

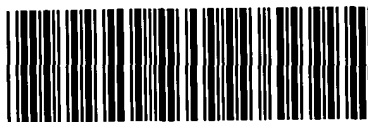
Company Registration No. 03981392

WH Smith Hospitals Limited

Annual Report and Financial Statements

31 August 2022

MONDAY



ABYPY04X

A04

06/03/2023

#239

COMPANIES HOUSE

WH Smith Hospitals Limited

Annual report and financial statements 31 August 2022

Contents	Page
Officers and professional advisers	1
Directors' report	2
Strategic report	4
Independent auditors' report	8
Statement of profit and loss	11
Statement of comprehensive income	12
Balance sheet	13
Statement of changes in equity	14
Notes to the financial statements	15

WH Smith Hospitals Limited

Annual report and financial statements 31 August 2022

Officers and professional advisers

Directors

C Cowling
R J Moorhead
I Houghton

Company Secretary

I Houghton

Registered Office

Wh Smith Plc
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 2022.

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

As shown in the Statement of profit and loss on page 11, the profit for the financial year was £3,494,341 (2021: loss of £3,117,352).

The Company did not pay any dividends in the year (2021: £nil). The Directors do not recommend the payment of a final dividend.

Future developments

Details on events after the balance sheet date and future developments of the Company are given in the Strategic report on pages 4 to 7.

Going concern and financial risk management

Disclosures in respect of financial risk management are given in the Strategic report on pages 5 and 6. Disclosures in respect of going concern are given in the Strategic report on pages 6 and 7 and in Note 1 to the financial statements.

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. Should an employee become disabled when working for the Company, we will endeavour to adapt the work environment and provide retraining if appropriate so that they may continue their employment and maximise their potential. Training, career development and promotion opportunities are equally applied for all our employees, regardless of disability.

Section 172 statement

The directors are aware of their statutory duty to promote the success of the Company for the benefit of the members as a whole, and in doing so having regard to those factors set out in section 172(1) (a)-(f) of the Companies Act 2006.

As a result of the Group's governance structure, the matters that the directors are responsible for considering under section 172(1) of the Companies Act 2006 have been considered to an appropriate extent by the WH Smith PLC Group board in relation to both the WH Smith PLC Group and its subsidiaries (the 'Group') and also to the Company. The directors have also considered relevant matters where appropriate.

To the extent necessary for an understanding of the development, performance and position of the Company, an explanation of how the Group board has considered the matters set out in s172 (for the Group and for the Company) is set out on pages 30 to 36 of the Group's Annual Report and Accounts, which does not form part of this report.

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.

WH Smith Hospitals Limited

Directors' report (continued)

Statement on business relationships

The directors acknowledge the need for the Company to foster business relationships with suppliers, customers and other stakeholders. All policies, practices and procedures adopted by the Group with regard to stakeholder relationships and engagement are applied by the Company. Refer to pages 30 to 36 of the Group's Annual Report and Accounts 2022, which does not form part of this report, for more details. The Company identifies its key business relationships as being the same as the Group as described on pages 30 to 36 of the Group's Annual Report and Accounts 2022, other than having a more limited number of relationships than the Group.

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, 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent 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 10 February 2023.

On behalf of the Board



Robert 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.

As shown in the Statement of profit and loss on page 11, the Company's profit for the financial year to 31 August 2022 was £3,494,341 (2021: loss of £3,117,352). Revenue for the year to 31 August 2022 has increased by 32 per cent to £68,179,589 (2021: £51,679,418) compared to the prior year due to the ongoing recovery of the Covid-19 pandemic.

The balance sheet on page 13 of the financial statements shows that the Company's net asset position is £1,721,754 (2021: net liabilities of £1,830,442), an increase of £3,552,196 reflecting the profit for the year and actuarial gains. Details of the amounts owed by and to other group undertakings are shown in Notes 12 and 13 on page 26.

The key measures the Company uses to monitor performance are:

	2022	2021
Sales growth/(decline)	31.93%	(9.50)%
Gross profit margin	43.19%	41.43%
Stock turn	2.25 weeks	2.37 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.

The Hospital channel is an important channel for us and is our second largest channel currently by revenue in Travel UK. During the year, we have seen a consistent improvement in revenue as restrictions eased.

Our Hospital channel is a good example of how we continue to innovate with a strong proposition tailored to each location. We are able to offer hospital trusts a broad suite of formats and brands including WHSmith, M&S Simply Food, Costa Coffee and the Post Office. We now have 49 M&S Simply Food or shared space stores across our hospital estate, 11 Costa Coffee shops and 3 Post Offices.

In addition, there are considerable opportunities for us to open new space in hospitals. As at 31 August 2022, we operated from 136 stores in around 100 hospitals and we believe there are a further 200 hospitals which could support at least one of our four store formats. The government continues to invest in both infrastructure and staff numbers in the health sector as the sector emerges from Covid.

Over the medium-term, we would expect to open on average eight to ten new stores each year in the Hospital channel.

Principal risks and uncertainties

The Group manages its operations, including WH Smith Hospitals Limited on a divisional basis and has identified the following factors as the principal risks to the successful performance of the business of 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
- Cyber risk and data security
- Treasury, financial and credit risk management
- Environment and sustainability

Further risks and uncertainties facing the Group as a whole to which WH Smith Hospitals Limited is indirectly exposed as a subsidiary company of the Group, are as follows:

- International expansion

WH Smith Hospitals Limited

Strategic report (continued)

Principal risks and uncertainties (continued)

The Covid-19 pandemic has affected all aspects of the business and the markets in which we operate. We believe that the overall level of risk has decreased since last year due to the roll-out of the Covid-19 vaccine and the easing of restrictions in many of the countries in which we operate. Whilst we believe that we are now well prepared for the introduction of new restrictions, there remains a risk that the Group could be negatively impacted by the emergence of new variants of Covid-19 or other pandemics. As a result of this reduction in risk, we have removed Covid-19 as a specific principal risk and have chosen to reflect the potential impact of it to the Group within our other principal risk headings to the extent that these may generate further risk of business interruption, disruption to our supply chain, and wider economic and market uncertainty.

While we have been saddened by the ongoing conflict in Ukraine, WHSmith has no direct operations in Ukraine, Russia or Belarus, nor do we have any product suppliers located in these countries. Like many businesses we anticipate that the continuation and potential escalation of this conflict will impact us through increasing inflationary pressures from rising fuel and energy prices and disruption to our supply chain caused by transport disruption. These risks will continue to be monitored through our ongoing risk management framework and principal risk reporting.

Group risks including risk management are discussed in further detail within the Principal risks and uncertainties section of the Strategic report in the Group's Annual Report and Accounts 2022 which does not form part of this report, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

All principal business functions compile risk registers 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 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 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 2022, which does not form part of this report.

Liquidity risk

The Group 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 committed multi-currency revolving credit facility with a number of financial institutions which is available to be drawn for general corporate purposes including working capital. The facility is due to mature on 28 April 2025.

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.

WH Smith Hospitals Limited

Strategic report (continued)

Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Company in relation to lending, hedging, settlement and other financial activities. The Company's principal financial assets are trade and other receivables and bank balances and cash which are considered to have low credit risk on initial recognition.

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 expected credit losses. 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 Company has no significant concentration of credit risk, with the exposure spread over a large number of counterparties and customers.

The credit risk on liquid funds and derivative financial instruments is considered to be low, as the Board approved Group treasury policy limits the value that can be placed with each approved counterparty to minimise the risk of loss. These limits are based on a combination of short-term credit ratings of P-1 or better.

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.

Payment policy for suppliers

The Company's policy for the payment of suppliers, which complies with the CBI Code of Practice for Buyers, is to agree the terms of payment in advance in line with normal trade practice and, provided a supplier performs in accordance with the agreement, to abide by such terms. The Company's creditor days figure for the year to 31 August 2022 was 20 days (2021: 15 days).

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 2022.

Going concern

The directors are required to assess whether the Company can continue to operate for the 12 months from the date of approval of these financial statements, and to prepare the financial statements on a going concern basis.

The directors report that they have undertaken a rigorous assessment of current performance and forecasts, including expenditure commitments, capital expenditure and borrowing facilities. The Company is in a net current liability position. The Company is in receipt of a letter of support from its ultimate parent company, WH Smith PLC, to provide financial support for a period of no less than 12 months from the signing date of these 2022 financial statements. Based on this assessment the directors have concluded that the Company is able to adequately manage its financing and principal risks, and that the Company will be able to operate within the level of the Group's facilities and meet the required covenants for the period to February 2024. Based on this assessment, which is outlined below, it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

WH Smith Hospitals Limited

Strategic report (continued)

Going concern (continued)

The Strategic report describes the Company's financial position, cash flows and borrowing facilities and also highlights the principal risks and uncertainties facing the Company. The Strategic report of the WH Smith PLC Annual Report and Accounts 2022, which does not form part of this report, also sets out the Group's business activities together with the factors that are likely to affect its future developments, performance and position. The WH Smith PLC Annual Report and Accounts 2022 also outlines the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures. A copy of the WH Smith PLC Annual Report is available on the Group's website at www.whsmithplc.co.uk.

In making the Group's going concern assessment, the directors have modelled a number of scenarios for the period to February 2024. The base case scenario is consistent with the Board approved 2023 Budget and the three year plan. Under this scenario the Group has significant liquidity and comfortably complies with all covenant tests to February 2024.

As a result of inherent uncertainties due to the impact of Covid-19 and challenges in the macroeconomic environment, a severe but plausible scenario has also been modelled which assumes a 10 per cent reduction in revenue versus base case across all our businesses (Travel UK, North America, Rest of the World and High Street). We have also assumed a five per cent increase in labour costs against base case and a 50 per cent increase in energy costs against base case where energy costs have not been fixed. Apart from an equal reduction in turnover rents in our Travel businesses, we have not assumed any decrease in other variable costs.

In both the base case and severe but plausible scenarios the Group would continue to have sufficient liquidity headroom on its existing facilities, as described above. The covenants on the above facilities are tested half-yearly. The covenant test at 31 August 2022 is based on minimum liquidity. The covenant tests as at 28 February 2023, 31 August 2023 and 28 February 2024 are based on fixed charges cover and net borrowings. Under both the base case and the severe but plausible scenarios, the Group would meet these covenant tests.

As a result of the above analysis, the directors believe that the Company has sufficient financial resources to continue in operation and meet its obligations as they fall due for the 12 months from the date of approval of these financial statements. No changes in the Company's Principle activities are foreseen.

This report was approved by the Board on 10 February 2023

On behalf of the Board



Robert 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 2022 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, including 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 2022; the Statement of profit and loss, Statement of comprehensive income and 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

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

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

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

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

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2022 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 in respect of the financial statements, 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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety regulation, GDPR, employment law and general food law regulation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of revenue and or costs, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Reviewing legal confirmations from external lawyers;
- Reviewing the financial statement disclosures and agreement to underlying supporting documentation;
- Challenging assumptions made by management in determining their significant judgements and accounting estimates; and
- Identifying and testing unusual journals posted to revenue.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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.



Jonathan Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 February 2023

WH Smith Hospitals Limited

Statement of profit and loss For the year ended 31 August 2022

	Note	2022 £	2021 £
Revenue	3	68,179,589	51,679,418
Cost of sales		(38,734,242)	(30,270,714)
Gross profit		29,445,347	21,408,704
Distribution costs		(23,714,959)	(22,545,524)
Administrative expenses		(640,896)	(1,418,092)
Other income		104,033	-
Operating profit/(loss)	6	5,193,525	(2,554,912)
Interest payable and similar charges	7	(1,070,162)	(1,193,749)
Profit/(loss) before taxation		4,123,363	(3,748,661)
Income tax (charge)/credit	8	(629,022)	631,309
Profit/(loss) for the financial year		3,494,341	(3,117,352)

All activities are derived from continuing operations.

WH Smith Hospitals Limited

Statement of comprehensive income For the year ended 31 August 2022

	Note	2022 £	2021 £
Profit/(loss) for the financial year		<u>3,494,341</u>	<u>(3,117,352)</u>
Other comprehensive income:			
Items that may be reclassified subsequently to the Statement of profit and loss			
Deferred tax attributable to pension scheme liabilities	8	(23,145)	(112,370)
Actuarial gains on pension scheme	14	<u>81,000</u>	<u>713,000</u>
Other comprehensive income for the year, net of tax		<u>57,855</u>	<u>600,630</u>
Total comprehensive income / (loss)		<u><u>3,552,196</u></u>	<u><u>(2,516,722)</u></u>

WH Smith Hospitals Limited

Balance sheet As at 31 August 2022

	Note	2022 £	2021 £
Non-current assets			
Intangible assets	9	7,902	7,992
Property, plant and equipment	10	9,742,716	7,292,316
Right of use assets	11	43,720,332	48,385,195
Trade and other receivables: amounts falling due after more than one year	12	13,817,737	15,469,030
Deferred tax assets	8	462,536	545,474
		67,751,223	71,700,007
Current assets			
Inventories		1,676,912	1,373,988
Trade and other receivables: amounts falling due within one year	12	145,730,987	94,845,546
Cash and cash equivalents		1,737,432	1,201,312
		149,145,331	97,420,846
Current liabilities			
Trade and other payables: amounts falling due within one year	13	(147,388,811)	(94,046,704)
Lease liabilities	11	(10,544,406)	(13,852,052)
Retirement benefit obligations	14	(56,000)	(56,000)
		(8,843,886)	(10,533,910)
Net current liabilities			
		58,907,337	61,166,097
Total assets less current liabilities			
Non-current liabilities			
Retirement benefit obligations	14	(198,239)	(329,239)
Lease liabilities	11	(56,987,344)	(62,667,300)
		1,721,754	(1,830,442)
Net assets/(liabilities)			
Equity			
Called up share capital	15	1,000,000	1,000,000
Retained earnings/(accumulated losses)		721,754	(2,830,442)
		1,721,754	(1,830,442)
Total shareholders' funds/(defecit)			

The notes on pages 15 to 31 are an integral part of these financial statements.

These financial statements of WH Smith Hospitals Limited, registered number 03981392, on pages 11 to 31, were approved by the Board of Directors and authorised for issue on 10 February 2023.

Signed on behalf of the Board of Directors



Robert J Moorhead
Director

WH Smith Hospitals Limited

Statement of changes in equity For the year ended 31 August 2022

	Called up share capital £	(Accumulated losses) / retained earnings £	Total shareholders' funds/ (deficit) £
Balance as at 1 September 2020	1,000,000	(313,720)	686,280
Loss for the financial year	-	(3,117,352)	(3,117,352)
Other comprehensive income for the year			
Actuarial gains on defined benefit plan (Note 14)	-	713,000	713,000
Deferred tax in relation to actuarial gains (Note 8)	-	(112,370)	(112,370)
Total comprehensive loss for the year	-	(2,516,722)	(2,516,722)
Balance as at 31 August 2021	1,000,000	(2,830,442)	(1,830,442)
Balance as at 1 September 2021	1,000,000	(2,830,442)	(1,830,442)
Profit for the financial year	-	3,494,341	3,494,341
Other comprehensive income for the year			
Actuarial gains on defined benefit plan (Note 14)	-	81,000	81,000
Deferred tax in relation to actuarial gains (Note 8)	-	(23,145)	(23,145)
Total comprehensive income for the year	-	3,552,196	3,552,196
Balance as at 31 August 2022	1,000,000	721,754	1,721,754

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

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, and registered in England and Wales.

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 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 2022. The prior year financial statements are for the year ended 31 August 2021.

The financial statements have been prepared on the going concern basis as explained below.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, contract balances, capital management, maturity analysis of lease liabilities, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective and certain related party transactions.

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 20.

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.

Going concern

The directors are required to assess whether the Company can continue to operate for the 12 months from the date of approval of these financial statements, and to prepare the financial statements on a going concern basis.

The directors report that they have undertaken a rigorous assessment of current performance and forecasts, including expenditure commitments, capital expenditure and borrowing facilities. The Company is in a net current liability position. The Company is in receipt of a letter of support from its ultimate parent company, WH Smith PLC, to provide financial support for a period of no less than 12 months from the signing date of these 2022 financial statements. Based on this assessment the directors have concluded that the Company is able to adequately manage its financing and principal risks, and that the Company will be able to operate within the level of the Group's facilities and meet the required covenants for the period to February 2024. Based on this assessment, which is outlined below, it is appropriate to adopt the going concern basis of accounting in preparing these financial statements.

The Strategic report describes the Company's financial position, cash flows and borrowing facilities and also highlights the principal risks and uncertainties facing the Company. The Strategic report of the WH Smith PLC Annual Report and Accounts 2022, which does not form part of this report, also sets out the Group's business activities together with the factors that are likely to affect its future developments, performance and position. The WH Smith PLC Annual Report and Accounts 2022 also outlines the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures. A copy of the WH Smith PLC Annual Report is available on the Group's website at www.whsmithplc.co.uk.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

1. Accounting policies (continued)

Going concern (continued)

In making the Group's going concern assessment, the directors have modelled a number of scenarios for the period to February 2024. The base case scenario is consistent with the Board approved 2023 Budget and the three year plan. Under this scenario the Group has significant liquidity and comfortably complies with all covenant tests to February 2024.

As a result of inherent uncertainties due to the impact of Covid-19 and challenges in the macroeconomic environment, a severe but plausible scenario has also been modelled which assumes a 10 per cent reduction in revenue versus base case across all our businesses (Travel UK, North America, Rest of the World and High Street). We have also assumed a five per cent increase in labour costs against base case and a 50 per cent increase in energy costs against base case where energy costs have not been fixed. Apart from an equal reduction in turnover rents in our Travel businesses, we have not assumed any decrease in other variable costs.

In both the base case and severe but plausible scenarios the Group would continue to have sufficient liquidity headroom on its existing facilities, as described above. The covenants on the above facilities are tested half-yearly. The covenant test at 31 August 2022 is based on minimum liquidity. The covenant tests as at 28 February 2023, 31 August 2023 and 28 February 2024 are based on fixed charges cover and net borrowings. Under both the base case and the severe but plausible scenarios, the Group would meet these covenant tests.

As a result of the above analysis, the directors believe that the Company has sufficient financial resources to continue in operation and meet its obligations as they fall due for the 12 months from the date of approval of these financial statements. No changes in the Company's Principle activities are foreseen.

New standard adopted in the year

The Company has adopted the following standard and interpretation which became mandatory during the current financial year. This change has had no material impact on the Company's financial statements:

- Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest rate benchmark reform – Phase 2

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services to customers. Revenue excludes discounts, estimated returns, VAT and other sales-related taxes.

Revenue is recognised when performance obligations have been met and control of the goods has transferred to the customer. The majority of the Company's sales are for standalone products made direct to customers at standard prices where there is a single performance obligation. Control of the goods is deemed to have transferred to the customer at the point of sale.

Pension costs

Payments to the Company's defined contribution pension schemes are recognised as an expense in the Statement of profit and loss 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 Statement of profit and loss in the Statement of comprehensive income.

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

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

1. Accounting policies (continued)

Inventories

Inventories comprise 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.

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 Statement of profit and loss 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 Statement of profit and loss, 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.

Dividends payable and receivable

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

There were no dividends declared for the year ended 31 August 2022. The non-redeemable preference shares take priority over ordinary shares, and the dividend payable is calculated at the rate of 12 month LIBOR (as determined at 1 September prior to the dividend payment date) plus 7.875 per cent, per annum on the capital paid up on that share. The dividend is calculated on a compound basis from day to day, and paid on 31 August.

Dividends receivable from subsidiary undertakings are recorded in profit or loss in the period in which they are received.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

1. Accounting policies (continued)

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 property – 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 Statement of profit and loss in the year in which it occurs and recognised within Distribution costs.

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. Intangible assets relating to tenancy rights 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 Administration expenses or Distribution costs depending on the nature of the underlying asset. The estimated lives for software are usually a period of up to five years. Any impairment in value is charged to the Statement of profit and loss in the year in which it occurs and recognised within Administration expenses or Distribution costs depending on the nature of the underlying asset.

Leases

The Company as a lessee

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

Accounting policies (continued)

Leases (continued)

The Company as a lessee (continued)

On instances where the Company enters into a lessee contract on behalf of other group companies, the lease is immediately sub-leased to other group companies at mirror terms to the head lease. For such leases, the right of use asset is derecognised, and the Company recognises an intercompany lease receivable for the sub-lease arrangement which is generally equal to the lease liability on head lease.

The lease liability is presented as a separate line in the Company's balance sheet.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease payments change due to changes in an index, rent review or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate.
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.
- The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the lease term. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the balance sheet.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The lease contracts that include variable rents based on sales, which is the case with many of our retail concession contracts, are not included in the measurement of the lease liability and the right-of-use asset. The related rents payable are recognised as an expense in the period in which the event or condition that triggers those payables occurs and are included in profit or loss (see Note 11).

The Company has applied the Amendment to IFRS 16 issued in June 2021 and further extension granted in March 2022. This practical expedient allows the impact on the lease liability of temporary rent reductions/waivers affecting rent payments due on or before June 2022, to be recognised in the Statement of profit and loss in the period they are received, rather than as lease modifications, which would require the remeasurement of the lease liability using a revised discount rate with a corresponding adjustment to the right-of-use asset.

The Company as a lessor

The Company enters into lease agreements as an intermediate lessor with respect to some of its property leases. It accounts for the head lease and the sublease as two separate contracts. The sublease is classified as finance lease or operating lease by reference to the right-of-use asset arising from the head lease. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rents receivable from operating leases are recognised on a straight-line basis over the term of the relevant lease.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

1. Accounting policies (continued)

Government grants and government assistance

Government grants are not recognised until there is reasonable assurance that the grants will be received and that the Company will comply with any conditions attached to them.

Government grants are recognised in profit or loss over the same period as the costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grant income in relation to the UK Government's Job Retention Scheme is disclosed in Note 6. In addition, the Company has benefited from government assistance in the form of business rates relief of £nil in the year (2021: £1,520,403).

Financial instruments

a) Trade receivables

Trade receivables are measured at fair value at initial recognition, do not carry any interest and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Statement of profit and loss.

Allowances for doubtful debts are recognised based on management's expectation of losses, without regard to whether an impairment trigger has occurred or not (an 'expected credit loss' model under IFRS 9).

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. 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) Trade payables

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

e) Equity instruments

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

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

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 judgements are outlined below:

a) Determination of lease term

In determining the lease term for contracts that have options to extend or terminate early, management has applied judgement in determining the likelihood of whether such options will be exercised. This is based on the length of time remaining before the option is exercisable, performance of the individual store and the trading forecasts.

The most significant sources of estimation uncertainty are as follows:

a) Inventory valuation

Inventories of £1,676,912 (2021: £1,373,988) are 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.

b) 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. Sensitivity to changes in these assumptions is disclosed in Note 14.

3. Revenue

All of the Company's revenue is from sales of goods and arises in the United Kingdom. There is no material difference between the geographical origin and destination of revenue.

4. Directors' remuneration

The remuneration of R J Moorhead, C Cowling and I Houghton is paid by a fellow Group company and no allocation (2021: no allocation) of their services, as directors of WH Smith Hospitals Limited and other Group companies, is made. All of the directors serve as directors of 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 the directors is made. The remuneration of R J Moorhead, C Cowling and I Houghton is disclosed in the financial statements of WH Smith Retail Holdings Limited. The remuneration of R J Moorhead and C Cowling is also included in the directors' emoluments disclosed in the consolidated financial statements of WH Smith PLC.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

5. Employees and staff costs

	2022 £	2021 £
Staff costs		
Wages and salaries	10,074,267	8,135,859
Social security costs	597,060	456,893
Other pension costs	147,185	125,179
	<u>10,818,512</u>	<u>8,717,931</u>
	No.	No.
Monthly average no. of employees (Retailing)	<u>670</u>	<u>638</u>

The amounts recognised as an expense for defined contribution pension schemes was £147,185 (2021: £125,179).

6. Operating profit/(loss)

Operating profit/(loss) is stated after charging/ (crediting):

	2022 £	2021 £
Depreciation of property, plant and equipment	1,569,868	1,749,915
Impairment of property, plant and equipment	69,680	388,041
Amortisation of intangible assets	1,096	3,202
Depreciation of right-of-use assets	6,402,033	6,812,753
Impairment of right-of-use assets	-	372,252
Cost of inventories recognised as an expense	38,734,242	30,270,714
Write-downs of inventory in the year	75,634	152,946
Government grant income	-	(128,328)
Auditors' fees		
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	<u>15,000</u>	<u>12,500</u>

There are no non-audit fees (2021: £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 2022

7. Interest payable and similar charges

	2022 £	2021 £
Interest on lease liabilities	1,064,162	1,170,008
Pension interest	6,000	19,000
Bank loans and overdraft	-	4,741
Interest payable and similar charges	1,070,162	1,193,749

8. Income tax charge/(credit)

Tax charge / (credit) included in Statement of profit and loss:

	2022 £	2021 £
Current tax:		
Current year charge/(credit)	592,455	(634,863)
Adjustments in respect of prior years	(23,227)	(21,725)
Total current tax charge/(credit)	569,228	(656,588)
Deferred tax:		
- current year	174,392	(57,591)
- adjustments in respect of prior years	(164,118)	187,667
- Change in tax rates	49,520	(104,797)
Tax on profit / loss	629,022	(631,309)

Reconciliation of the total tax charge / (credit)

	2022 £	2021 £
Profit/(loss) before taxation	4,123,363	(3,748,661)
Profit before taxation at the UK standard corporation tax rate of 19.00 % (2021: 19.00%)	783,439	(712,246)
Effects of:		
Expenses not deductible for tax purposes	(16,592)	19,792
Change in tax rates	49,520	(104,797)
Adjustments in respect of prior years	(187,345)	165,942
Total tax charge/(credit)	629,022	(631,309)

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

8. Income tax charge/(credit) (continued)

The following are the major deferred tax assets/(liabilities) recognised by the Company and movements thereon during the current and prior reporting years:

	Accelerated tax depreciation £	Retirement benefit obligations £	IFRS 16 transitional adjustment £	Unutilised interest expense £	Total £
At 1 September 2020	379,249	215,650	88,224	-	683,123
Credited to income	158,763	(7,030)	10,655	-	162,388
Credited to equity	-	(112,370)	-	-	(112,370)
Adjustments in respect of prior years	(178,832)	-	(8,835)	-	(187,667)
At 31 August 2021	359,180	96,250	90,044	-	545,474
At 1 September 2021	359,180	96,250	90,044	-	545,474
Credited to income	(206,333)	(9,500)	(7,939)	(140)	(223,912)
Charged to equity	-	(23,144)	-	-	(23,144)
Adjustments in respect of prior years	164,023	(45)	-	140	164,118
At 31 August 2022	316,870	63,561	82,105	-	462,536

These assets have been recognised in the financial statements as the directors are of the opinion, based on recent and forecast trading, that they will be recoverable against future taxable profits of the Company.

The UK corporation tax rate is 19 per cent. In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25 per cent. This new law was substantively enacted on 24 May 2021, and the main impact of this change has been factored into 31 August 2021 year end accounts.

9. Intangible assets

	Tenancy rights £	Software £	Total £
Cost			
At 1 September 2021	105,000	356,280	461,280
Additions	-	2,210	2,210
At 31 August 2022	105,000	358,490	463,490
Accumulated depreciation and impairment			
At 1 September 2021	105,000	348,288	453,288
Charge for the year	-	1,096	1,096
Impairment	-	1,204	1,204
At 31 August 2022	105,000	350,588	455,588
Net book value			
At 31 August 2022	-	7,902	7,902
At 31 August 2021	-	7,992	7,992

Intangible assets relating to tenancy rights were amortised over the period of the lease. Software assets are being amortised over up to five years. Amortisation is included with Administrative expenses or Distribution costs depending on the nature of the underlying asset. For details of annual impairment assessment, see Note 10.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

10. Property, plant and equipment

	Short-term leasehold property £	Fixtures and equipment £	Total £
Cost			
At 1 September 2021	9,351,668	12,017,275	21,368,943
Additions	1,783,306	2,306,642	4,089,948
At 31 August 2022	11,134,974	14,323,917	25,458,891
Accumulated depreciation and impairment			
At 1 September 2021	6,374,882	7,701,745	14,076,627
Charge for the year	624,205	945,663	1,569,868
Impairment	28,947	40,733	69,680
At 31 August 2022	7,028,034	8,688,141	15,716,175
Net book value			
At 31 August 2022	4,106,940	5,635,776	9,742,716
At 31 August 2021	2,976,786	4,315,530	7,292,316

Property, plant and equipment (along with Intangible assets) has been tested for impairment, where indicators of impairment have been identified, by comparing the carrying amount of stores with the recoverable amount determined from value-in-use calculations. The result of the impairment exercise was an impairment of £69,680 (2021: £388,041) to property, plant and equipment and £1,204 (2021: £nil) to intangible assets.

11. Leases

	2022 £	2021 £
Right-of-use assets		
- Property	43,720,332	48,385,195
At 31 August	43,720,332	48,385,195

During the year, additions to right-of-use assets were £1,325,671 (2021: £3,210,418) which include new leases, extensions to the existing lease, lease modifications and remeasurements.

	2022 £	2021 £
Lease liability		
- Current	10,544,406	13,852,052
- Non-current	56,987,344	62,667,300
At 31 August	67,531,750	76,519,352

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

11. Leases (continued)

	2022 £	2021 £
Amounts recognised in the Statement of profit and loss		
Depreciation on right-of-use assets		
- Property	6,402,033	6,812,753
Impairment of right-of-use assets		
- Property	-	372,252
Income relating to Covid-19 rent reductions	(1,512,137)	(61,311)
Interest on lease liabilities	1,064,162	1,170,008
Expense relating to short-term leases	664,303	721,478
Expense relating to variable leases	1,010,621	302,812
Income relating to the sub-lease of right-of-use asset	(316,910)	(202,124)

The total cash outflow for leases in the financial year was £9,808,267 (2021: £7,368,777).

12. Trade and other receivables

	2022 £	2021 £
Amounts falling due within one year:		
Trade receivables	208,490	181,235
Lease receivables - amounts owed by group undertakings	1,651,022	1,697,556
Amounts owed by group undertakings	143,699,219	92,910,409
Other receivables	28,471	43,047
Prepayments and accrued income	143,785	13,299
	<u>145,730,987</u>	<u>94,845,546</u>
Amounts falling due after more than one year:		
Lease receivables - amounts owed by group undertakings	13,635,209	15,336,404
Prepayments and accrued income	182,528	132,626
	<u>159,548,724</u>	<u>110,314,576</u>

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

13. Trade and other payables: Amounts falling due within one year

	2022 £	2021 £
Trade payables	2,075,634	1,262,424
Amounts owed to group undertakings	136,788,879	86,505,472
Corporation tax	-	-
Other payables	6,519,567	4,774,279
Accruals and deferred income	2,004,731	1,504,529
	<u>147,388,811</u>	<u>94,046,704</u>

All amounts owed to group undertakings are unsecured and repayable on demand.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

14. Retirement benefit obligations

The Company operates a UK registered trust-based pension scheme, the United News Shops Retirement Benefits Scheme, that provides defined benefits. Pension benefits are linked to the members' final pensionable salaries and service at 31 May 2005 (or date of leaving if earlier). The Trustees are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules, which sets out their powers. The Trustees of the Scheme are required to act in the best interests of the beneficiaries of the Scheme. There is a requirement that at least one-third of the Trustees are nominated by the members of the Scheme. There are two categories of pension scheme members; Deferred members: no longer in pensionable service and not yet retired; and Pensioner members: in receipt of pension from the Scheme.

The defined benefit obligation is valued by projecting the best estimate of future benefit outgo (allowing for revaluation to retirement for deferred members and annual pension increases for all members) and then discounting to the balance sheet date. The majority of benefits receive increases linked to inflation (subject to a cap of no more than 5% per annum). The valuation method used is known as the Projected Unit Method. The approximate overall duration of the Scheme's defined benefit obligation as at 31 August 2021 was around 16 years.

The Trustees are required to carry out an actuarial valuation every 3 years. The most recent actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 5 April 2021. This valuation revealed a funding shortfall of £231,000. In respect of the deficit in the Scheme as at 5 April 2021, the Company has agreed to pay £56,000 per annum, in equal monthly instalments, over the period 1 February 2022 to 31 August 2025.

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 were as follows. All assets listed below have a quoted market price in an active market.

		2022		2021
	%	£	%	£
Diversified Growth Funds (DGFs)	73	4,246,000	66	4,839,000
Liability Driven Investments (LDI)	16	945,000	24	1,785,000
Cash and derivatives	-	17,000	1	16,000
Other	11	645,761	9	681,761
		<u>5,853,761</u>		<u>7,321,761</u>
Fair value of plan assets		5,853,761		7,321,761
Present value of the obligations		<u>(6,108,000)</u>		<u>(7,707,000)</u>
Deficit recognised in the balance sheet		(254,239)		(385,239)
Related deferred tax asset (Note 8)		63,560		96,250
Net defined benefit scheme deficit		<u>(190,679)</u>		<u>(288,989)</u>

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

14. Retirement benefit obligations (continued)

The amounts recognised in the Statement of profit and loss within Interest payable and similar charges were as follows:

	2022 £	2021 £
Net interest cost on the defined benefit liability	(6,000)	(19,000)

The amount recognised in the Statement of Comprehensive income was:

	2022 £	2021 £
Actuarial (losses)/gains due to experience differing from that assumed	(286,000)	381,000
Actuarial gains/(losses) due to changes in demographic assumptions	5,000	(70,000)
Actuarial gains/(losses) due to changes in financial assumptions	1,838,000	(111,000)
Actuarial gains on defined benefit obligation	1,557,000	200,000
Actual return on assets less interest	(1,476,000)	513,000
	81,000	713,000

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

	2022 £	2021 £
At 1 September	7,707,000	7,995,000
Current service cost	-	-
Interest cost	133,000	138,000
Actuarial gain	(1,557,000)	(200,000)
Benefits paid	(175,000)	(226,000)
At 31 August	6,108,000	7,707,000

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

	2022 £	2021 £
At 1 September	7,321,761	6,860,757
Interest income	127,000	119,000
Actuarial (gain)/loss	(1,476,000)	513,000
Contributions from the sponsoring companies	56,000	56,000
Benefits paid	(175,000)	(226,996)
At 31 August	5,853,761	7,321,761

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

14. Retirement benefit obligations (continued)

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

	2022	2021
Discount rate	4.20%	1.75%
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions payments and deferred pensions	2.30%-3.30%	2.00%-2.55%
RPI inflation assumptions	3.70%	3.45%
CPI inflation assumptions	3.30%	2.55%
Life expectancy for an individual currently aged 65 – male	21.9 years	21.9 years
Life expectancy for an individual currently aged 65 – female	24.3 years	24.3 years
Life expectancy at 65 for an individual currently aged 45 – male	23.2 years	23.2 years
Life expectancy at 65 for an individual currently aged 45 – female	25.7 years	25.7 years

Amounts for the current and previous years are as follows:

	2022 £	2021 £
Defined benefit obligation	(6,108,000)	(7,707,000)
Plan assets	5,853,761	7,321,761
Deficit	<u>(254,239)</u>	<u>(385,239)</u>

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

Risks

Through the Scheme, the Company is exposed to a number of risks:

- **Asset volatility:** the Scheme's defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields, however the Scheme invests significantly in Diversified Growth Funds. These assets are expected to outperform corporate bonds in the long term, but provide volatility and risk in the short term.
- **Changes in bond yields:** a decrease in corporate bond yields would increase the Scheme's defined benefit obligation, however this would be partially offset by an increase in the value of the Scheme's bond holdings (within the Scheme's investments in Diversified Credit Funds and Diversified Growth Funds) and an increase in the value of the Scheme's Liability Driven Investment (LDI) holdings.
- **Inflation risk:** a significant proportion of the Scheme's defined benefit obligation is linked to inflation; therefore higher inflation will result in a higher defined benefit obligation (subject to the appropriate caps in place). The majority of the Scheme's assets are either unaffected by inflation, or only loosely correlated with inflation, therefore an increase in inflation would also increase the deficit.
- **Life expectancy:** if Scheme members live longer than expected, the Scheme's benefits will need to be paid for longer, increasing the Scheme's defined benefit obligation.

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

14. Retirement benefit obligations (continued)

The Trustees and Company manage risks in the Scheme through the following strategies:

- Diversification: investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.
- Investment strategy: the Trustees are required to review their investment strategy on a regular basis.
- LDI: the Scheme invests in LDI assets, whose long term investment returns are expected to hedge interest rate and inflation rate movements.

Sensitivity to changes in assumptions is as follows:

Sensitivity information has been derived using scenario analysis from actuarial assumptions as at 31 August 2022, while keeping all other assumptions consistent; in practice changes to some of the assumptions may be correlated. These calculations provide an approximate guide to the sensitivity of results and may not be as accurate as a full valuation carried out on these assumptions. The methods and assumptions used in preparing the sensitivity analysis are consistent with the prior year.

	Effects on liabilities at 31 August 2022
Discount rate + 0.5% pa / - 0.5% pa	- 5% / + 6%
RPI and CPI inflation + 0.5% pa / - 0.5% pa	+ 3% / - 2%
Assumed life expectancy + 1 year	+ 3%

15. Called up share capital

	2022		2021	
	Number of shares No.	Nominal value £	Number of shares No.	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>

16. Operating lease receivable maturity analysis

	2022	2021
	£	£
Less than 1 year	254,785	192,222
1 to 2 years	105,209	90,780
2 to 3 years	27,068	28,781
3 to 4 years	1,557	25,000
4 to 5 years	-	1,438
More than 5 years	-	-
	<u>388,619</u>	<u>338,221</u>

WH Smith Hospitals Limited

Notes to the financial statements (continued) Year ended 31 August 2022

17. Capital commitments

Contracts placed for future capital expenditure approved by the directors but not incurred in these financial statements amounts to £359,846 (2021: £49,763).

18. Contingent liabilities

The Company is a guarantor on the WH Smith PLC Group's £250,000,000 revolving credit facility which expires on 28 April 2025 alongside WH Smith Retail Holdings Limited, WH Smith High Street Limited, WH Smith Travel Limited, funkypigeon.com Limited, InMotion Entertainment Group LLC and The Marshall Retail Group LLC.

The Company is also a guarantor, alongside the other Group companies listed above, on a committed term loan of £133,000,000 due to mature on 28 April 2025.

19. 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.

20. Ultimate parent company

The ultimate parent company and controlling party is WH Smith PLC, a company incorporated in the United Kingdom 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 the United Kingdom 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