

Company Registration No. 05603625 (England and Wales)

**NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2018**

MONDAY



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# **NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED**

## **COMPANY INFORMATION**

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<b>Directors</b>	Mr N Crowther Mr D Brooking
<b>Secretary</b>	HCP Social Infrastructure (UK) Ltd
<b>Company number</b>	05603625
<b>Registered office</b>	8 White Oak Square London Road Swanley Kent BR8 7AG
<b>Auditor</b>	KPMG LLP 66 Queen Square Bristol BS1 4BE

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# **NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED**

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# **NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED**

## **STRATEGIC REPORT**

***FOR THE YEAR ENDED 31 MARCH 2018***

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The directors present the strategic report for the year ended 31 March 2018.

### **Business Review**

NewHospitals (St Helens and Knowsley) Holdings Limited is a holding company for NewHospitals (St Helens and Knowsley) Limited, NewHospitals (St Helens and Knowsley) Finance plc and NewHospitals (St Helens and Knowsley) Nominee Limited ("The Group"). The Group's principal activities 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 Teaching Hospitals NHS Trust, (the "Trust") under the Government's Private Finance Initiative ("PFI"). was incorporated on 26 October 2005 and commenced trading on 7 June 2006.

On 7 June 2006, NewHospitals (St Helens and Knowsley) Finance Plc, a fellow subsidiary undertaking of NewHospitals (St Helens & Knowsley) Holdings Limited, 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 the Group 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 shareholders of the Company 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. This subordinated loan stock totalled £29,490,000 and was fully subscribed as at 31 March 2011.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

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### Principal risks and uncertainties

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 Group recognises that effective risk management is fundamental to achieving its business objectives in order to meet its commitments in fulfilling the PFI contract and in delivering a safe and efficient service. Risk management contributes to the success of the business by identifying opportunities and anticipating risks in order to improve business performance and fulfil the Group's contractual obligations.

#### *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 (a long term contract with the Trust), is principally dependent on the creditworthiness of three major European banks which hold the group's cash balances. These banks must hold a minimum short term debt rating of A-1 (or better) issued by Standard & Poors and P-1 (or better) issued by Moody's. Should the ratings of existing counterparties fall below these levels, the Company and its senior lenders each have the right to require that an acceptable replacement counterparty be appointed. 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 effectively underwritten by the Government.

#### *Interest rate risk/inflation risk*

All borrowings are at fixed rate other than index-linking, and therefore no interest rate risk arises on them. Interest rate risk arises on the Group's cash and short-term deposits.

The majority of the Group's borrowings comprise an index-linked secured bond and an index-linked secured loan. Repayment of these loans, and meeting operational expenditure commitments, will be made from income which is itself subject to indexation. The Group thereby mitigates any exposure to movements in the UK All Items Retail Price Index.

#### *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 Trust. In addition the Group maintains a debt service reserve bank account to provide short term liquidity against future debt service requirements.

#### *Contractual relationships*

The Group operates within a contractual relationship with its primary client, the Trust. Failure to perform obligations under this contract could have a direct and detrimental effect on the Group's result and could result in termination of the concession. To manage this risk the Group has regular meetings with the Trust including discussions on performance, project progress, future plans and customer requirements.

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.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

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### Key performance indicators

#### *Historical Performance*

The Group is obliged to meet the conditions laid down in the Bond Trust Deed and Collateral Deed with Assured Guaranty, European Investment Bank and Deutsche Trustee Company Limited. To the best of the Directors' knowledge the Group have met all of the obligations contained within these Deeds and there has been no Events of Default, Potential Events of Default or Trigger Events with regard to the Collateral Deed in the year to 31 March 2016.

#### *Financial performance and financial position*

The profit for the year, after taxation, amounted to £27,000 (2017: £217,000). Turnover increased by £3,386,000 largely due to pass-through income, which was £2,828,000 higher driven by higher variation activity. In addition, operating income increased by £474,000 and medical equipment income by £84,000 as associated costs increased in line with RPI inflation. Operating Profit increased by £317,000 as a result of the increase in operating income stated above, as well as a slight increase in the applied margin from 12.0% to 13.2%. Net Interest Payable increased by £1,091,000 due to the impact of RPI inflation on finance debtor income and bond and loan interest payable. Tax on loss/profit has reduced by £584,000 due to lower chargeable profits.

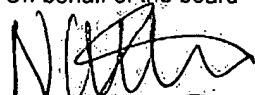
The Directors are unable to recommend the payment of a dividend (2017: £nil). Financial penalties are levied by the St Helens and Knowsley Teaching Hospitals NHS Trust (the "Trust") in the event of performance standards not being achieved in accordance with the detailed criteria as set out in the Project Agreement. All deductions are passed on to the contracted service providers and the quantum of the penalties is an indication of the level of performance. During the year ended 31 March 2018 service performance deductions totalling £24,000 were levied for both Steady State services (2017: £21,000). This represents 0.13% (2017: 0.12%) of the total revenues from the service providers for the provision of the services.

The Group had net liabilities of £36,655,000 as at 31 March 2018 (2017: £36,682,000). The reduction in net liabilities is attributable to the profit for the year. Finance debtor amortisation in the year amounted to £661,000 (2017: £678,000).

Cash balances of £20,224,000 (2017: £19,890,000) included reserve account balances of £17,941,000 (2017: £18,873,000), in line with contractual requirements.

The Directors have modeled the anticipated financial outcome of the Project over the 41 year concession term and this has shown the project to be profitable and cash generative. The Directors monitor actual financial performance against this anticipated performance. Financial covenants have been met during the year and, having considered the anticipated future performance and position of the Company, the Directors are of the opinion that the covenants will continue to be met in the future, and the Company will therefore continue in business. Whilst the Company is currently in a cumulative loss making position the current financial model forecasts this will reverse in 2036 with profit and loss reserves then remaining positive overall until the end of the concession.

On behalf of the board



Mr N. Crowther

Director

21 September 2018

# **NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED**

## **DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 MARCH 2018**

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The directors present their annual report and financial statements for the year ended 31 March 2018.

### **Principal activities**

The principal activity of the company continued to be that of a holding company for a Group of Companies whose principal activities 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 Teaching Hospitals NHS Trust, (the "Trust") under the Government's Private Finance Initiative ("PFI").

### **Directors**

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

Mr N Crowther

Mr D Brooking

### **Results and dividends**

The results for the year are set out on page 9.

No ordinary dividends were paid. The directors do not recommend payment of a further dividend.

### **Qualifying third party indemnity provisions**

The company has made qualifying third party indemnity provisions for the benefit of its directors during the year. These provisions remain in force at the reporting date.

### **Auditor**

The auditor, KPMG LLP, are deemed to be reappointed under section 487(2) of the Companies Act 2006.

### **Statement of disclosure to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the auditor of the company is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the auditor of the company is aware of that information.

### **Going concern**

The Directors have reviewed the Group's projected cash flows contained in the financial model covering accounting periods up to 31 March 2048. The Directors have also examined the current status of the Company's principal contracts and likely developments in the foreseeable future. Having reviewed the forecast cash flows and financial facilities available to the Company, the Directors consider the Company 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.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## DIRECTORS' REPORT (CONTINUED)

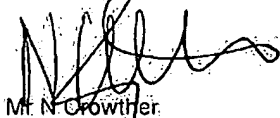
**FOR THE YEAR ENDED 31 MARCH 2018**

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

The group has outsourced the financial reporting function to HCP Management Services/Social Infrastructure (UK) Limited ("HCP"). Authorities remain vested in the Board members of the group. HCP reports regularly to the Board of the group. The Board receives monthly reports from HCP which specifically summarise and address the financial, contractual and commercial risks that the group is exposed to, and are 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 comply with its debt obligations and covenants. Material deviations from the business plan are investigated and reported on. Supporting this process, HCP evaluates its performance under the framework of an Internal Audit and Assessment programme which sits within its own Corporate Governance framework. This process ensures that the project remains robust and viable throughout the life of the contract.

On behalf of the board



Mr. N. Crowther  
**Director**

21 September 2018.



# **NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED**

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2018**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *the financial reporting standard applicable in the UK and the Republic of Ireland*.

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 or 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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company to cease operations, or have no realistic alternative but to do so.

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 the financial statements comply with the Companies Act 2006. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

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## Opinion

We have audited the financial statements of NewHospitals (St Helens and Knowsley) Holdings Limited (the 'company') for the year ended 31 March 2018 which comprise the Group Statement of Comprehensive Income, Group Balance Sheet, Company Balance Sheet, Group Statement of Changes in Equity, Company Statement of Change in Equity, Consolidated Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements, including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going Concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## Strategic report and directors' report

The directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED (CONTINUED)**

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

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

## **Responsibilities of directors**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of our audit work and to whom we owe our responsibilities**

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.



**Huw Brown (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
66 Queen Square  
Bristol  
BS1 4BE

21 September 2018

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £'000	2017 £'000
Turnover	3	40,028	36,642
Cost of sales		(33,623)	(30,643)
<b>Gross profit</b>		<b>6,405</b>	<b>5,999</b>
Administrative expenses		(2,194)	(2,105)
<b>Operating profit</b>		<b>4,211</b>	<b>3,894</b>
Interest receivable and similar income	7	18,267	13,781
Interest payable and similar expenses	8	(22,491)	(16,914)
<b>(Loss)/profit before taxation</b>		<b>(13)</b>	<b>761</b>
Tax on (loss)/profit	9	40	(544)
<b>Profit for the financial year</b>		<b>27</b>	<b>217</b>

Profit for the financial year is all attributable to the owners of the parent company.

Total comprehensive income for the year is all attributable to the owners of the parent company.

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.

The notes on pages 15 - 31 form part of these financial statements.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## GROUP BALANCE SHEET

AS AT 31 MARCH 2018

		2018	2017
	Notes	£'000	£'000
<b>Current assets</b>			
Debtors falling due after one year	12	300,384	300,394
Debtors falling due within one year	12	7,221	7,037
Cash at bank and in hand		20,224	19,890
		<u>327,829</u>	<u>327,321</u>
<b>Creditors: amounts falling due within one year</b>	14	(21,168)	(21,483)
<b>Net current assets</b>		306,661	305,838
<b>Creditors: amounts falling due after more than one year</b>			
Loans and overdrafts	13	(340,699)	(339,618)
Other creditors	15	(2,617)	(2,902)
		<u>(343,316)</u>	<u>(342,520)</u>
<b>Net liabilities</b>		<u>(36,655)</u>	<u>(36,682)</u>
<b>Capital and reserves</b>			
Called up share capital	17	60	60
Profit and loss reserves		(36,715)	(36,742)
<b>Total equity</b>		<u>(36,655)</u>	<u>(36,682)</u>

The notes on pages 15 - 31 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 21 September 2018 and are signed on its behalf by:



Mr N Crowther  
Director

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

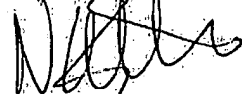
## COMPANY BALANCE SHEET

AS AT 31 MARCH 2018

		2018		2017	
	Notes	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Investments			60		60
<b>Current assets</b>					
Debtors	12	156		146	
Creditors: amounts falling due within one year	14	(156)		(146)	
Net current assets					
<b>Total assets less current liabilities</b>			60		60
<b>Capital and reserves</b>					
Called up share capital	17		60		60

The notes on pages 15 - 31 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 21 September 2018 and were signed on its behalf by:



Mr N Crowther  
Director

Company Registration No. 05603625

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## GROUP STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 MARCH 2018**

	Share capital £'000	Profit and loss reserves £'000	Total £'000
<b>Balance at 1 April 2016</b>	60	(36,959)	(36,899)
Total comprehensive income for the year	-	217	217
<b>Balance at 31 March 2017</b>	60	(36,742)	(36,682)
<b>Balance at 1 April 2017</b>	60	(36,742)	(36,682)
Total comprehensive income for the year	-	27	27
<b>Balance at 31 March 2018</b>	60	(36,715)	(36,655)

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	Notes	Share capital £'000	Profit and loss reserves £'000	Total £'000
Balance at 1 April 2016		60	-	60
Total comprehensive income for the year		-	-	-
Balance at 31 March 2017		60	-	60
Balance at 1 April 2017		60	-	60
Total comprehensive income for the year		-	-	-
Balance at 31 March 2018		60	-	60



# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	19	3,895	7,612
Income taxes paid		(21)	(36)
<b>Net cash inflow from operating activities</b>		<u>3,874</u>	<u>7,576</u>
<b>Investing activities</b>			
Interest received		<u>18,272</u>	<u>13,852</u>
<b>Net cash generated from investing activities</b>		18,272	13,852
<b>Financing activities</b>			
Interest paid		(9,822)	(10,093)
Repayment of borrowings		(637)	(687)
Repayment of bank loans		<u>(11,353)</u>	<u>(12,032)</u>
<b>Net cash used in financing activities</b>		<u>(21,812)</u>	<u>(22,812)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		334	(1,384)
Cash and cash equivalents at beginning of year		<u>19,890</u>	<u>21,274</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>20,224</u></u>	<u><u>19,890</u></u>

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

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### 1 Accounting policies

#### Company information

NewHospitals (St Helens and Knowsley) Holdings Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is 8 White Oak Square, London Road, Swanley, Kent, BR8 7AG.

The group consists of NewHospitals (St Helens and Knowsley) Holdings Limited and all of its subsidiaries (see note 11).

#### 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 presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statement.

In these financial statement, the parent company itself is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Disclosure in respect of financial instruments;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As permitted by section 408 Companies Act 2006, the Company has not presented its own profit and loss account and related notes. The Company's profit for the year was £nil (2017: £nil).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The consolidated financial statements incorporate those of NewHospitals (St Helens and Knowsley) Holdings Limited and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 31 March 2018. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 1 Accounting policies

(Continued)

#### 1.2 Going concern

The directors have reviewed a cash flow forecast covering the remainder of the group's contract period and taking into account reasonable possible risks in operations and the fact the obligations of the group's sole customer are underwritten by the Secretary of State for Health, believe that the group will be able to settle its liabilities as they fall due for the foreseeable future and therefore it is appropriate to prepare these financial statements on the going concern basis. The directors do not believe that the Group's net liabilities position of £36,655,000 (2017: £36,682,000) impacts on the going concern assumption, as the company is forecast to be in a net asset position by 2037, ten years prior to the end of the Project Agreement.

The Directors have also examined the current status of the Company's principal contracts and likely developments in the foreseeable future. Having reviewed the forecast cash flows and financial facilities available to the Company, the Directors consider the Company 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.

#### 1.3 Turnover

Turnover in relation to service revenue is recognised in accordance with the service concession contract accounting policy. Turnover in relation to pass-through revenue, including medical equipment income, is recognised when the services are performed.

#### 1.4 Fixed asset investments

Equity investments are measured at fair value through profit or loss, except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available.

In the parent company financial statements, investments in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

A subsidiary is an entity controlled by the group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

#### 1.5 Financial instruments

The Group has elected to apply the provisions of Section 11 "Basic Financial Instruments" of FRS102 to all of its financial instruments. Financial instruments are recognised in the Company's statement of financial position 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.

##### **Basic financial assets**

Basic financial assets, which include trade and other debtors and cash and bank balances, 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.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 1 Accounting policies

(Continued)

#### *Trade and other debtors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and short term deposits.

#### *Restricted cash*

The company is obligated to keep a separate cash reserves in respect of requirements in the company's funding agreements. This restricted cash balance, which is shown on the balance sheet within the "cash at bank and in hand" balance, amounts to £17,941,000 at the year end (2017: £17,763,000).

#### *Other financial assets*

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

#### *Impairment of financial assets*

Financial assets, other than those held at fair value through profit and 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 group 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 group after deducting all of its liabilities.

Basic financial liabilities, including trade and other creditors, Bonds and subordinated 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.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 1 Accounting policies

(Continued)

#### *Trade and other creditors*

Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### *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.

#### *Other financial liabilities*

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value through profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

#### *Derecognition of financial liabilities*

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

### 1.6 Equity instruments

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

### 1.7 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 profit and loss account 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 group'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 profit and loss account, 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 if, and only if, there is 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.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 1 Accounting policies

(Continued)

#### 1.8 Service concession accounting

The group is an operator of a Public Finance Initiative ("PFI") contract. The underlying asset is not deemed to be an asset of the group under FRS102 section 34c, because the risks and rewards of ownership as set out in that standard are deemed to lie principally with the Authority.

During the construction phase of the project, all attributable expenditure was included in amounts recoverable on contracts and turnover. Upon becoming operational, the costs were transferred to the finance debtor. During the operational phase income is allocated between interest receivable and the finance debtor using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover in accordance with FRS102 section 23. The group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on a contractual basis and the revenue in respect of these services is recognised when these services are performed.

#### 1.9 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.

#### 1.10 Deferred income

Revenue received relating to the hospitals during the construction phase was deferred until the year ended 31 March 2010. During the year to 31 March 2011 this income 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.

### 2 Judgements and 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.

#### Critical judgements

The following judgments (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

#### Service concession accounting

Accounting for the service concession contract and finance debtor requires an estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecasted results of the service concession contract. Lifecycle costs are a significant proportion of future expenditure. Given the length of the group's service concession contract, the forecast of lifecycle costs is subject to significant estimation uncertainty and changes in the amount and timing of expenditure could have material impacts. As a result, there is a significant level of judgement applied in estimating future lifecycle costs. To reduce the risk of misstatement, future estimates of lifecycle expenditure are prepared by maintenance experts on an asset by asset basis and periodic technical evaluations of the physical condition of the facilities are undertaken. In addition, comparisons of actual expenditure are compared to the lifecycle forecast.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 3 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2018 £'000	2017 £'000
<b>Turnover</b>		
Operating income	25,618	23,686
Medical equipment supplies income	3,452	3,368
Pass through income	10,958	9,588
	<u>40,028</u>	<u>36,642</u>

### 4 Auditor's remuneration

	2018 £'000	2017 £'000
Fees payable to the company's auditor and its associates:		
<b>For audit services</b>		
Audit of the financial statements of the group and company	1	1
Audit of the company's subsidiaries	19	17
	<u>20</u>	<u>18</u>

### 5 Employees

The company had no employees during the year (2017: nil).

### 6 Directors' remuneration

	2018 £'000	2017 £'000
Sums paid to third parties for directors' services	<u>135</u>	<u>132</u>

The directors fees were paid to Innisfree Limited. During the year, the company also paid £28,000 (2017: £28,000) to HCP Social Infrastructure (UK) Limited for M Davies' non-executive chairman and Audit Committee chairman services.

### 7 Interest receivable and similar income

	2018 £'000	2017 £'000
<b>Interest income</b>		
Interest on bank deposits	138	188
Interest on Finance Debtor	18,129	13,593
	<u>18,267</u>	<u>13,781</u>

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 8 Interest payable and similar expenses

	2018 £'000	2017 £'000
<b>Interest on financial liabilities measured at amortised cost:</b>		
Interest on bank loans	8,854	6,053
Interest on bonds	9,602	6,526
Interest on subordinated loans	3,374	3,657
Amortisation of finance arrangement costs	661	678
	<u>22,491</u>	<u>16,914</u>

### 9 Taxation

	2018 £'000	2017 £'000
<b>Current tax</b>		
UK corporation tax on profits for the current period	(63)	38
<b>Deferred tax</b>		
Other adjustments	23	506
Total tax charge	<u>(40)</u>	<u>544</u>

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18 % (effective 1 April 2020) were substantively enacted on 26 October 2015. In addition to this, a further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

	2018 £'000	2017 £'000
(Loss)/profit before taxation	<u>(63)</u>	<u>13</u>
Expected tax charge based on a corporation tax rate of 19% (2017: 20%)	12	(3)
Effect of change in tax rate	<u>(52)</u>	<u>547</u>
	<u>(40)</u>	<u>544</u>

The total tax charge as stated above has been recorded in the group Statement of Comprehensive Income.



# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 10 Financial instruments

	2018 £'000	2017 £'000
<b>Carrying amount of financial assets</b>		
Debt instruments measured at amortised cost	355,202	354,523
<b>Carrying amount of financial liabilities</b>		
Measured at amortised cost	355,152	354,473

The Group's financial instruments comprise index-linked bonds, an index-linked bank loan, a fixed rate subordinated loan, and, a fixed rate intercompany debtor and an index-linked intercompany debtor, both due from NewHospitals (St Helens and Knowsley) Limited. NewHospitals (St Helens and Knowsley) Limited services these loans with cash flows generated under the Project Agreement.

The financial structure has been established to ensure that the cash flows from NewHospitals (St Helens and Knowsley) Limited's PFI hospital concession assets are sufficient to meet all interest and principal payments due on the index-linked and fixed rate debt. During the year, NewHospitals (St Helens and Knowsley) Limited met its debt service obligations to the Company. Based upon the projected future cashflows of NewHospitals (St Helens and Knowsley) Limited, the directors consider that it will be able to meet its obligations to the Company as they fall due for the foreseeable future.

Floating Rate	2018 £'000	2018 £'000	Group 2018 £'000	2017 £'000	2017 £'000	Group 2017 £'000
	Bank loan	Bond	Loan to NewHospitals (St Helens & Knowsley) Limited	Bank loan	Bond	Loan to NewHospitals (St Helens & Knowsley) Limited
Within 1 year	(7,062)	(3,571)	10,633	(6,702)	(4,603)	11,305
1-2 years	(8,679)	(2,843)	11,522	(8,127)	(4,109)	12,236
2-3 years	(9,050)	(2,911)	11,961	(8,474)	(2,776)	11,250
3-4 years	(9,437)	(2,799)	12,236	(8,836)	(2,842)	11,678
4-5 years	(9,840)	(3,010)	12,850	(9,214)	(2,733)	11,947
Over 5 years	(121,707)	(165,187)	286,894	(125,235)	(161,501)	286,736
Unamortised transaction cost	4,626	7,855	(12,481)	4,980	8,138	(13,118)
	<u>(161,149)</u>	<u>(172,466)</u>	<u>333,615</u>	<u>(161,608)</u>	<u>(170,426)</u>	<u>332,034</u>

The floating rate financial liabilities comprise a 1.7774% Index-linked Guaranteed Secured Bond and a 1.743% Index-Linked Guaranteed Secured European Investment Bank Loan. The floating rate financial asset comprises an amount due from NewHospitals (St Helens and Knowsley) Limited. The return on the amount due from NewHospitals (St Helens and Knowsley) Limited exactly matches the interest and indexation payable on the Group's bond and bank loan. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The disclosures below set out the carrying amount, by maturity, of the Group's fixed interest rate financial instruments.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 10 Financial instruments

(Continued)

Fixed rate	2018 £'000	2018 £'000	Group 2018 £'000	2017 £'000	2017 £'000	Group 2017 £'000
	Subordinated loan stock	Loan to NewHospitals (St Helens & Knowsley) Limited	Total	Subordinated loan stock	Loan to NewHospitals (St Helens & Knowsley) Limited	Total
Over 5 years	(19,590)	19,590	-	(20,228)	20,228	-
Unamortised transaction cost	670	(670)	-	693	(693)	-
	<u>(18,920)</u>	<u>18,920</u>	<u>-</u>	<u>(19,535)</u>	<u>19,535</u>	<u>-</u>

The fixed rate financial liability comprises an 11.96% unsecured subordinated loan. The fixed rate financial asset comprises an amount due from NewHospitals (St Helens and Knowsley) Limited. The return on the amount due from NewHospitals (St Helens and Knowsley) Limited exactly matches the interest payable on the Group's subordinated loan stock. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The Group also has an amount due from NewHospitals (St Helens and Knowsley) Limited of £50,000 which is not included in the above table as it is non-interest bearing and not subject to interest rate risk.

A sensitivity analysis showing the effects of reasonably possible changes in the UK RPI on the Group's results is not disclosed as the financing costs of the bond and bank loan are matched exactly by the return on the amount due from NewHospitals (St Helens and Knowsley) Limited, whatever the prevailing rate of the UK RPI. Therefore the Group's results are unaffected by any changes in the UK RPI.

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, these 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 onloans due from NewHospitals (St Helens and Knowsley) Limited are also index-linked through movements in the UK RPI. NewHospitals (St Helens and Knowsley) Limited can service these onloans as the majority of the cash flows generated from its PFI hospital concession assets increase in line with movements in the UK RPI.

#### Interest rate risk profile of financial assets and liabilities

The disclosures below set out the carrying amount, by maturity, of the Group's floating interest rate financial instruments that are exposed to interest rate risk.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 10 Financial instruments

(Continued)

#### Cash flow risk

The Group is exposed to cash flow risk in relation to variability in long term cash inflows due under the onloan agreements with NewHospitals (St Helens and Knowsley) Limited. This is mitigated as the cash inflows due under the onloan agreements with NewHospitals (St Helens and Knowsley) Limited exactly match the cash outflows required to service the Group's financial liabilities. NewHospitals (St Helens and Knowsley) Limited's 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 credit risk is concentrated as its cash inflows due under the onloan agreements are received from NewHospitals (St Helens and Knowsley) Limited. This concentration of risk is mitigated as the cash flows generated from the PFI hospital concession assets held by NewHospitals (St Helens and Knowsley) Limited are secured under contract with the Trust, whose obligations and liabilities under the Project Agreement are effectively underwritten by the UK Government.

#### Maximum exposure to credit risk

The maximum credit risk exposure relating to financial assets is represented by their carrying value at the balance sheet date. The Group's risk management policies and contractual protections in place for monitoring and preserving the credit quality of the financial assets detailed above are disclosed in the directors' report and in this note 8 to the financial statements. None of the financial assets are past due or subject to any impairment as at the balance sheet date.

#### Liquidity risk

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 inflows due under the onloan agreements from NewHospitals (St Helens and Knowsley) Limited. NewHospitals (St Helens and Knowsley) Limited's liquidity risk is principally managed through financing by means of the onloan agreements which are tailored to match the expected cash flows arising from its PFI hospital concession assets. In addition NewHospitals (St Helens and Knowsley) Limited maintains a debt service reserve bank account to provide short term liquidity against future debt service requirements under the onloan agreements. The maturity profile of the anticipated undiscounted future cash flows including interest and inflation and based on the earliest date on which the Group can be required to pay its financial liabilities, is as follows:

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 10 Financial instruments

(Continued)

	2018 £'000	2018 £'000	2018 £'000	2017 £'000	2017 £'000	2017 £'000
	Bank loan*	Bond*	Loan to NewHospitals (St Helens & Knowsley) Limited	Bank loan*	Bond*	Loan to NewHospitals (St Helens & Knowsley) Limited
Interest rate	4.24%	4.28%	11.96%	4.24%	4.28%	11.96%
Within 1 year	9,972	6,815	5,669	9,636	7,820	4,283
1-2 years	10,220	5,678	6,076	9,876	6,750	5,708
2-3 years	10,474	5,773	6,127	10,121	5,624	5,723
3-4 years	10,734	5,718	5,949	10,373	5,717	5,756
4-5 years	11,000	5,936	6,393	10,630	5,663	5,676
Over 5 years	204,595	361,228	46,846	213,517	363,625	56,708
	<u>256,995</u>	<u>391,148</u>	<u>77,060</u>	<u>264,153</u>	<u>395,199</u>	<u>83,854</u>

\*After 6 months following each period end date, this assumes a long run average of the future UK RPI of 2.5% per annum. This long term assumed rate, taken together with the fixed interest rate elements of the bond and bank loan as detailed in note 12, gives the assumed long term combined interest rate as disclosed above.

Set out below is a comparison of carrying amounts and fair values of all the Group's financial assets and liabilities:

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
	Book value	Fair value	Book value	Fair value
Bank loan	(161,149)	(319,730)	(161,608)	(315,657)
Bond	(172,466)	(347,784)	(170,427)	(338,350)
Subordinated loan stock	(18,920)	(53,771)	(19,535)	(53,947)
Loans to NewHospitals (St Helens and Knowsley) Limited	<u>352,535</u>	<u>721,285</u>	<u>351,570</u>	<u>707,954</u>

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 11 Subsidiaries

Details of the company's subsidiaries at 31 March 2018 are as follows:

Name of undertaking	Class of shares held	% Held		Profit/(Loss)	Capital and Reserves
		Direct	Indirect	£'000	£'000
NewHospitals (St Helens and Knowsley) Limited	Ordinary	99.9999%	0.0001%	27	(36,705)
NewHospitals (St Helens and Knowsley) Finance plc	Ordinary	100%	0%	-	50
NewHospitals (St Helens and Knowsley) Nominee Limited	Ordinary	100%	0%	-	-

All of the above companies are domiciled and incorporated in England and Wales and have a registered address of 8 White Oak Square, London Road, Swanley, Kent BR8 7AG.

### 12 Debtors

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
<b>Amounts falling due within one year:</b>				
Trade debtors	34	3	-	-
Corporation tax recoverable	33	-	-	-
Finance debtor	6,047	5,858	-	-
Prepayments and accrued income	1,107	1,176	156	146
	<u>7,221</u>	<u>7,037</u>	<u>156</u>	<u>146</u>
<b>Amounts falling due after one year:</b>				
Finance debtor	266,903	272,579	-	-
Accrued service concession income	27,235	21,546	-	-
	<u>294,138</u>	<u>294,125</u>	<u>-</u>	<u>-</u>
Deferred tax asset (note 16)	6,246	6,269	-	-
	<u>300,384</u>	<u>300,394</u>	<u>-</u>	<u>-</u>
<b>Total debtors</b>	<u>307,605</u>	<u>307,431</u>	<u>156</u>	<u>146</u>

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 13 Interest-bearing loans and borrowings

	Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Bank loans and overdrafts	161,149	161,608	-	-
Bonds	172,466	170,427	-	-
Subordinated loans	18,920	19,535	-	-
	<u>352,535</u>	<u>351,570</u>	<u>-</u>	<u>-</u>
Payable within one year	11,836	11,952	-	-
Payable after one year	<u>340,699</u>	<u>339,618</u>	<u>-</u>	<u>-</u>

#### 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 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.

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 principle on the bonds is repayable in installments 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 principle is repayable in installments 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.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 13 Interest-bearing loans and borrowings

(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. On the 30 March 2012 an early redemption payment of £5,000,000 (at par) was made to the Company's shareholders and during the year to 31 March 2016 two further redemptions of principal have been paid to the Company's shareholders, leaving the balance of subordinated loan stock as at the year-end of £20,914,000. 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 in line with the provisions of Clause 3 of the Deed Poll Constituting Unsecured Subordinated Loan Notes for the Company and in accordance with condition 3 (Redemption) of the aforementioned Deed.

### 14 Creditors: amounts falling due within one year

		Group		Company	
		2018	2017	2018	2017
		£'000	£'000	£'000	£'000
Loans and overdrafts	13	11,836	11,952	-	-
Corporation tax payable		-	51	-	-
Other taxation and social security		762	694	-	-
Trade creditors		3,211	3,211	-	-
Accruals and deferred income		5,359	5,575	156	146
		<u>21,168</u>	<u>21,483</u>	<u>156</u>	<u>146</u>

All financial liabilities are held at amortised cost.

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

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

		Group 2018 £'000	2017 £'000	Company 2018 £'000	2017 £'000
Loans and overdrafts	13	340,699	339,618	-	-
Accruals and deferred income		2,617	2,902	-	-
		<u>343,316</u>	<u>342,520</u>	<u>-</u>	<u>-</u>

All financial liabilities are held at amortised cost.

### 16 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 £'000	Group 2017 £'000	2018 £'000	Company 2017 £'000
<b>Deferred Tax Asset</b>				
Tax losses	6,246	6,269	-	-
	<u>6,246</u>	<u>6,269</u>	<u>-</u>	<u>-</u>
			<b>Group 2018 £'000</b>	<b>Company 2018 £'000</b>
Asset at 1 April 2017			6,269	-
Effect of change in tax rate			(23)	-
			<u>6,246</u>	<u>-</u>
Asset at 31 March 2018				



# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 17 Share capital

	Group and Company	
	2018	2017
	£'000	£'000
<b>Ordinary share capital</b>		
<b>Alloted, called up and fully paid</b>		
60,000 of £1 each	60	60

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

### 18 Related party transactions

On 12 August 2013 Innisfree Secondary Fund 2 purchased a 19.9% equity interest in NewHospitals (St Helens & Knowsley) Holdings Limited and a 19.9% Subordinated Debt Loan Stock interest in NewHospitals (St Helens & Knowsley) Finance Plc from Taylor Woodrow Construction Limited (T/A Vinci Construction (UK) Limited). The NewHospitals (St Helens & Knowsley) Group of Companies is 100% owned by Innisfree PFI Secondary Fund (25.6%) and Innisfree Secondary Fund 2 LP (74.4%).

On 26 May 2009 Innisfree PFI Fund III LP and Taylor Woodrow Construction, the shareholders of the Company's immediate parent company at that date, 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. This subordinated loan stock totalled £29,490,000 and was fully subscribed as at 31 March 2011.

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 New Hospitals (St Helens and Knowsley) Holdings Limited. During the year HCP Social Infrastructure (UK) Limited and its subsidiary, HCP Management Services Limited provided management and other associated services to the Group, amounting to £742,000 (2017: £713,000). At 31 March 2018, there was an outstanding balance of £6,000 (2017: £3,000).

Innisfree Limited acts as fund manager for Innisfree PFI Secondary Fund 2 LP, the shareholder of NewHospitals (St Helens and Knowsley) Holdings Limited. In the year the Company's subsidiary (NewHospitals (St Helens and Knowsley) Limited) paid directors fees plus expenses to Innisfree Limited of £140,000 (2017: £159,000). There was no outstanding balance at 31 March 2018 (2017: £nil).

# NEWHOSPITALS (ST HELENS AND KNOWSLEY) HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

### 19 Cash generated from operations

	2018 £'000	2017 £'000
Profit/(Loss) for the year	27	217
Adjustments for:		
Income tax expense recognised in profit or loss	(40)	544
Finance costs recognised in profit or loss	22,777	16,914
Investment income recognised in profit or loss	(18,267)	(13,593)
Movements in working capital:		
Decrease/(increase) in debtors	(168)	4,045
Increase in creditors	(434)	(515)
<b>Cash generated from operations</b>	<b>3,895</b>	<b>7,612</b>

### 20 Controlling party

As at 31 March 2018 the Company was owned 74.4% by Innisfree PFI Secondary Fund 2 LP and 25.6% by Innisfree PFI Secondary Fund (through its nominee Innisfree Nominee Limited). All of these entities are registered in England and Wales. In the directors' opinion, the Company's ultimate parent undertaking and controlling party was Innisfree PFI Secondary Fund 2 LP, a limited partnership registered in England and Wales. The registered office of both Innisfree PFI Secondary Fund 2 LP and Innisfree PFI Secondary Fund is First Floor, Boundary House, 91-93 Charterhouse Street, London, EC1M 6HR.