Company Registration No. 03981392

WH Smith Hospitals Limited

Annual Report and Financial Statements

31 August 2021

WH Smith Hospitals Limited

Annual report and financial statements 31 August 2021

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WH Smith Hospitals Limited

Annual report and financial statements 31 August 2021

Officers and professional advisers

Directors

C Cowling
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 2021.

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 Income statement on page 11, the loss for the financial year was £3,117,352 (2020: loss of £9,044,372).

The Company did not pay any dividends in the year (2020: £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.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and 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.

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.

WH Smith Hospitals Limited

Directors' report (continued)

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 37 to 40 of the Group's Annual Report and Accounts 2021, which does not form part of this report.

Employee involvement

Employee engagement is supported through clear communication of the Company'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.

The Company participates in the Group HM Revenue & Customs Approved Save-As-You-Earn share option scheme ('Sharesave Scheme') which provides employees with the opportunity to acquire shares in the WH Smith PLC.

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 37 to 40 of the Group's Annual Report and Accounts 2021, 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 37 to 40 of the Group's Annual Report and Accounts 2021, other than having a more limited number of relationships than the Group.

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 25 February 2022.

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 Income statement on page 11, the Company's loss for the financial year to 31 August 2021 was £3,117,352 (2020: loss of £9,044,372). The Company is expected to return to profitability as the impact of the pandemic subsides. Revenue for the year to 31 August 2021 has decreased by 10 per cent to £51,679,418 (2020: £57,108,676) compared to the prior year due to the ongoing impact of the Covid-19 pandemic.

The balance sheet on page 13 of the financial statements shows that the Company's net liability position is £1,830,442 (2020: net assets of £686,280), a decrease of £2,516,722 reflecting the loss for the year partially offset by actuarial gains. Details of the amounts owed by and to other group undertakings are shown in Notes 12 and 13 on page 27.

The key measures the Company uses to monitor performance are:

	2021	**2020**
Sales decline	(9.50)%	(14.76)%
Gross profit margin	41.43%	41.86%
Stock turn	3.66 weeks	2.73 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 Hospitals channel is an important channel for the Group and it is our second largest channel by revenue in Travel UK. While sales were clearly impacted in the first half of the financial year, with no hospital visitors and elective surgeries cancelled, we saw an improvement in the second half as restrictions eased and these stores performed well. This strength in performance has extended to the new financial year with sales in for the 4 months to December 2021 at 89% of 2019 levels.

The hospital market continues to grow with additional government investment and we are well placed to service the increased demand for retail services in hospitals resulting from extended operating times to compensate for department backlogs. In addition, there are considerable space opportunities for us to improve the retail offer across UK hospitals. As at 31 August 2021 we operated from 138 stores in 100 hospitals and we believe there is scope for around 300 hospitals in the UK that are able to support at least one of our three store formats (WHSmith, M&S Food and Costa Coffee). This channel is a good example of how we continue to innovate with a strong proposition tailored to each location, and a broad suite of formats and brands; including most recently, our first WHSmith store with a Post Office in Travel UK. As at 31 August 2021 we operate 49 M&S standalone or shared space stores across hospitals, including a recently opened M&S Cafe at St Thomas' hospital in London. Looking ahead, we would expect to return to opening on average circa ten new stores each year in this channel over the medium term.

Principal risks and uncertainties

The WH Smith PLC 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
- Treasury, financial and credit risk management
- Cyber risk and data security
- 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 WH Smith PLC Group and through its status as a guarantor of the Group's borrowing facilities as described in Note 18, are as follows:

- International expansion

Principal risks and uncertainties (continued)

Covid-19 is the most significant pre-eminent risk currently facing the Group, and the Company, impacting all aspects of the business; our customers, colleagues, supply chain and offices, and across all of the markets in which we operate. Areas of uncertainty include: the extent and timing of lifting of international and local travel restrictions and hence the reopening of our stores; the speed and extent of recovery in the travel industry more widely and the resulting impact on passenger numbers and sales; and the speed and confidence of customers in restoring previous shopping habits across all of the channels in which we operate. To the extent that the pandemic may have a longer and more prolonged impact on global economic conditions, this may have a further negative impact on consumer spending, customer footfall and sales, the efficient working of our supply chain, and therefore create further potential disruption to all of our areas of operation. During the course of the pandemic, the safety of our customers and colleagues has been at the forefront of our response and has shaped all of the measures we have taken across the business.

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 2021 which does not form part of this report, a copy of which is available on the Group's website at www.whsmithplc.co.uk.

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 2021, 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 expected credit loss provisions. 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.

WH Smith Hospitals Limited

Strategic report (continued)

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 2021 was 15 days (2020: 19 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 2021.

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 cash flow forecasts, including expenditure commitments, capital expenditure and borrowing facilities. The Company has made a loss in the current year. 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 2021 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 2023.

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 WH Smith PLC Annual Report and Accounts 2021, which does not form part of this report, 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 2021 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.

In making the Group's going concern assessment, the directors have modelled a number of scenarios for the period to February 2023. The base case scenario is consistent with the Board approved 2022 Budget and the three year plan. Under this scenario the Group has significant liquidity and comfortably complies with all covenant tests to February 2023.

A severe but plausible scenario has also been modelled which assumes a further three-month lockdown over the period December 2021 to February 2022 across the Group, followed by a recovery which reflects the profile observed in the year ended 31 August 2021. The severe but plausible scenario does not assume any further government financial support despite the continuation of lockdowns. However, the severe but plausible scenario includes a number of mitigating actions including savings in store and head office payrolls and rent relief in Travel UK, to mitigate the impact of lockdown with lower sales.

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 tests at 31 August 2021, 28 February 2022 and 31 August 2022 are based on minimum liquidity and under the base case and severe but plausible scenarios the Group would meet these covenant tests. The covenant test as at 28 February 2023 is 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. In addition, we have received excellent support from our banks who have granted covenant waivers throughout the pandemic.

WH Smith Hospitals Limited

Strategic report (continued)

Going concern (continued)

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 25 February 2022.

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 2021 and of its loss 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 2021; the Income statement, 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,

Reporting on other information (continued)

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 2021 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 pension and tax legislations. 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:

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

Auditors' responsibilities for the audit of the financial statements (continued)

- 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, journals posted after period close and journals posted by senior management.

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
25 February 2022

WH Smith Hospitals Limited

Income statement
For the year ended 31 August 2021

	Note	2021 £	2020 £
Revenue	3	51,679,418	57,108,676
Cost of sales		(30,270,714)	(33,200,378)
Gross profit		**21,408,704**	**23,908,298**
Distribution costs		(22,545,524)	(32,085,599)
Administrative expenses		(1,418,092)	(1,686,483)
Operating loss	6	**(2,554,912)**	**(9,863,784)**
Interest payable and similar expenses	7	(1,193,749)	(1,300,035)
Loss before taxation		**(3,748,661)**	**(11,163,819)**
Income tax credit	8	631,309	2,119,447
Loss for the financial year		**(3,117,352)**	**(9,044,372)**

All activities are derived from continuing operations.

WH Smith Hospitals Limited

Statement of comprehensive income
For the year ended 31 August 2021

	Note	2021 £	2020 £
Loss for the financial year		**(3,117,352)**	**(9,044,372)**
Other comprehensive income / (loss):			
Items that may be reclassified subsequently to the income statement			
Actuarial gains / (losses) on pension scheme	14	713,000	(79,000)
Current tax attributable to pension scheme liabilities		-	6,840
Deferred tax attributable to pension scheme liabilities	8	(112,370)	30,010
Other comprehensive income / (loss) for the year, net of tax		**600,630**	**(42,150)**
Total comprehensive loss		**(2,516,722)**	**(9,086,522)**

WH Smith Hospitals Limited

Balance sheet
As at 31 August 2021

	Note	2021 £	2020 £
Non-current assets			
Intangible assets	9	7,992	2,722
Property, plant and equipment	10	7,292,316	8,997,225
Right of use assets	11	48,385,195	52,627,408
Deferred tax assets	8	545,474	683,123
		56,230,977	**62,310,478**
Current assets			
Inventories		1,373,988	1,740,711
Trade and other receivables: amounts falling due within one year	12	94,845,546	56,734,439
Trade and other receivables: amounts falling due after more than one year	12	15,469,030	16,269,877
Cash and cash equivalents		1,201,312	733,570
		112,889,876	**75,478,597**
Current liabilities			
Trade and other payables: amounts falling due within one year	13	(94,046,704)	(55,978,257)
Lease liabilities	11	(13,852,052)	(10,418,366)
Retirement benefit obligations	14	(56,000)	-
Net current assets		**4,935,120**	**9,081,974**
Total assets less current liabilities		**61,166,097**	**71,392,452**
Non-current liabilities			
Retirement benefit obligations	14	(329,239)	(1,135,243)
Lease liabilities	11	(62,667,300)	(69,570,929)
Net (liabilities)/ assets		**(1,830,442)**	**686,280**
Equity			
Called up share capital	15	1,000,000	1,000,000
Accumulated losses		(2,830,442)	(313,720)
Total shareholders' (defecit)/ funds		**(1,830,442)**	**686,280**

The notes on pages 15 to 32 are an integral part of these financial statements.

These financial statements of WH Smith Hospitals Limited, registered number 03981392, on pages 11 to 32, were approved by the Board of Directors and authorised for issue on 25 February 2022.

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 2021

	Called up share capital £	Retained earnings / (accumulated losses) £	Total shareholders' funds/ (defecit) £
Balance as at 1 September 2019	**1,000,000**	**9,148,913**	**10,148,913**
Adjustment on initial application of IFRS 16	-	(464,335)	(464,335)
Deferred tax in relation to IFRS 16 transitional adjustments	-	88,224	88,224
Adjusted balance at 1 September 2019	**1,000,000**	**8,772,802**	**9,772,802**
Loss for the financial year	-	(9,044,372)	(9,044,372)
Other comprehensive (loss) / income for the year			
Actuarial losses on defined benefit plan (Note 14)	-	(79,000)	(79,000)
Current tax in relation to actuarial losses	-	6,840	6,840
Deferred tax in relation to actuarial losses (Note 8)	-	30,010	30,010
Total comprehensive loss for the year	**-**	**(9,086,522)**	**(9,086,522)**
Balance as at 31 August 2020	**1,000,000**	**(313,720)**	**686,280**
Balance as at 1 September 2020	**1,000,000**	**(313,720)**	**686,280**
Loss for the financial year			
Other comprehensive income for the year	-	(3,117,352)	(3,117,352)
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)**

WH Smith Hospitals Limited

Notes to the financial statements
Year ended 31 August 2021

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 2021. The prior year financial statements are for the year ended 31 August 2020.

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 cash flow forecasts, including expenditure commitments, capital expenditure and borrowing facilities. The Company has made a loss in the current year. 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 2021 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 2023.

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 WH Smith PLC Annual Report and Accounts 2021, which does not form part of this report, 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 2021 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.

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 2023. The base case scenario is consistent with the Board approved 2022 Budget and the three year plan. Under this scenario the Group has significant liquidity and comfortably complies with all covenant tests to February 2023.

A severe but plausible scenario has also been modelled which assumes a further three-month lockdown over the period December 2021 to February 2022 across the Group, followed by a recovery which reflects the profile observed in the year ended 31 August 2021. The severe but plausible scenario does not assume any further government financial support despite the continuation of lockdowns. However, the severe but plausible scenario includes a number of mitigating actions including savings in store and head office payrolls and rent relief in Travel UK, to mitigate the impact of lockdown with lower sales.

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 tests at 31 August 2021, 28 February 2022 and 31 August 2022 are based on minimum liquidity and under the base case and severe but plausible scenarios the Group would meet these covenant tests. The covenant test as at 28 February 2023 is 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. In addition, we have received excellent support from our banks who have granted covenant waivers throughout the pandemic.

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 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:

- Amendments to references to Conceptual Framework in IFRS standards
- Amendments to IFRS 16 - Covid-19 related rent concessions
- Amendment to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform – Phase 1
- Amendments to IFRS 3 - Definition of a business
- Amendments to IAS 1 and IAS 8 - Definition of material

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 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 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.

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 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 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.

1. **Accounting policies (continued)**

Property, plant and equipment (continued)

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 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 income statement 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.

1. **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 2020 and further extension granted in March 2021. 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 Income statement 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.

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 £1,520,403 in the year (2020: £1,050,216).

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 income statement.

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.

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) Intangible assets and property, plant and equipment impairment reviews

Property, plant and equipment and intangible assets (see Notes 9 and 10) 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.

The Company has applied certain sensitivities in isolation to demonstrate the impact on the impairment of changes in key assumptions. The most significant assumption is the revenue assumption. The impact of a potential slower recovery from the pandemic has been modelled by incorporating a delay in recovery of one year with no change to subsequent forecast revenue growth rate assumptions. This would result in a £131,000 increase in the impairment charge. An increase of 1 per cent in the discount rate would result in an increase in the impairment charge of around £189,000.

b) Inventory valuation

Inventories of £2,127,988 (2020: £1,740,711) 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.

c) 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 assumptions 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 turnover.

4. Directors' remuneration

The remuneration of R J Moorhead, C Cowling and I Houghton 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. All of the directors serve as directors 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.

5. Employees and staff costs

	2021	2020
	£	£
Staff costs		
Wages and salaries	8,135,859	8,124,946
Social security costs	456,893	427,540
Other pension costs	125,179	118,150
	8,717,931	8,670,636
	No.	**No.**
Monthly average no. of employees (Retailing)	638	699

6. Operating loss

Operating loss is stated after charging/ (crediting):

	2021	2020
	£	£
Depreciation of property, plant and equipment	1,749,915	1,903,519
Impairment of property, plant and equipment	388,041	516,627
Amortisation of intangible assets	3,202	10,848
Depreciation of right-of-use assets	6,812,753	7,560,959
Impairment of right-of-use assets	372,252	7,578,368
Cost of inventories recognised as an expense	30,270,714	33,200,378
Write-downs of inventory in the year	152,946	89,389
Government grant income	(128,328)	(213,273)
Auditors' fees		
- Fees payable to the Company's auditors for the audit of the Company's annual financial statements	12,500	10,000

There are no non-audit fees (2020: £nil). Statutory disclosures in respect of non-audit fees are given in the consolidated financial statements of WH Smith PLC.

7. Interest payable and similar expenses

	2021	2020
	£	£
Interest on lease liabilities	1,170,008	1,247,445
Pension interest	19,000	20,000
Bank loans and overdraft	4,741	32,590
Interest payable and similar expenses	**1,193,749**	**1,300,035**

8. Income tax credit

Tax credit included in Income Statement:

	2021	2020
	£	£
Current tax:		
Current year credit	(634,863)	(1,950,613)
Adjustments in respect of prior years	(21,725)	(28,147)
Total current tax credit	(656,588)	(1,978,760)
Deferred tax:		
- current year	(57,591)	(154,432)
- adjustments in respect of prior years	187,667	13,745
- Change in tax rates	(104,797)	-
Tax on loss	**(631,309)**	**(2,119,447)**

Reconciliation of the total tax credit

	2021	2020
	£	£
Loss before taxation	(3,748,661)	(11,163,819)
Loss before taxation at the UK standard corporation tax rate of 19.00 % (2020: 19.00%)	(712,246)	(2,121,126)
Effects of:		
Expenses not deductible for tax purposes	19,792	16,081
Change in tax rates	(104,797)	-
Adjustments in respect of prior years	165,942	(14,402)
Total tax credit	**(631,309)**	**(2,119,447)**

Notes to the financial statements (continued)
Year ended 31 August 2021

8. Income tax credit (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 £	IFRS 16 transitional adjustment £	Total £
At 1 September 2019	238,562	185,640	-	424,202
Adjustments on initial application of IFRS 16	-	-	88,224	88,224
Credited to income	154,432	-	-	154,432
Credited to equity	-	30,010	-	30,010
Adjustments in respect of prior years	(13,745)	-	-	(13,745)
At 31 August 2020	**379,249**	**215,650**	**88,224**	**683,123**
At 1 September 2020	379,249	215,650	88,224	683,123
Credited to income	158,763	(7,030)	10,655	162,388
Charged 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**

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 with effect from 1 April 2017. In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25 per cent. This new law was substantively enacted on 24 May 2021, and the main impact of this change is approximately £105,000 to the profit and loss and £23,000 to equity.

WH Smith Hospitals Limited

Notes to the financial statements (continued)
Year ended 31 August 2021

9. Intangible assets

	Tenancy rights £	Software £	Total £
Cost			
At 1 September 2020	105,000	347,808	452,808
Additions	-	8,472	8,472
At 31 August 2021	**105,000**	**356,280**	**461,280**
Accumulated depreciation and impairment			
At 1 September 2020	102,375	347,711	450,086
Charge for the year	2,625	577	3,202
At 31 August 2021	**105,000**	**348,288**	**453,288**
Net book value			
At 31 August 2021	**-**	**7,992**	**7,992**
At 31 August 2020	2,625	97	2,722

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 or Distribution costs depending on the nature of the underlying asset. For details of impairment assessment, see Note 10.

10. Property, plant and equipment

	Short-term leasehold property £	Fixtures and equipment £	Total £
Cost			
At 1 September 2020	9,722,304	11,626,628	21,348,932
Additions	112,963	769,235	882,198
Transfers to Group companies	(242,542)	(206,609)	(449,151)
Disposals	(241,057)	(171,979)	(413,036)
At 31 August 2021	**9,351,668**	**12,017,275**	**21,368,943**
Accumulated depreciation and impairment			
At 1 September 2020	5,738,950	6,612,757	12,351,707
Charge for the year	763,382	986,533	1,749,915
Impairment	113,607	274,434	388,041
Disposals	(241,057)	(171,979)	(413,036)
At 31 August 2021	**6,374,882**	**7,701,745**	**14,076,627**
Net book value			
At 31 August 2021	**2,976,786**	**4,315,530**	**7,292,316**
At 31 August 2020	3,983,354	5,013,871	8,997,225

10. *Property, plant and equipment (continued)*

Property, plant and equipment (along with Intangible assets) has been tested for impairment by comparing the carrying amount of each store with the recoverable amount determined from value-in-use calculations. The value-in-use of the group of CGUs has been calculated using cash flows derived from the Company's latest Board-approved budget and three year plan and taking into account the projected impact of Covid-19. The forecasts reflect knowledge of the current market, together with the Company's expectations on future achievable growth.

Cash flows beyond the initial forecast period extended to the end of the lease term for each CGU before extrapolating a terminal value using estimated long-term growth rates. This extended period of time is required to establish a normalised cash flow base on which a terminal value calculation can be appropriately calculated. The main reasons for cash flow adjustments include the need to forecast lease renewals under IFRS 16.

The key assumptions on which the forecast three-year cash flows of the CGUs are based include sales and the pre-tax discount rate. Other assumptions in the model relate to gross margin, cost inflation and longer-term growth rates. The forecasts used in the impairment review are based on management's best estimate of revenue versus a 'pre-Covid' base, and the recovery and growth in revenue over the forecast period. In developing these forecasts, management have used available information, including historical knowledge of the store level cash flows, and knowledge gained during the pandemic up to the year end date.

Store revenue is assumed to be approximately 16% below 2019 levels initially in the year ended 31 August 2022, with growth throughout the year resulting in revenue being slightly ahead of 2019 levels in the final quarter of the next financial year. The second and third years of the three year plan include further gradual growth expectations across all locations.

The pre-tax discount rates are derived from the WH Smith Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include the risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rate used in the calculation was 10.4 % (2020: 8.9 %).

The result of the impairment resulted in an impairment of £388,041 (2020: £3,843,000) to property, plant and equipment and £nil (2020: £3,000) to intangible assets. Sensitivity analysis is outlined on page 21.

11. Leases

	2021 £	2020 £
Right-of-use assets		
- Property	48,385,195	52,627,408
At 31 August 2021	**48,385,195**	**52,627,408**

During the year, additions to right-of-use assets were £3,210,418 (2020: £6,828,127 *restated*) which include new leases, extensions to the existing lease, lease modifications and remeasurements.

	2021 £	2020 £
Lease liability		
- Current	13,852,052	10,418,366
- Non-current	62,667,300	69,570,929
At 31 August 2021	**76,519,352**	**79,989,295**

11. Leases (continued)

	2021 £	2020 £
Amounts recognised in the Income statement		
Depreciation on right-of-use assets		
- Property	6,812,753	7,560,959
Impairment of right-of-use assets		
- Property	372,252	7,578,368
Income relating to Covid-19 rent reductions	61,311	-
Interest on lease liabilities	1,170,008	1,247,445
Expense relating to short-term leases	721,478	964,518
Expense relating to variable leases	302,812	898,591
Income relating to the sub-lease of right-of-use asset	(202,124)	(199,225)

The total cash outflow for leases in the financial year was £7,368,777 (2020: £9,686,108).

12. Trade and other receivables

	2021 £	2020 £
Amounts falling due within one year:		
Trade receivables	181,235	116,295
Lease receivables - amounts owed by group undertakings	1,697,556	1,658,229
Amounts owed by group undertakings	92,910,409	54,815,749
Other receivables	43,047	131,765
Prepayments and accrued income	13,299	12,401
	94,845,546	**56,734,439**
Amounts falling due after more than one year:		
Lease receivables - amounts owed by group undertakings	15,336,404	16,009,355
Prepayments and accrued income	132,626	260,522
	110,314,576	**73,004,316**

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

	2021 £	2020 £
Trade payables	1,262,424	1,760,938
Amounts owed to group undertakings	86,505,472	46,083,679
Corporation tax	-	-
Other payables	4,774,279	6,264,223
Accruals and deferred income	1,504,529	1,869,417
	94,046,704	**55,978,257**

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

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% pa). 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 last actuarial valuation of the Scheme was performed by the Scheme Actuary for the Trustees as at 5 April 2018. This valuation revealed a funding shortfall of £235,000. In respect of the shortfall in the Scheme as at 5 April 2018, the Company agreed to pay £56,000 per annum, over the period 1 December 2018 to 31 March 2022. The Company therefore expects to pay £56,000 to the Scheme during the accounting year beginning 1 September 2021. The next actuarial valuation of the Scheme is due as at 5 April 2021. The contributions paid during the accounting year beginning 1 September 2021 may be different to those above if a new Schedule of Contributions is agreed over the period. In addition, all expenses involved in running the Scheme and the costs of any levies (including the PPF levies) will be paid directly by the Company as and when they fall due.

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 above have a quoted market price in an active market.

		2021		**2020**
	%	**£**	**%**	**£**
Diversified Growth Funds (DGFs)	66	4,839,000	67	4,578,000
Liability Driven Investments (LDI)	24	1,785,000	22	1,557,000
Cash and derivatives	1	16,000	1	66,000
Other	9	681,761	10	658,757
Fair value of plan assets		7,321,761		6,859,757
Present value of the obligations		(7,707,000)		(7,995,000)
Deficit recognised in the balance sheet		**(385,239)**		**(1,135,243)**
Related deferred tax asset (Note 8)		96,250		215,650
Net defined benefit scheme deficit		**(288,989)**		**(919,593)**

WH Smith Hospitals Limited

Notes to the financial statements (continued)
Year ended 31 August 2021

14. Retirement benefit obligations (continued)

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

	2021 £	2020 £
Net interest cost on the defined benefit liability	(19,000)	(20,000)

The amount recognised in the Statement of Comprehensive income was:

	2021 £	2020 £
Actuarial gains due to experience differing from that assumed	381,000	-
Actuarial losses due to changes in demographic assumptions	(70,000)	(19,000)
Actuarial losses due to changes in financial assumptions	(111,000)	(158,000)
Actuarial gains / (losses) on defined benefit obligation	200,000	(177,000)
Actual return on assets less interest	513,000	98,000
	713,000	(79,000)

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

	2021 £	2020 £
At start of year	7,995,000	7,839,000
Current service cost	-	-
Interest cost	138,000	144,000
Actuarial (gain) / loss	(200,000)	177,000
Benefits paid	(226,000)	(165,000)
At end of year	7,707,000	7,995,000

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

	2021 £	2020 £
At start of year	6,860,757	6,747,753
Interest income	119,000	124,000
Actuarial gain	513,000	98,000
Contributions from the sponsoring companies	56,000	56,004
Benefits paid	(226,996)	(165,000)
At end of year	7,321,761	6,860,757

14. Retirement benefit obligations (continued)

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

	2021	2020
Discount rate	1.75%	1.75%
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions payments and deferred pensions	2.00%-2.55%	1.90%-3.00%
RPI inflation assumptions	3.45%	3.10%
CPI inflation assumptions	2.55%	2.30%
Life expectancy for an individual currently aged 65 – male	21.9 years	21.6 years
Life expectancy for an individual currently aged 65 – female	24.3 years	23.5 years
Life expectancy for an individual currently aged 45 – male	23.2 years	22.9 years
Life expectancy for an individual currently aged 45 – female	25.7 years	25.1 years

Amounts for the current and previous years are as follows:

	2021 £	2020 £
Defined benefit obligation	(7,707,000)	(7,995,000)
Plan assets	7,321,761	6,859,757
Deficit	(385,239)	(1,135,243)

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.

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 2021, 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 2021
Discount rate + 0.5% pa / - 0.5% pa	- 7% / + 7%
RPI and CPI inflation + 0.5% pa / - 0.5% pa	+ 3% / - 3%
Assumed life expectancy + 1 year	+ 4%

15. Called up share capital

	2021		**2020**	
	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
	1,000,000	**1,000,000**	**1,000,000**	**1,000,000**

16. Operating lease receivable maturity analysis

	2021 £	**2020 £**
Less than 1 year	192,222	157,864
1 to 2 years	90,780	119,976
2 to 3 years	28,781	59,691
3 to 4 years	25,000	25,000
4 to 5 years	1,438	25,000
More than 5 years	-	1,370
	338,221	**388,901**

17. Capital commitments

Contracts placed for future capital expenditure approved by the directors but not incurred in these financial statements amounts to £49,763 (2020: £nil).

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