

Company Registration No. 03981392

WH Smith Hospitals Limited

Annual Report and Financial Statements

31 August 2017

WEDNESDAY



A6YA186H

A28

24/01/2018

COMPANIES HOUSE

#262

WH Smith Hospitals Limited

Annual report and financial statements 31 August 2017

Contents	Page
Officers and professional advisers	1
Directors' report	2
<hr/>	
Strategic report	4
Independent auditors' report	7
Income statement	9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Notes to the financial statements	13

WH Smith Hospitals Limited

Annual report and financial statements 31 August 2017

Officers and professional advisers

Directors

S Clarke

R J Moorhead

I Houghton

Company Secretary

I Houghton

Registered Office

Greenbridge Road
Swindon
Wiltshire
SN3 3RX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
1 Embankment Place,
London
WC2N 6RH
United Kingdom

WH Smith Hospitals Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 August 2017.

Directors

The directors of the Company who were in office during the year and up to the date of signing are shown on page 1.

Directors' indemnities

The Company has qualifying third party indemnity provisions for the benefit of its directors which remained in force throughout the year and at the date of this report.

Results and dividends

The audited financial statements for the year ended 31 August 2017 are set out on pages 9 to 26. The financial statements have been prepared under Financial Reporting Standard 101 ("FRS 101").

As shown in the Income statement on page 9, the profit for the financial year was £7,111,455 (2016: £5,868,472).

During the year the Company paid dividends of £5,000,000 to its immediate parent company, WH Smith Hospitals Holdings Limited (2016: £10,000,000). The Directors do not recommend the payment of a final dividend.

Future developments

Details on the future developments of the Company are given in the Strategic report on page 4.

Going concern and financial risk management

Disclosures in respect of going concern and financial risk management are given in the Strategic report on pages 5 and 6.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WH Smith Hospitals Limited

Directors' report (continued)

Equal Opportunities

The directors believe in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form. The Company gives full and fair consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise. Should an employee become disabled when working for the Company, we will endeavour to adapt the work environment and provide retraining if necessary so that they may continue their employment and maximise their potential.

Employee involvement

Employee engagement is supported through clear communication of the Group's performance and objectives. This information is cascaded through team briefings, large employee events, intranet sites and regular e-newsletters. This approach and the Group's open management style encourages employees to contribute to business development. The Company, when appropriate, consults directly with employees and/or employee representatives so that their views can be taken into account when decisions are made which are likely to affect them.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

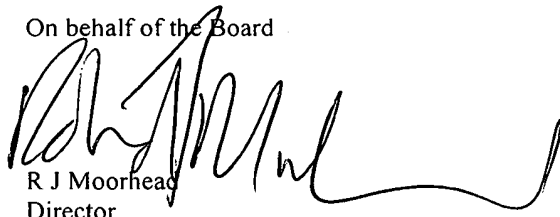
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and;
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, will continue in office as auditors to the Company.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

This report was approved by the Board on 18 January 2018.

On behalf of the Board



R J Moorhead
Director

WH Smith Hospitals Limited

Strategic report

The Strategic report is prepared in accordance with s414(c) of the Companies Act 2006.

Business review, principal activities and key performance indicators

The principal activity of the Company is the operation of convenience stores and coffee shops in hospitals.

The Company produced a satisfactory trading performance resulting in a profit for the financial year to 31 August 2017 of £7,111,455 (2016: £5,868,472). The Company is expected to continue to trade profitably in the foreseeable future.

As shown in the Company's Income statement on page 9, the Company's revenue for the year to 31 August 2017 has increased by 3 per cent to £60,122,273 (2016: £58,468,899) compared to the prior year due to improved performance across digital, coffee and drink sales.

The balance sheet on page 11 of the financial statements shows that the Company's net asset position is £10,254,280 (2016: £7,987,950), an increase of £2,266,330. This reflects the profit generation of the Company, the dividend payment in the year and the IAS 19 valuation of the pension scheme. Details of the amounts owed by and to other group undertakings are shown in Notes 11 and 12 on pages 22 and 23.

The key measures the Company uses to monitor performance are:

	2017	2016
Sales growth	2.83%	7.57%
Gross profit margin	52.8%	50.5%
Stock turn	3.48 weeks	2.96 weeks

Gross profit and sales are as presented in the financial statements. Stock turn reflects the number of weeks taken to turn the stock based on closing stock and cost of sales.

Principal risks and uncertainties

As the Company trades exclusively within hospitals, its performance is linked to staff and patient numbers. As a retailer, the Company is sensitive to the economic climate and can be affected by the general condition of the UK retail market. The risk from lower patient and staff numbers in our stores and from an adverse economic climate are mitigated by improving product range, margins and cost control together with investment in additional branches.

A further risk is the competitive nature of tendering for retail opportunities within the NHS (National Health Service), however by carefully tailoring the offering to the requirements of each opportunity this risk may be reduced.

The WH Smith PLC group manages its operations, including WH Smith Hospitals Limited on a divisional basis and has identified the following factors as major potential risks to the successful performance of the business of the Group. Many of these factors are applicable to WH Smith Hospitals Limited.

- Economic, political, competitive and market risks
- Brand and reputation
- Key suppliers and supply chain management
- Store portfolio
- Business interruption
- Reliance on key personnel
- International expansion
- Treasury, financial and credit risk management
- Cyber risk and data security

Group risks including risk management are discussed in further detail within the Risks and Uncertainties sections of Strategic report in the Group's Annual Report and Accounts 2017, which does not form part of this report, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

WH Smith Hospitals Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

All principal business functions compile risk registers and summary risk maps to identify key risks, assess them in terms of their likelihood and potential impact, and determine appropriate control strategies to mitigate the impact of these risks taking account of risk appetite. The ongoing monitoring of this framework is overseen by the respective Business Risk Committees and the Group Audit Committee. During the year, the Group Board reviewed the effectiveness of the Group's risk management and internal controls systems. This review included the discussion and review of the risk registers and the internal controls across all business functions, as part of an annual exercise facilitated by the Internal Audit team. During the year, the Group Board also received presentations from management on specific risk areas such as cyber risk, international expansion, and the ongoing risk monitoring processes and appropriate mitigating controls.

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include the effects of interest rate risk. The Company is subject to the WH Smith Group policies to ensure proper monitoring and control of financial risk. The policies are set by the Group and are implemented by the Company's finance department.

The Group's treasury function seeks to reduce exposures to interest rate and other financial risks, and to ensure liquidity is available to meet the foreseeable needs of the Group and to invest cash assets safely and profitably. The Group does not engage in speculative trading in financial instruments and transacts only in relation to underlying business requirements. The Group's treasury policies and procedures are periodically reviewed and approved by the Group's Audit Committee and are subject to regular Group Internal Audit review. Further information on the Group's financial risk management policies and procedures are given in the WH Smith PLC Annual Report and Accounts 2017, which does not form part of this report.

Liquidity risk

The Company manages its exposure to liquidity risk by reviewing the cash resources required to meet its business objectives through both short and long-term cash flow forecasts.

The Group has a policy of pooling cash flows in order to optimise the return on surplus cash and also to utilise cash within the Group to reduce the costs of external short-term funding.

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Company in relation to lending and other financial activities. The Company's principal financial assets are trade and other receivables and bank balances and cash.

The Company has credit risk attributable to its trade and other receivables including a number of sale or return contracts with suppliers. The amounts included in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. The Company has low retail credit risk due to the transactions being principally of a high volume, low value and short maturity.

The carrying amount of financial assets recorded in the financial statements represents the Company's maximum exposure to credit risk. The Company does not hold collateral over any of these financial assets.

Interest rate risk

The Company is exposed to cash flow interest rate risk on floating rate intercompany loans and overdrafts.

WH Smith Hospitals Limited

Strategic report (continued)

Health, safety and environment

In the field of health and safety the Board is committed to maintaining high standards for its employees, customers, contractors and anyone affected by its business activities. Within the Group, a Health and Safety Committee represents the interests of employees. The Group, which benchmarks its performance against other companies, is represented on several national bodies concerned with health and safety.

The Group Risk Management Department operates within a broad framework covering issues such as health and safety, environmental impacts, insurance, disability issues and other risk areas. The department provides advice, guidance and support to managers within the Group ensuring that high standards are maintained.

The Group continues to engage with suppliers to promote and improve labour standards and better environmental management. As a member of the Ethical Trading Initiative (ETI), we continue to work with other members to share best practice and develop solutions to challenges we all face.

Further information on the Health, Safety and Environment is contained within the Strategic report of the Group's Annual Report and Accounts 2017.

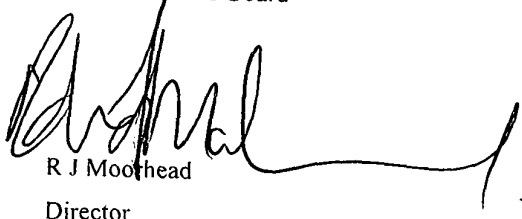
Going concern and future developments

The Company's business activities, together with factors that are likely to affect its future developments, performance and position are detailed within this Strategic report. The financial position of the Company and its liquidity position are described in the financial statements and notes. The WH Smith PLC Annual Report and Accounts 2017 includes further information regarding the Group's financial position, cash flows and borrowing facilities, as well as its policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Strategic report of the WH Smith PLC Annual Report and Accounts 2017 also highlights the main risks and uncertainties facing the Group, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

The directors report that they have reviewed current performance and forecasts, combined with expenditure commitments, including capital expenditure and borrowing facilities. After making enquiries the directors have a reasonable expectation that the Company has adequate resources to continue its current operations, including contractual and commercial commitments for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

This report was approved by the Board on 18 January 2018.

On behalf of the Board



R J Moorhead
Director

Independent auditors' report to the members of WH Smith Hospitals Limited

Report on the audit of the financial statements

Opinion

In our opinion, WH Smith Hospitals Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 August 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 August 2017; the Income statement, the Statement of comprehensive income; ~~the Statement of changes in equity for the year then ended~~; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of WH Smith Hospitals Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 August 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors 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.

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18 January 2018

WH Smith Hospitals Limited

Income statement For the year ended 31 August 2017

	Note	2017 £	2016 £
Revenue	3	60,122,273	58,468,899
Cost of sales		(28,382,584)	(28,914,176)
Gross profit		<u>31,739,689</u>	<u>29,554,723</u>
Distribution costs		(22,701,195)	(22,090,684)
Operating profit	6	<u>9,038,494</u>	<u>7,464,039</u>
Interest payable and similar charges	7	(93,241)	(58,038)
Profit on ordinary activities before taxation		<u>8,945,253</u>	<u>7,406,001</u>
Income tax expense on profit on ordinary activities	8	(1,833,798)	(1,537,529)
Profit for the financial year		<u><u>7,111,455</u></u>	<u><u>5,868,472</u></u>

All activities are derived from continuing operations.

WH Smith Hospitals Limited

Statement of comprehensive income For the year ended 31 August 2017

	Note	2017 £	2016 £
Profit for the financial year		7,111,455	5,868,472
Other comprehensive income / (expense): Items that may be reclassified subsequently to the income statement			
Actuarial gain / (loss) on pension scheme	13	218,000	(1,541,000)
Current tax attributable to pension scheme liabilities	8	10,965	14,600
Deferred tax attributable to pension scheme liabilities	8	(74,090)	293,600
Other comprehensive income / (expense) for the year, net of tax		154,875	(1,232,800)
Total comprehensive income for the year		7,266,330	4,635,672

WH Smith Hospitals Limited

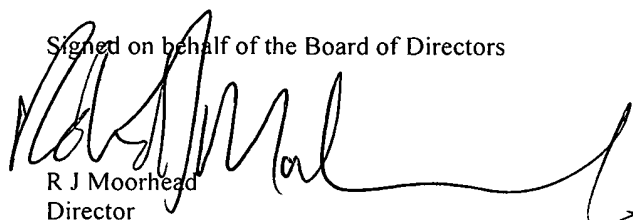
Balance sheet As at 31 August 2017

	Note	2017 £	2016 £
Non-current assets			
Property, plant and equipment	9	7,403,774	7,375,904
Intangible assets	10	71,685	115,055
Deferred tax assets	8	576,602	632,315
		<u>8,052,061</u>	<u>8,123,274</u>
Current assets			
Inventory		1,899,370	1,647,011
Trade and other receivables: amounts falling due within one year	11	27,738,828	20,337,668
Trade and other receivables: amounts falling due after more than one year	11	136,523	107,577
Cash and cash equivalents		1,004,715	583,211
		<u>30,779,436</u>	<u>22,675,467</u>
Current liabilities			
Trade and other payables: amounts falling due within one year	12	(26,648,217)	(20,607,791)
Net current assets		<u>4,131,219</u>	<u>2,067,676</u>
Total assets less current liabilities		<u>12,183,280</u>	<u>10,190,950</u>
Non-current liabilities			
Retirement benefit obligations	13	(1,929,000)	(2,203,000)
Net assets		<u>10,254,280</u>	<u>7,987,950</u>
Equity			
Ordinary shares	15	1,000,000	1,000,000
Retained earnings		9,254,280	6,987,950
Total shareholders' funds		<u>10,254,280</u>	<u>7,987,950</u>

The notes on pages 13 to 26 are an integral part of these financial statements.

These financial statements of WH Smith Hospitals Limited, registered number 03981392, on pages 9 to 26, were approved by the Board of Directors and authorised for issue on 18 January 2018.

Signed on behalf of the Board of Directors



R J Moorhead
Director

WH Smith Hospitals Limited

Statement of changes in equity Year ended 31 August 2017

	Called up equity share capital £	Retained earnings £	Total shareholders' funds £
Balance as at 1 September 2015	1,000,000	12,352,278	13,352,278
Profit for the financial year		5,868,472	5,868,472
Other comprehensive expense for the year			
Actuarial losses on defined benefit plan	-	(1,541,000)	(1,541,000)
Tax in relation to actuarial gains and losses		308,200	308,200
Total comprehensive income for the year	-	4,635,672	4,635,672
Dividends (Note 14)	-	(10,000,000)	(10,000,000)
Balance as at 31 August 2016	1,000,000	6,987,950	7,987,950
Balance as at 1 September 2016	1,000,000	6,987,950	7,987,950
Profit for the financial year	-	7,111,455	7,111,455
Other comprehensive income for the year			
Actuarial gains on defined benefit plan	-	218,000	218,000
Tax in relation to actuarial gains		(63,125)	(63,125)
Total comprehensive income for the year	-	7,266,330	7,266,330
Dividends (Note 14)	-	(5,000,000)	(5,000,000)
Balance as at 31 August 2017	1,000,000	9,254,280	10,254,280

WH Smith Hospitals Limited

Notes to the financial statements Year ended 31 August 2017

1. Accounting policies

A summary of the principal accounting policies is set out below. All accounting policies have been applied consistently in the current year and the prior year.

General information

WH Smith Hospitals Limited is a private company limited by shares and is incorporated and domiciled in the UK.

Accounting convention

The financial statements of WH Smith Hospitals Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

The financial statements are prepared under the historical cost basis as modified by the revaluation of certain financial instruments and are in compliance with the Companies Act 2006 as applicable to companies applying FRS 101 and applicable United Kingdom law and accounting standards.

All accounting policies have been applied consistently in the current year and the prior year, except as noted below and under "new standards adopted in the year."

Basis of preparation

The financial statements are for the year ended 31 August 2017. The prior year financial statements are for the year ended 31 August 2016.

The financial statements have been prepared on the going concern basis as explained in the Strategic report on page 6.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- a) IFRS 7, 'Financial Instruments: Disclosures';
- b) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - a. Paragraph 79(a)(iv) of IAS 1;
 - b. Paragraph 73(e) of IAS 16 Property, plant and equipment;
- c) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- d) IAS 7, 'Statement of cash flows';
- e) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- f) The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Where relevant, equivalent disclosures have been given in the group financial statements of WH Smith PLC. The group financial statements of WH Smith PLC are available to the public and can be obtained as set out in Note 18.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

1. Accounting policies (continued)

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

New standards adopted in the year

The Company has adopted the following standards and interpretations which became mandatory during the current financial year. These changes have had no material impact on the Company's financial statements:

- Amendment to IAS 1 Disclosure Initiative
- Annual improvements 2012–2014

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services to customers.

Revenue is recognised when the significant risks and rewards of the goods or services provided have transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue excludes discounts, estimated returns, VAT and other sales-related taxes. Revenue on store sales of goods is recognised when goods are sold to the customer.

Inventory

Inventory comprises goods for resale and are stated at the lower of cost and net realisable value.

Consignment stocks are not included within stocks held by the Company. Inventories are valued using a weighted average cost method and retail accounting method.

Cost is calculated to include, where applicable, duties, handling, transport and directly attributable costs (including a deduction for applicable supplier income) in bringing the inventories to their present location and condition. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred in selling and distribution.

Provisions are made for obsolescence, markdown and shrinkage.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental costs under operating leases are charged to the income statement over the length of the lease. The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the Company's accounting policy for that class of asset. The capital element of future lease payments is included in creditors. The interest cost is allocated to accounting periods based on the outstanding capital element of the lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

1. Accounting policies (continued)

Taxation

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

a) Current tax

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

b) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 year when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. The carrying values of tangible fixed assets previously revalued have been retained at their book amount. Depreciation is charged so as to write off the costs of assets, other than land, over their estimated useful lives, using the straight-line method, with the annual rates applicable to the principal categories being:

Short-term leasehold – shorter of the lease period and the estimated remaining economic life
Fixtures and equipment – five to ten years

The residual values of property, plant and equipment are reassessed on an annual basis.

At each balance sheet date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash-generating unit or fair value, less costs to sell, if higher. Any impairment in value is charged to the income statement in the year in which it occurs.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

1. Accounting policies (continued)

Intangible assets

Intangible assets are valued at cost and amortised over their useful life unless the asset can be demonstrated to have an indefinite life. The intangible assets relate to tenancy rights and are amortised over the period of the lease. All intangible assets are reviewed for impairment in accordance with IAS 36, Impairment of Assets when there are indications that the carrying value may not be recoverable.

The costs of acquiring and developing software that is not integral to the related hardware is capitalised separately as an intangible asset. These intangibles are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method, and is recorded in Distribution costs. The estimated lives are usually a period of up to five years.

Pension costs

Payments to the Company's defined contribution pension schemes are recognised as an expense in the income statement as they fall due. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The cost of providing benefits for the United News Shops Retirement Benefits Scheme are determined by the Projected Unit Credit method, with actuarial calculations being carried out at the balance sheet date.

Actuarial gains and losses are recognised in full in the year in which they occur. They are recognised outside the Income statement in the Statement of comprehensive income.

The retirement benefit recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of the scheme assets.

Financial instruments

a) Trade receivables

Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is evidence that the asset is impaired.

b) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

c) Financial liabilities and equity

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

d) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value (being proceeds received, net of direct issue costs), and are subsequently measured at amortised cost, using the effective interest rate method recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemptions and direct issue costs are accounted for on an accruals basis and taken to the income statement using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the year in which they arise.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

1. Accounting policies (continued)

Financial instruments (continued)

e) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

f) Equity instruments

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

2. Critical accounting judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Significant items subject to such assumption and estimate include the useful economic life of assets; the measurement and recognition of provisions; the recognition of deferred tax assets; and the liabilities for potential corporation tax. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available.

The most critical accounting policies in determining the financial condition and results of the Company are those requiring the greatest degree of subjective or complex judgement. These relate to valuation of intangible assets, inventory valuation, taxation and retirement benefit obligations.

a) Intangible assets and property, plant and equipment impairment reviews

Property, plant and equipment and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted the recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

b) Inventory valuation

Inventory is carried at the lower of cost and net realisable value which requires the estimation of the eventual sales price of goods to customers in the future. Any difference between the expected and the actual sales price achieved will be accounted for in the year in which the sale is made.

c) Provisions

Provisions have been estimated for taxation. These provisions represent the best estimate of the liability at the time of the balance sheet date, the actual liability being dependent on future events such as economic environment and marketplace demand. Expectations will be revised each year until the actual liability arises, with any difference accounted for in the year in which the revision is made.

d) Retirement benefit obligation

The Company recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirements of FRS 101. The calculations include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, and life expectancy, amongst others. Changes in these assumptions can have a significant effect on the value of the retirement benefit obligation.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

3. Revenue

All of the Company's revenue is from sales of goods and arises in the United Kingdom.

4. Directors' remuneration

The remuneration of S Clarke and R J Moorhead is paid by a fellow Group company and no allocation of their services, as directors of WH Smith Hospitals Limited and other Group companies, is made. S Clarke and R J Moorhead are directors of the parent company and a number of fellow subsidiaries and it is not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, no disclosure in respect of the remuneration of S Clarke and R J Moorhead is made. The remuneration of S Clarke and R J Moorhead is included in the directors' emoluments disclosed in the consolidated financial statements of WH Smith PLC.

I Houghton received no remuneration in respect of his services as a director of the Company during the year (2016: £nil).

5. Employees and staff costs

	2017 £	2016 £
Staff costs		
Wages and salaries	6,277,550	6,247,951
Social security costs	309,328	280,441
Other pension costs	48,151	61,939
	<u>6,635,029</u>	<u>6,590,331</u>
	No.	No.
Monthly average no. of employees (Retailing)	<u>611</u>	<u>616</u>

6. Operating profit

Operating profit is stated after charging:

	2017 £	2016 £
Depreciation of property, plant and equipment	1,534,557	1,587,555
Impairment of property, plant and equipment	113,004	78,607
Amortisation of intangible assets	41,907	53,627
Impairment of intangible assets	1,463	3,384
Cost of inventories recognised as an expense	28,382,584	28,914,176
Write-downs of inventory in the year	164,331	103,367
Operating lease rentals - property	9,246,937	9,111,939
Auditors' fees		
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	<u>6,000</u>	<u>6,000</u>

There are no non-audit fees (2016: £nil). Statutory disclosures in respect of non-audit fees are given in the consolidated financial statements of WH Smith PLC.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

7. Interest payable and similar charges

	2017 £	2016 £
Pension interest	43,000	26,000
Bank loans and overdrafts	50,241	32,038
Interest payable and similar charges	93,241	58,038

8. Tax on profit on ordinary activities

Tax expense included in Income Statement:

	2017 £	2016 £
Current tax:		
Current year charge	1,815,202	1,537,067
Adjustments in respect of prior years	36,973	36,374
Total current tax charge	1,852,175	1,573,441
Deferred tax:		
- current year	(29,317)	(30,874)
- adjustments in respect of prior years	10,940	(5,038)
Tax on profit on ordinary activities	1,833,798	1,537,529

Reconciliation of the total tax charge

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK (2017: 19.58%, 2016: 20.00%). The differences are explained below:

	2017 £	2016 £
Profit on ordinary activities before taxation	8,945,253	7,406,001
Tax on profit on ordinary activities at the UK corporation tax rate of 19.58 % (2016: 20.00%)	1,751,481	1,481,200
Effects of:		
Expenses not deductible for tax purposes	34,403	24,993
Adjustments in respect of prior years	47,914	31,336
Total tax charge	1,833,798	1,537,529

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

8. Tax on profit on ordinary activities (continued)

The following are the major deferred tax assets recognised by the company and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation £	Retirement benefit obligations £	Total £
At 1 September 2016			
Credited to income	191,715	440,600	632,315
Charged to equity	29,317	-	29,317
Adjustments in respect of prior years	-	(74,090)	(74,090)
	(10,940)	-	(10,940)
At 31 August 2017	210,092	366,510	576,602
At 1 September 2015			
Credited to income	155,803	147,000	302,803
Credited to equity	30,874	-	30,874
Adjustments in respect of prior years	-	293,600	293,600
	5,038	-	5,038
At 31 August 2016	191,715	440,600	632,315

The UK corporation tax rate has been 19 per cent with effect from 1 April 2017. The UK corporation tax rate will reduce to 17 per cent from 1st April 2020. The effects of these changes are included in these financial statements.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

9. Property, plant and equipment

	Short-term leasehold property £	Fixtures and equipment £	Total £
Cost			
At 1 September 2016	6,478,420	11,381,182	17,859,602
Additions	754,376	921,055	1,675,431
Internal transfers	-	-	-
Disposals	(147,942)	(1,676,534)	(1,824,476)
At 31 August 2017	7,084,854	10,625,703	17,710,557
Accumulated depreciation and impairment			
At 1 September 2016	2,851,301	7,632,397	10,483,698
Charge for the year	716,826	817,731	1,534,557
Impairment	29,855	83,149	113,004
Disposals	(147,942)	(1,676,534)	(1,824,476)
At 31 August 2017	3,450,040	6,856,743	10,306,783
Net book value			
At 31 August 2017	3,634,814	3,768,960	7,403,774
At 31 August 2016	3,627,119	3,748,785	7,375,904

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

10. Intangible assets

	Tenancy rights £	Software £	Total £
Cost			
At 1 September 2016	105,000	404,273	509,273
Disposals	-	(29,621)	(29,621)
At 31 August 2017	105,000	374,652	479,652
Accumulated amortisation and impairment			
At 1 September 2016	60,375	333,843	394,218
Charge for the year	10,500	31,407	41,907
Impairment	-	1,463	1,463
Disposals	-	(29,621)	(29,621)
At 31 August 2017	70,875	337,092	407,967
Net book value			
At 31 August 2017	34,125	37,560	71,685
At 31 August 2016	44,625	70,430	115,055

Intangible assets relating to tenancy rights are being amortised over the period of the lease. Software assets are being amortised over up to five years. Amortisation is included with Administrative expenses in the Income statement.

11. Trade and other receivables

	2017 £	2016 £
Amounts falling due within one year:		
Trade receivables	127,070	95,543
Amounts owed by group undertakings	27,188,164	19,758,066
Other receivables	32,574	34,458
Prepayments and accrued income	391,020	449,601
	27,738,828	20,337,668
Amounts falling due after one year:		
Prepayments and accrued income	136,523	107,577
	27,875,351	20,445,245

All amounts owed by group undertakings are non-interest bearing and repayable on demand.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

12. Trade and other payables

	2017 £	2016 £
Amounts falling due within one year		
Trade payables	2,107,566	2,090,239
Amounts owed to group undertakings	16,190,194	10,647,669
Bank loans and overdrafts	9,206	24,400
Corporation tax	902,118	753,933
Other payables	5,800,567	5,559,729
Accruals and deferred income	1,638,566	1,531,821
	<u>26,648,217</u>	<u>20,607,791</u>

All amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

13. Retirement benefit obligations

The Company has a stakeholder pension scheme for its employees. The amount charged to the pension costs of the Company in relation to this scheme was £48,151 (2016: £61,939).

On 15 April 2009, the Company became the sponsoring company of the UNS Group defined benefit pension scheme; the defined benefit scheme has no active members at 31 August 2017 and is closed to new entrants. A full actuarial valuation of the Scheme is carried out every three years with interim reviews in the intervening years. The latest full actuarial valuation of the Pension Trust was carried out as at 5 April 2015, using the projected unit credit method. At 5 April 2015 the deficit was £548,000, and the Company has agreed a deficit funding schedule of £99,000 for the following five years with the Trustee of the scheme. The approximate overall duration of the scheme's defined benefit obligation as at 31 August 2017 was 15 years.

The amounts recognised in the balance sheet in relation to the aggregate fair values of the assets in the defined benefit scheme and the aggregate net pension liabilities at 31 August 2017 were:

		2017 £		2016 £
	%		%	
Equities	20.0	1,246,000	16.0	1,027,000
Bonds	33.0	2,081,000	38.0	2,390,000
Gilts	28.0	1,785,000	30.0	1,944,000
Cash	17.0	1,065,000	8.0	531,000
Other	2.0	98,000	8.0	527,000
		<u>6,275,000</u>		<u>6,419,000</u>
Fair value of plan assets		6,275,000		6,419,000
Present value of the obligations		<u>(8,204,000)</u>		<u>(8,622,000)</u>
Deficit recognised in the balance sheet		(1,929,000)		(2,203,000)
Related deferred tax asset (Note 8)		366,510		440,600
		<u>1,562,490</u>		<u>(1,762,400)</u>
Net defined benefit scheme deficit		1,562,490		(1,762,400)

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

13. Retirement benefit obligations (continued)

The amounts recognised in the income statement within interest payable and similar charges were as follows:

	2017 £	2016 £
Current service cost	-	-
Interest cost	(171,000)	(237,000)
Expected return on scheme assets	128,000	211,000
Total charge recognised in the income statement	(43,000)	(26,000)
Actual (loss) / return on plan assets	(65,000)	831,000

Movements in the present value of the defined benefit scheme obligations in the current year were as follows:

	2017 £	2016 £
At start of year	8,622,000	6,396,000
Current service cost	-	-
Interest cost	171,000	237,000
Actuarial (gains) / losses	(411,000)	2,161,000
Benefits paid	(178,000)	(172,000)
At end of year	8,204,000	8,622,000

Movements in the fair value of the defined benefit scheme assets in the year were as follows:

	2017 £	2016 £
At start of year	6,419,000	5,661,000
Interest income	128,000	211,000
Actuarial (losses) / gains	(193,000)	620,000
Contributions from the sponsoring companies	99,000	99,000
Benefits paid	(178,000)	(172,000)
At end of year	6,275,000	6,419,000

The principal long-term assumptions used in the actuarial valuation were:

	2017	2016
Discount rate	2.50%	2.00%
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions payments and deferred pensions	1.90%-3.00%	1.60%-3.00%
RPI inflation assumptions	3.35%	2.95%
CPI inflation assumptions	2.25%	1.85%

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

13. Retirement benefit obligations (continued)

Amounts for the current and previous years are as follows:

	2017 £	2016 £
Defined benefit obligation	(8,204,000)	(8,622,000)
Plan assets	6,275,000	6,419,000
Deficit	<u>(1,929,000)</u>	<u>(2,203,000)</u>

The Company is also in receipt of a guarantee from WH Smith Travel Limited, a fellow Group company, in respect of certain obligations of WH Smith Hospitals Limited in relation to the UNS Group defined benefit pension scheme.

Sensitivity to changes in assumptions is as follows:

Sensitivity information has been derived using scenario analysis from actuarial assumptions as at 31 August 2017, while keeping all other assumptions consistent; in practice changes to some of the assumptions may be correlated

	Effects on liabilities at 31 August 2017
Discount rate + 0.5% pa / - 0.5% pa	- 7% / + 8%
RPI and CPI inflation + 0.5% pa / - 0.5% pa	+ 4% / - 3%
Assumed life expectancy + 1 year	+ 3%

14. Dividends on equity shares

	2017 £	2016 £
Amounts recognised as distributions to equity holders in the year	5,000,000	10,000,000
	<u>5,000,000</u>	<u>10,000,000</u>

Interim dividend for the year ended 31 August 2017 of £5.00 (2016: £10.00) per ordinary share.

15. Share capital

	2017		2016	
	Number of shares	Nominal value £	Number of shares	Nominal value £
Allotted and fully paid				
Ordinary shares of £1 each	1,000,000	1,000,000	1,000,000	1,000,000
	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2017

16. Total commitments under operating leases

Land and buildings

Minimum lease payments under non-cancellable operating leases are payable as follows:	2017 £	2016 £
- Within one year	8,748,630	8,364,476
- Between two and five years	28,881,357	28,250,562
- After five years	49,966,144	45,655,023
	<u>87,596,131</u>	<u>82,270,061</u>

The Company leases various properties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. Contingent rents are payable on certain store leases based on store revenue. For those leases that are turnover-related leases, the annual net lease commitment is calculated using the minimum lease liability. The total future external sublease receipts are £729,164 (2016: £708,507).

At 31 August 2017 the Company had capital commitments contracted for but not provided for of £166,214 (2016: £102,707).

17. Related party transactions

The Company has taken advantage of the exemptions granted by paragraph 8(k) of FRS 101, not to disclose transactions with WH Smith PLC Group companies and interests of the Group who are related parties.

18. Ultimate parent company

The ultimate parent company and controlling party is WH Smith PLC, a company incorporated in Great Britain and registered in England and Wales. WH Smith PLC heads the largest and smallest group of companies of which the Company is a member for which consolidated financial statements are prepared.

The immediate parent company is WH Smith Hospitals Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

Copies of both sets of financial statements are available from:

The Company Secretary
WH Smith PLC
Greenbridge Road
Swindon
Wiltshire
SN3 3RX