Completion was achieved on time on 26 September 2008 and the Whiston Hospital Phase 1A and 1B Practical Completions occurred on 22 January 2010 and 1 April 2010 respectively, ahead of the contractual timetable as mentioned in the business review section. The current construction programme indicates that completion will occur ahead of timetable. The project's construction partner currently estimates this to be approximately 5 month's ahead of schedule. The major final milestone in the construction programme is the completion of the Whiston External Works programme, which is forecast to occur on or before 31 March 2012.

- **Performance deductions under the service contracts**

Financial penalties are levied by the Trust in the event that accommodation availability and service performance standards set out in the Project Agreement are not achieved. All deductions are passed on to the contracted service providers but the quantum of the penalties is an indication of the level of performance. During the year ended 31 March 2011 service performance deductions totalling £17,000 were levied for both Interim and Steady State services (2010 £11,000 – Interim services only). This represents 0.14% (2010 0.34% - Interim services only) of the total payments to the service providers for the provision of the services.

- **Financial performance**

The group has modelled the financial outcome of the project over the 41 year concession term and this has shown the project to be profitable and cash generative. The group monitors actual financial performance against this anticipated performance including monitoring cash flows and profit or loss after tax on a regular basis. As at 31 March 2011, the group is in the fifth year of the construction phase and the third year of the operating phase for the St Helens DTC. Whilst the group is currently in a cumulative loss making position the financial model forecasts consistent year on year profitability to commence in the year ended 31 March 2014.

### **Principal risks and uncertainties and associated risk management policies**

The risk management policy of the group is designed to identify and manage risk at the earliest possible point. The group maintains a detailed risk register which is formally reviewed by the Board on a quarterly basis. The principal risks and uncertainties facing the group have been broadly categorised into price, inflation and interest rate risk, performance and lifecycle risk, and financial instrument related risks.

- **Price, inflation and interest rate risk**

The group's price risk is principally managed through a 41 year Project Agreement with the Trust providing for payments that are fixed, subject to performance and movements in the UK All Items Retail Prices Index (the "UK RPI"), and through sub-contracts with suppliers that largely mirror the provisions of the Project Agreement. The PFI hospital concession assets produce revenues which are index-linked to movements in the UK RPI. These revenues generate the cash flows with which the group funds its operating costs, finance costs and repayments due on its financial liabilities. The group is exposed to interest rate risk in relation to its index-linked debt through movements in the UK RPI. This risk is mitigated as the majority of the cash flows generated from the PFI hospital concession assets increase in line with movements in the UK RPI.

## **Directors' report** *(continued)*

### **Principal risks and uncertainties and associated risk management policies** *(continued)*

- **Performance and lifecycle risk**

The group passes on design, construction, availability and performance risks to its various sub-contractors via sub-contracts. The obligations of these sub-contractors are underwritten either by performance guarantees issued by banks or by parent company guarantees. NewHospitals (St Helens and Knowsley) Limited, a subsidiary within the group, is responsible and bears the risk for the lifecycle expenditure throughout the concession term.

The timing and quantum of the finances available to settle this expenditure have been reviewed and compared to the forecast lifecycle expenditure. The directors consider the amounts available to settle this expenditure are appropriate for the remainder of the project concession term.

- **Financial instrument risks**

The group's financial instruments comprise short term bank deposits, finance debtors, trade creditors, index-linked bonds, an index-linked bank loan and fixed rate subordinated loan stock. All of the group's index-linked financial instruments are index-linked to movements in the UK RPI. The financial structure has been established to ensure that the cash flows from the PFI hospital concession assets are sufficient to meet all interest and principal payments due on the index-linked and fixed rate debt.

The group does not undertake financial instrument transactions which are speculative or unrelated to the group's trading activities. Board approval is required for the use of any new financial instrument, and the group's ability to enter into any new transaction is constrained by covenants in its existing funding agreements. Exposure to market related interest rate risk, cash flow risk, credit risk, and liquidity risk arises in the normal course of the group's business. The group's exposure to, and the management of, financial instrument risks is described in further detail as follows.

#### ***Market related interest rate risk***

The group is exposed to market related interest rate risk in relation to its index-linked debt through movements in the UK RPI. This is mitigated as the majority of the cash flows generated from the PFI hospital concession assets increase in line with movements in the UK RPI. The group is also exposed to market related interest rate risk through movements in the London Inter-Bank Offered Rate (the "LIBOR"), which affects the quantum of interest receivable on its cash deposits.

#### ***Cash flow risk***

The risk of exposure to variability in long term cash inflows generated under the concession with the Trust is mitigated as performance and availability deductions are passed on to the relevant service providers and the majority of revenues and costs which the group receives and pays are index-linked to movements in the UK RPI.

#### ***Credit risk***

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation under the contract giving rise to the financial instrument.

The group's long term exposure to credit risk, which exists predominantly until the end of the Project Agreement, is principally dependent on the creditworthiness of four major European investment banks which hold the group's cash balances.

The group actively monitors the credit ratings of its counterparty banks and reports are issued to the Board on a monthly basis. The group's maximum credit risk exposure relating to its financial assets is represented by their carrying value at the balance sheet date.

The group's other long term exposure to credit risk is principally dependent on the creditworthiness of the Trust as the group's sole client. The risk associated with this is mitigated as the cash flows are secured under the Project Agreement, which is a long term contract with the Trust, whose obligations and liabilities are underwritten by the Government.

## **Directors' report** *(continued)*

- **Financial instrument risks** *(continued)*

### **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with its financial liabilities. The group's liquidity risk is principally managed through financing the group by means of long term borrowings which are tailored to match the expected cash flows arising from the group's PFI hospital concession assets. In addition the group maintains a debt service reserve bank account to provide short term liquidity against future debt service requirements.

### **Capital management**

The group's and Company's capital and debt structures were set out in the 41 year concession term financial model at the commencement of the project. The equity and debt has been subscribed for in accordance with this model to date except that Taylor Woodrow Construction has subscribed for 100% of its commitment under the subordinated loan stock issue as at 31 March 2010 whereas the financial model assumes this will occur as at 31 March 2011.

### **Directors**

The directors who held office during the year ended 31 March 2011 and up to the date of this report are shown below:

D Bowler  
P Goodridge  
N Crowther

### **Employee involvement**

The group operates through sub-contracting services and does not directly employ any staff.

### **Going concern**

The directors have reviewed the group's projected cashflows contained in the financial model covering accounting periods up to 31 March 2048. The directors have also examined the current status of the group's principal contracts and likely developments in the foreseeable future. Having reviewed the forecast cashflows and financial facilities available to the group, the directors consider that the group and company will be able to meet their loan covenant requirements and settle their liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

## **Corporate Governance Statement**

### **Financial reporting, risk and internal controls**

The group has outsourced the financial reporting function to HCP Social Infrastructure (UK) Limited. The Board receives monthly reports from HCP Social Infrastructure (UK) Limited which address specific risks to the group in a Risk Register which contains a summary of all material and possible risks which the group is exposed to, and is pertinent to the industry in which the group operates. The Board also receives monthly management accounts with explanations of variances from annual budgets and forecasts, which are in turn compared to the Financial Model, which represents the long term business plan of the group and outlines its ability to service its debts. Variances are investigated and consideration given to the impact of any major variances. This process ensures that the project remains robust and viable throughout the life of the contract.

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

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


**Directors' report** *(continued)*

**Auditors**

During the year, Ernst & Young LLP resigned as auditor and KPMG LLP were appointed to fill the casual vacancy arising

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

On behalf of the board

A handwritten signature in black ink, appearing to be 'N Crowther', written over a horizontal line.

**N Crowther**  
*Chairman*

**27** September 2011

8 White Oak Square,  
London Road,  
Swanley,  
Kent,  
BR8 7AG



## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



## **Independent auditor's report to the members of NewHospitals (St Helens and Knowsley) Holdings Limited**

We have audited the financial statements of NewHospitals (St Helens and Knowsley) Holdings Limited for the year ended 31 March 2011 set out on pages 10 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Independent auditor's report to the members of NewHospitals (St Helens and Knowsley) Holdings Limited *(continued)***

### **Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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



**A Moses (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
100 Temple Street  
Bristol  
BS1 6AG

**30** September 2011

**Consolidated Profit and Loss Account**  
*for the year ended 31 March 2011*

	<i>Note</i>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Turnover</b>	<b>3</b>	<b>44,713</b>	<b>29,041</b>
Cost of sales		<b>(41,829)</b>	<b>(28,851)</b>
<b>Gross profit</b>		<b>2,884</b>	<b>190</b>
Administrative expenses		<b>(1,674)</b>	<b>(362)</b>
<b>Operating profit/(loss)</b>	<b>4</b>	<b>1,210</b>	<b>(172)</b>
Interest receivable	<b>7</b>	<b>21,789</b>	<b>1,276</b>
Interest payable and similar charges	<b>8</b>	<b>(26,114)</b>	<b>(4,307)</b>
<b>Loss on ordinary activities before taxation</b>		<b>(3,115)</b>	<b>(3,203)</b>
Tax on loss on ordinary activities	<b>9</b>	<b>-</b>	<b>-</b>
<b>Loss for the financial year</b>		<b>(3,115)</b>	<b>(3,203)</b>

There were no other recognised gains and losses for the current or prior years other than the result stated above and therefore no separate statement of total recognised gains and losses has been reported

There is no difference between the historical cost loss and the loss stated above

All of the results relate to continuing activities

Movements in reserves are shown in note 17

The notes on pages 14 to 25 form part of these financial statements

**Consolidated Balance Sheet**  
*at 31 March 2011*

	<i>Note</i>	<b>2011</b> <b>£000</b>	<b>2010</b> <b>£000</b>
<b>Current assets</b>			
Debtors amounts receivable within one year	<i>11</i>	<b>4,802</b>	4,956
Debtors amounts receivable after more than one year	<i>12</i>	<b>291,297</b>	271,175
Short term investments	<i>13</i>	-	2,987
Cash at bank and in hand		<b>37,810</b>	28,818
		<b>333,909</b>	307,936
<b>Creditors: amounts falling due within one year</b>	<i>14</i>	<b>(16,575)</b>	(10,727)
<b>Net current assets</b>		<b>317,334</b>	297,209
<b>Creditors: amounts falling due after more than one year</b>	<i>15</i>	<b>(358,928)</b>	(335,688)
<b>Net liabilities</b>		<b>(41,594)</b>	(38,479)
<b>Capital and reserves</b>			
Called up share capital	<i>16</i>	<b>60</b>	60
Profit and loss account	<i>17</i>	<b>(41,654)</b>	(38,539)
<b>Equity shareholders' deficit</b>	<i>18</i>	<b>(41,594)</b>	(38,479)

These financial statements were approved by the board of directors on 2) September 2011 and were signed on its behalf by



**N Crowther**  
*Chairman*

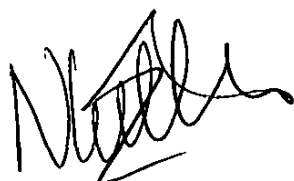
Company registered number 05603625

Notes on pages 14 to 25 form part of these financial statements

**Company Balance Sheet**  
*at 31 March 2011*

	<i>Note</i>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Fixed assets</b> investments in subsidiary undertakings	<i>10</i>	<b>60</b>	<b>60</b>
<b>Net assets</b>		<b>60</b>	<b>60</b>
<b>Capital and reserves</b>			
Called up share capital	<i>16</i>	<b>60</b>	<b>60</b>
Profit and loss account	<i>17</i>	-	-
<b>Equity shareholders' deficit</b>	<i>18</i>	-	-

These financial statements were approved by the board of directors on **27** September 2011 and were signed on its behalf by



**N Crowther**  
*Chairman*

Company registered number 05603625

Notes on pages 14 to 25 form part of these financial statements

**Consolidated Cash Flow Statement***at 31 March 2011*

	<i>Note</i>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Net cash outflow from operating activities</b>	<i>19(a)</i>	<b>(19,282)</b>	<b>(9,698)</b>
<b>Returns on investment and servicing of finance</b>			
Interest received		<b>21,847</b>	<b>1,276</b>
Interest paid		<b>(6,737)</b>	<b>(7,055)</b>
		<b>15,110</b>	<b>(5,779)</b>
<b>Taxation</b>			
Corporation tax received		<b>-</b>	<b>127</b>
		<b>(4,172)</b>	<b>(15,350)</b>
<b>Net cash outflow before management of liquid resources and financing</b>			
<b>Management of liquid resources</b>			
Decrease in short term investments		<b>2,987</b>	<b>10,641</b>
<b>Financing</b>			
Issue of subordinated loan stock		<b>10,177</b>	<b>19,313</b>
<b>Increase in cash in the period</b>	<i>19(c)</i>	<b>8,992</b>	<b>14,604</b>

Notes on pages 14 to 25 form part of these financial statements

## Notes to the financial statements

### 1 Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards

The consolidated profit and loss account for the year ended 31 March 2011 shows a loss after tax of £3,115,000 (2010 loss of £3,203,000). The directors have reviewed the group's projected profits and cashflows by reference to a financial model covering accounting periods up to 31 March 2048. They have also examined the current status of the group's principal contracts and likely developments in the foreseeable future. Having reviewed the financial facilities available to the group, the directors consider that the group will be able to meet its loan covenant requirements and settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

### 2 Accounting policies

#### (i) Basis of consolidation

The group financial statements consolidate the financial statements of NewHospitals (St Helens and Knowsley) Holdings Limited and its subsidiary undertakings for the year ended 31 March 2011 using the acquisition method. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition up to the date of disposal. All inter-company balances, transactions, profits and losses are eliminated on consolidation. No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006. The result for the Company for the year ended 31 March 2011 was £Nil (2010 £Nil).

#### (ii) Finance debtors

The group has adopted the provisions of FRS 5 (Application Note F) in determining the appropriate treatment of the two hospital assets of the group. After due consideration the group has accounted for attributable expenditure during the year as finance debtors. In accounting for costs as finance debtors, all attributable expenditure during the construction phase of the project, excluding interest, indexation and financing costs, is included in the cost of the finance debtors. On completion of the construction phase of each hospital the amortisation of the relevant finance debtor will be calculated to write off the cost over their respective Project Agreement operational phases.

#### (iii) Interest, indexation and other financing costs

Interest, indexation and other financing costs are expensed to the profit and loss account in the period to which they relate.

#### (iv) Revenue recognition

Revenue is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

##### *Revenue from construction activity*

Revenue from construction activity is recognised by reference to costs incurred in the period that are directly attributable to the construction of the asset. No mark up is applied to these costs.

##### *Facilities management services - interim phase prior to completion*

Revenue from the provision of the interim services to the existing hospital estate is recognised as contract activity progresses at a zero mark up on related costs as these items are direct pass-through from the Trust to the contracted service providers.

##### *Facilities management services - operational phase following completion*

Revenue from the provision of the facilities management services to the new hospitals is recognised as contract activity progresses at a mark up on related costs to reflect the fair value of work performed.



## Notes to the financial statements *(continued)*

### 2 Accounting policies *(continued)*

#### *(iv) Revenue recognition (continued)*

##### *Interest receivable on finance debtor*

Revenue in relation to the finance debtor is recognised as finance income at a project specific rate commencing when each new hospital becomes operational

##### *Interest income*

Interest income is recognised as interest accrues using the effective interest method

#### *(v) Deferred revenue*

Revenue received relating to the hospitals during the construction phase was deferred until the year ended 31 March 2010. During the year to March 2011 this deferred income has started to be released on an annual basis over the remaining life of the contract as full occupation of the main Whiston hospital site occurred on 14 April 2010.

#### *(vi) Taxation*

The charge for current taxation for the period is based on the result for the period, adjusted for disallowable items.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### *(vii) Investments*

Investments are stated at cost less provision for impairment.

**Notes to the financial statements (continued)****3 Turnover**

Turnover which is stated net of value added tax, represents income for services provided in the period. Turnover is attributable to one geographical market, the United Kingdom, and can be analysed as follows

	2011 £000	2010 £000
Construction income	17,314	14,204
Operating income	15,736	3,814
Medical equipment supplies income	2,686	1,513
Interim services income	8,977	9,510
	<u>44,713</u>	<u>29,041</u>

**4 Operating profit/(loss)**

This is stated after charging

	2011 £000	2010 £000
Project management services and associated costs	1,674	362
Auditors' remuneration		
Audit of these financial statements	1	-
Audit of subsidiaries pursuant to legislation	14	-
Taxation services	10	-
	<u>25</u>	<u>-</u>

Amounts paid to former auditors in the prior year were £48,000

**5 Directors' remuneration**

None of the directors received any remuneration in respect of services provided to the group during the year (2010 £Nil). The directors receive their remuneration directly from shareholder companies. The group incurred fees from related parties for directors' services totalling £94,000 (2010 £76,000)

**6 Staff costs**

The group operates through subcontracting services and there were no persons employed by the group during the year (2010 none)

**7 Interest receivable**

	2011 £000	2010 £000
Interest receivable on short term investments	212	25
Interest receivable on bank deposits	327	133
Interest receivable on finance debtor	21,250	1,118
	<u>21,789</u>	<u>1,276</u>

**Notes to the financial statements** *(continued)***8 Interest payable and similar charges**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Interest payable on bond	<b>3,106</b>	2,979
Indexation on bond	<b>8,073</b>	(2,454)
Interest payable on bank loan	<b>2,969</b>	2,849
Indexation on bank loan	<b>7,872</b>	(2,393)
Commitment fees and associated financing costs	<b>379</b>	1,227
Amortisation of transaction costs	<b>657</b>	641
Interest payable on subordinated loan stock	<b>2,859</b>	1,373
Other interest payable and similar charges	<b>199</b>	85
	<b>26,114</b>	<b>4,307</b>

**9 Taxation****(a) Tax on loss on ordinary activities**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Analysis of charge in period:</b>		
<b>Current tax:</b>		
UK corporation tax on loss for the period	-	-
Adjustments in respect of previous periods	-	-
<b>Total current tax (note 9(b))</b>	-	-
<b>Deferred tax:</b>		
Origination and reversal of timing differences	-	-
<b>Tax on loss on ordinary activities</b>	-	-

**Notes to the financial statements (continued)****9 Taxation (continued)****(b) Factors affecting the current tax charge/(credit)**

The current tax charge/(credit) on the loss on ordinary activities for the year is lower (2010 higher) than the standard rate of corporation tax in the United Kingdom of 28% (2010 28%). The differences are reconciled below

	2011 £000	2010 £000
<b>Loss on ordinary activities before tax</b>	<b>(3,115)</b>	<b>(3,203)</b>
Loss on ordinary activities before tax multiplied by standard rate of corporation tax in the UK	(880)	(897)
Disallowable expenditure	-	-
Other timing differences	-	396
Adjustments in respect of previous periods	-	-
Tax losses (utilised)/carried forward	880	501
<b>Total current tax (note 9(a))</b>	<b>-</b>	<b>-</b>

**c) Factors affecting the future tax charge**

A deferred tax asset of £9,521,000 (2010 £9,768,000) in respect of available tax losses has not been recognised at 31 March 2011. This is due to there being no persuasive and reliable evidence available at this time of suitable profits in the future to offset these losses.

On 23 March 2011 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 26% with effect from 1 April 2011. This tax change became substantively enacted in 29 March 2011 and therefore the effect of the rate reduction on the deferred tax balances as at 31 March 2011 has been included in the figures above. On 5 July 2011, the reduction in the main rate of UK corporation tax to 25 per cent with effect from 1 April 2012 was substantively enacted.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 26 per cent to 23 per cent, if these applied to the unrecognised deferred tax asset at 31 March 2011, would be to further reduce the asset by approximately £1,099,000.

**10 Fixed assets – investments in subsidiary undertakings****Shares in group undertakings****£000****Company****Cost and net book value**

At beginning and end of year

**60**

**Notes to the financial statements (continued)****10 Fixed assets – investments in subsidiary undertakings**

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital are as follows

<b>Company</b>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Class and percentage of shares held</b>
NewHospitals (St Helens & Knowsley) Ltd	U K	PFI operator	Ordinary 100%
NewHospitals (St Helens & Knowsley) Finance Plc	U K	Financing company	Ordinary 99.99%
NewHospitals (St Helens & Knowsley) Nominee Ltd	U K	Investment company	Ordinary 100%

NewHospitals (St Helens & Knowsley) Nominee Ltd holds the remainder of the 0.01% shares in NewHospitals (St Helens & Knowsley) Finance Plc

**11 Debtors: amounts receivable within one year**

	<b>2011 £000</b>	<b>2010 £000</b>
VAT receivable	574	338
Prepayments and accrued income	2,102	2,237
Finance debtor	537	636
Finance debtor under construction	1,589	1,745
	<b>4,802</b>	<b>4,956</b>

**12 Debtors: amounts receivable after more than one year**

	<b>2011 £000</b>	<b>2010 £000</b>
Finance debtor	72,214	72,060
Finance debtor under construction	213,649	197,654
UCCA	5,434	-
Prepayments and accrued income	-	1,461
	<b>291,297</b>	<b>271,175</b>

The finance debtors are shown net of capital contributions totalling £79,444,000 (2010 £75,868,000) from the Trust

**13 Short term investments**

	<b>Group 2011 £000</b>	<b>Group 2010 £000</b>
Index-linked GIC	-	2,987

**Notes to the financial statements (continued)****14 Creditors: amounts falling due within one year**

	<b>Group 2011 £000</b>	<b>Group 2010 £000</b>
Trade creditors	3,504	2,393
Accruals and deferred income	6,670	8,334
Bond repayment	1,626	-
Bank loan	4,775	-
	<u>16,575</u>	<u>10,727</u>

**15 Creditors: amounts falling due after more than one year**

	<b>2011 £000</b>	<b>2010 £000</b>
<b>Bond:</b>		
At the beginning of the year	168,910	171,364
Indexation on bond during the year	8,073	(2,454)
	<u>176,983</u>	<u>168,910</u>
Less Unamortised transaction costs	(9,624)	(9,998)
	<u>167,359</u>	<u>158,912</u>
Less amounts due within one year	(1,626)	-
	<u>165,733</u>	<u>158,912</u>
<b>Bank loan.</b>		
At the beginning of the year	164,698	167,091
Indexation on bank loan during the year	7,873	(2,393)
	<u>172,571</u>	<u>164,698</u>
Less Unamortised transaction costs	(7,484)	(7,768)
	<u>165,087</u>	<u>156,930</u>
Less amounts due within one year	(4,775)	-
	<u>160,312</u>	<u>156,930</u>
<b>Subordinated loan stock:</b>		
At beginning of the year	19,313	-
Subordinated loan stock issued during the year	10,177	19,313
	<u>29,490</u>	<u>19,313</u>
Effective interest rate adjustment on subordinated loan stock	4,233	1,373
Less Unamortised transaction costs	(840)	(840)
	<u>32,883</u>	<u>19,846</u>
<b>Total loans outstanding net of unamortised transaction costs</b>	<u><u>358,928</u></u>	<u><u>335,688</u></u>

**Notes to the financial statements (continued)****15 Creditors: amounts falling due after more than one year (continued)**

The loan balances fall due for payment as follows

	2011 £000	2010 £000
<b>Instalments due within:</b>		
1 year	6,401	-
1-2 years	10,642	6,193
2-5 years	33,332	31,614
More than 5 years	311,561	315,114
	<hr/> 361,936 <hr/>	<hr/> 352,921 <hr/>

**Index-Linked Guaranteed Secured Bonds due 2047**

NewHospitals (St Helens and Knowsley) Finance Plc, a member of the group, has created £178,300,000 of 1 7774% Index-Linked Guaranteed Secured Bonds due 2047 pursuant to a Bond Trust Deed and Collateral Deed dated 7 June 2006, of which £153,000,000 were issued for cash on 7 June 2006 at a 99.99% of par

On 20 March 2008, £6,800,000 of the remaining £25,300,000 Bonds created but not issued, the "Committed Variation Bonds", were cancelled as they expired on 31 December 2007 in accordance with the Terms of the Bond Trust Deed and Collateral Deed

The bonds bear interest at 1 7774%, which together with its principal repayment, is subject to indexation based on movements in the UK RPI in accordance with the terms of the Bond Trust Deed. The interest is payable semi-annually in arrears on 31 March and 30 September each year. The principal on the bonds is repayable in instalments which commence on 31 March 2012 and end in February 2047

The index-linked bonds created by the group have the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited) in favour of Deutsche Trustee Company Limited as security trustee over all of the undertakings and assets of the group

**Index-Linked Guaranteed Secured Bank Loan due 2038**

NewHospitals (St Helens and Knowsley) Finance Plc, a member of the group, has drawn £149,186,000 of a 1 743% Index-Linked Guaranteed Secured Bank Loan due 2038 pursuant to a Loan Agreement dated 1 June 2006 and a Collateral Deed dated 7 June 2006

The loan has an interest rate of 1 743%, which together with its principal repayment, is subject to indexation based on movements in the UK RPI in accordance with the terms of the Loan Agreement. The interest is payable semi-annually in arrears on 31 March and 30 September each year. The loan principal is repayable in instalments which commence on 30 September 2011 and end in June 2038

The index-linked bank loan has the benefit of an unconditional and irrevocable financial guarantee issued by Assured Guaranty (Europe) Limited (formerly Financial Security Assurance (UK) Limited) in favour of Deutsche Trustee Company Limited as security trustee over all of the undertakings and assets of the group

**Notes to the financial statements (continued)****15 Creditors: amounts falling due after more than one year (continued)****Fixed rate unsecured subordinated loan stock due 2047**

On 24 May 2006, NewHospitals (St Helens and Knowsley) Finance Plc, a member of the group, authorised and approved the issue of £30,090,000 unsecured 11.96% fixed interest loan notes which were constituted in a Deed Poll dated 7 June 2006. Under the terms of an Equity Subscription Agreement dated 7 June 2006, the Company's shareholders undertook to subscribe for the loan notes in separate tranches up to a total value of £30,090,000 over the period from 31 May 2009 to 31 March 2011. In the year ended 31 March 2011 the total amount of loan notes subscribed for by the Company's shareholders was £29,490,000. The 11.96% fixed interest accrues from 1 April 2011 and interest is paid semi-annually in arrears every 30 September and 31 March thereafter.

Of the total £30,090,000 loan notes constituted, £600,000 relates to a commitment to subscribe for Contingent Equity Tranche loan notes as detailed in the Equity Subscription Agreement. The commitment to subscribe for this tranche of the loan notes is no longer required as the matching Committed Variation Bonds to which the amount relates were cancelled on 20 March 2008, as they expired on 31 December 2007, in accordance with the Terms of the Bond Trust Deed and Collateral Deed.

Under the terms of an Intra group Loan Agreement entered into on 7 June 2006, NewHospitals (St Helens and Knowsley) Finance Plc undertook to onward loan the proceeds of the issue of the subordinated loan stock to NewHospitals (St Helens and Knowsley) Limited, on exactly the same payment terms for interest and principal. The proceeds of the loan stock issue are being used by the group to finance its obligations under its Project Agreement with the Trust.

The loan notes are redeemable at any time following the payment of all amounts due under the secured index-linked bank loan and bonds, which is forecast to be 26 February 2047.

**16 Share capital**

	2011 £000	2010 £000
Equity		
<i>Allotted, called up and fully paid</i>		
60,000 shares of £1 each	60	60



**Notes to the financial statements (continued)****17 Reserves**

	<b>Profit and loss account</b>			
	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At beginning of year	-	(38,539)	-	(35,336)
Loss for the financial year	-	(3,115)	-	(3,203)
<b>At end of the year</b>	<b>-</b>	<b>(41,654)</b>	<b>-</b>	<b>(38,539)</b>

**18 Movements in shareholders' funds**

	<b>Company</b>	<b>Group</b>	<b>Company</b>	<b>Group</b>
	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening equity shareholders' funds/(deficit)	60	(38,479)	60	(35,276)
Loss for the financial year	-	(3,115)	-	(3,203)
<b>Closing equity shareholders' funds/(deficit)</b>	<b>60</b>	<b>(41,594)</b>	<b>60</b>	<b>(38,479)</b>

**19 Notes to the consolidated cash flow statement****(a) Reconciliation of operating loss to net cash outflow from operating activities**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Operating profit/(loss)	1,210	(172)
Increase in debtors	(20,027)	(12,145)
(Decrease)/increase in creditors	(465)	2,619
<b>Net cash outflow from operating activities</b>	<b>(19,282)</b>	<b>(9,698)</b>

**(b) Analysis of changes in net debt**

	<b>At 1 April</b>	<b>Cash flows</b>	<b>Other non-cash</b>	<b>At 31 March</b>
	<b>2010</b>		<b>movements</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	28,818	8,992	-	37,810
Short term investments	2,987	(2,987)	-	-
Debt due within one year	-	-	(6,401)	(6,401)
Debt due after more than one year*	(335,688)	(10,177)	(13,063)	(358,928)
<b>Total</b>	<b>(303,883)</b>	<b>(4,172)</b>	<b>(19,464)</b>	<b>(327,519)</b>

\*net of transaction costs

**Notes to the financial statements (continued)****19 Notes to the consolidated cash flow statement (continued)****(c) Reconciliation of net cash flow to movement in net debt**

	2011 £000	2010 £000
Increase in cash	8,992	14,604
Decrease in short term investments	(2,987)	(10,641)
Issue of subordinated loan notes*	(10,177)	(18,473)
<b>Change in net debt resulting from cash flows</b>	<b>(4,172)</b>	<b>(14,510)</b>
<b>Non-cash movements</b>		
Indexation of debt due after more than one year	(15,946)	4,847
Amortisation of transaction costs	(658)	(641)
Interest on subordinated loan notes*	(2,860)	(1,373)
<b>Change in net debt resulting from non cash movements</b>	<b>(19,464)</b>	<b>2,833</b>
<b>Opening net debt</b>	<b>(303,883)</b>	<b>(292,206)</b>
<b>Net debt at end of period</b>	<b>(327,519)</b>	<b>(303,883)</b>

\*net of transaction costs

**20 Contract commitments**

	Company 2011 £000	Group 2011 £000	Company 2010 £000	Group 2010 £000
Amounts contracted for but not provided for in the financial statements	-	10,192	-	25,130

**21 Related party transactions**

On 9 September 2008, Vinci Plc acquired the entire share capital of Taylor Woodrow Construction Limited from Taylor Wimpey Plc. As part of the acquisition Taylor Woodrow Construction Limited was re-registered as an unlimited company by Taylor Wimpey Plc on 4 September 2008 and changed its name to Taylor Woodrow Construction.

The Company is owned by Taylor Woodrow Construction (19.9%) and Innisfree PFI Fund III LP (80.1%) through its nominee Innisfree Nominees Limited, managed by Innisfree Limited. The Taylor Woodrow and Innisfree group of entities have interests in contracts placed by the Company's subsidiary, NewHospitals (St Helens and Knowsley) Limited, to finance, develop, design and construct, maintain and deliver certain non-clinical services within the existing and the new Whiston and St Helens Hospitals as part of the Project Agreement entered into with the Trust.

On 7 June 2006, the group entered into contracts with Taylor Woodrow Construction Limited, Taylor Woodrow Management Limited and Taywood Engineering Limited for the design and construction of the hospitals and for the provision of certain services in connection with the development of the Whiston and St Helens hospitals. In addition the group also entered into guarantees with Taylor Woodrow Plc (subsequently renamed Taylor Wimpey Plc following the merger on 3 July 2007 of Taylor Woodrow Plc and George Wimpey Plc), with regard to the performance of the aforementioned Taylor Woodrow group entities. These guarantees were subsequently transferred to Vinci Plc on 11 March 2009. The total amount paid in the period under the contracts with the Taylor Woodrow

## Notes to the financial statements *(continued)*

### 22 Related party transactions *(continued)*

Group was £32,297,000 (2010 £33,872,000) As at 31 March 2011, £2,499,000 (2010 £1,165,000) remains outstanding and is included in trade creditors and accruals

On 26 May 2009 Innisfree PFI Fund III LP and Taylor Woodrow Construction Limited commenced subscription for tranches of unsecured 11.96% fixed interest subordinated loan stock created, constituted and issued by NewHospitals (St Helens and Knowsley) Finance Plc, a fellow subsidiary undertaking, on 7 June 2006. The amount subscribed for during the year ended 31 March 2011 was £10,177,000. This loan stock is fully subscribed and brings the total value to £29,490,000 as at the 31 March 2011. During the period ended 31 March 2011, in connection with the subordinated loan stock issue and under the terms of an Equity Subscription Agreement entered into on 7 June 2006, the group paid arrangement fees of £277,000 to Innisfree PFI Fund III LP and £74,000 to Taylor Woodrow Construction Limited. As at 31 March 2011 Innisfree PFI Fund III LP and Taylor Woodrow Construction have subscribed for £23,621,000 (2010 £13,444,000) and £5,869,000 (2010 £5,869,000) respectively, of the subordinated loan stock.

During the year ended 31 March 2011, the group incurred £47,000 (2010 £38,000) each in respect of directors' services from both Taylor Woodrow Construction and Innisfree Limited. In addition Taylor Woodrow Construction was paid £74,000 (2010 £231,000), and Innisfree PFI Fund III LP was paid £277,000 (2010 £860,000) in respect of unsubscribed subordinated loan stock commitment fees. As at 31 March 2011, £4,000 (2010 £21,000) and £13,000 (2010 £48,000) due to Taylor Woodrow Construction and the Innisfree group entities respectively, remains outstanding and is included in trade creditors and accruals.

On 7 June 2006 the group entered into transactions in the ordinary course of business for the duration of the project agreement with its management service provider HCP Social Infrastructure (UK) Limited (formerly Health Care Projects Limited). HCP Holdings Limited, the parent company of HCP Social Infrastructure (UK) limited is invested with Funds under the Management of Innisfree Limited, who also manage the funds invested in the Company. During the year the group incurred costs of £596,000 (2010 £610,000) in respect of project management and other associated services to HCP Social Infrastructure (UK) Limited. As at 31 March 2011, £50,000 (2010 £47,000) due to HCP Social Infrastructure (UK) Limited remains outstanding and is included in trade creditors.

### 22 Parent undertaking and controlling party

The Company's voting share capital is held 80.1% by Innisfree PFI Fund III LP (through its nominee Innisfree Nominees Limited) and 19.9% by Taylor Woodrow Construction. Both of these entities are registered in England and Wales.

In the directors' opinion, the Company's ultimate parent undertaking and controlling party is Innisfree PFI Fund III LP, a limited partnership registered in England and Wales.