REVISED ACCOUNTS

Company Registration No. 09178521

HLR Schools Limited

Report and Financial Statements

31 December 2017

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HLR Schools Limited

Report and financial statements 2017

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HLR Schools Limited

Report and financial statements 2017

Officers and professional advisers

Directors

G Doctor (appointed 19 July 2017)
C R Field
S M Jones
K S Hawkins
J G Doshi (appointed 7 September 2017)
J L Fox (appointed 7 September 2017)
T Meredith (appointed 19 October 2017)

Company secretary

J A Cheadle

Registered Office

55 Baker Street
London
United Kingdom
W1U 8EW

Bankers

Lloyds Bank plc

Auditor

Deloitte LLP
Statutory Auditor
London

HLR Schools Limited

Strategic report

The directors present their annual report on the affairs of HLR Schools Limited ("the company"), together with the audited financial statements and auditors' report for the year to 31 December 2017.

Business review and principal activities

The company is a wholly-owned subsidiary of HLR Schools Holding Limited ("HLRHL").

The principal activity of the company is to design, build and finance 7 schools under the Education Funding Agency's Priority School Building Programme, using private finance funding.

Results

As shown in the company's Income statement on page 8, the company made a profit of £254,156 (2016: £260,878) in the year.

Financial position

The directors are satisfied with the net asset position of the company at the year end. Net assets of £493,024 (2016: £388,868) as shown in the Statement of financial position on page 9 are in line with expectation.

Future developments

The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the next year.

Principal risks and uncertainties

The principal risks to which the company is exposed include:

Credit risk

The company's credit risk is attributable to its future unitary charge income from its sole customer. The credit risk and associated cash flow risk are not considered significant as the sole customer is the Department for Education.

Interest rate risk

The company's bank loan bears interest at a fixed rate. As such the directors consider the interest rate risk to be effectively mitigated.

Liquidity risk

The company mitigates its liquidity risk by the use of long-term borrowings and by maintaining reserve bank accounts to provide short-term liquidity against future debt service and other expenditure requirements. The directors acknowledge that, during drawdown, the company took the risk on the solvency of the lending institution. However, given the senior loan was fully drawn down in 2016, this risk has been mitigated. In addition, the company maintains a rolling cash flow forecast based on the bank-approved financial model, which is regularly updated to reflect actual cash movements and any projected changes. This forecast is used to monitor the company's ability to meet its future cash commitments and ensure compliance with the bank covenants.

Strategic report (continued)

Key Performance Indicators

The company monitors results through two key performance indicators:

- Monitoring of the performance and unavailability deductions levied by the Education Funding Authority; and
- Cash flows being in accordance with the financial close model.

Going concern

The company meets its day to day working capital requirements principally through receipt of the monthly unitary charges raised. As a result of market uncertainty due to the economic environment, the ability of key sub-contractors to continue to meet their contractual commitments is considered the main potential risk to the company.

The directors do not consider the ability of the sole customer, the Department for Education, to pay future unitary fees to be a material risk.

The company's forecasts and projections, taking into account the above risks show that the company expects to be able to continue to operate within the level of its facilities and continue to meet loan covenants. The principal loan covenants are historic and forecast financial ratios.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Approved by the Board of Directors
and signed on behalf of the Board

J A Cheadle
Company Secretary
10th May 2018

HLR Schools Limited

Directors' report

The directors of HLR Schools Limited ("the company") present their annual report and the audited financial statements for the year to 31 December 2017.

Details of key performance indicators, future developments and events that have occurred after the Statement of financial position date can be found in the Strategic report on pages 2-3 and form part of this report by cross-reference.

Directors

The directors, who served throughout the year except as noted are shown on page 1.

On 19 July 2017 Graeme Doctor was appointed as director and Nigel W M G Chism resigned. On 7 September 2017, Jayesh Doshi and Joanna Fox were appointed and on 19 October Trisan Meredith was appointed. On 18 April 2018 Fred I Maroudas resigned.

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Share capital

The share capital comprises £1,000, (2016: 1,000) ordinary shares of £1.

Dividends

Dividends of £150,000 have been paid in the year and the directors recommend that no final dividend be paid (2016: £nil).

Disclosure of information to auditor

Each of the directors at the date of approval of this report confirms that:

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

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

Auditor

Deloitte LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial period will be proposed in accordance with Section 487(2) of the Companies Act 2006 and, unless the company receives notice under Section 488(1) of the Act, offer themselves for reappointment as auditor in accordance with the Companies Act.

Approved by the Board of Directors
and signed on behalf of the Board

J A Cheadle
Secretary
10th May 2018

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of HLR Schools Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of HLR Schools Limited (the 'company') which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Independent auditor's report to the members of HLR Schools Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Makhan Chahal ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
10th May 2018

HLR Schools Limited

Income statement
For the year ended 31 December 2017

	Notes	2017 £	2016 £
Revenue		16,393,248	93,487,100
Cost of sales	3	(15,988,215)	(92,985,656)
Gross profit		405,033	501,444
Administrative expenses		(338,666)	(35,944)
Operating profit		66,367	465,500
Finance income	4	5,891,344	2,453,030
Finance costs	5	(5,642,967)	(2,592,433)
Profit on ordinary activities before taxation	6	314,744	326,097
Tax on profit on ordinary activities	7	(60,588)	(65,219)
Profit on ordinary activities after taxation		254,156	260,878

All results are derived from continuing operations. The company had no other recognised gains or losses for the year. Accordingly, no statement of other comprehensive income is required.

The notes on pages 13 to 27 form part of these financial statements

HLR Schools Limited

Statement of financial position
As at 31 December 2017

	Notes	2017 £	2016 £
Non-current assets			
Financial asset	8	135,033,814	124,107,681
Current assets			
Trade and other receivables	9	212,172	1,568,266
Cash at bank and in hand		6,202,959	26,672,480
Short term investments	10	4,590,000	4,766,783
Total current assets		11,005,131	33,007,529
Current liabilities			
Trade and other payables	11	(3,906,296)	(9,931,641)
Corporation tax		(98,581)	(79,464)
Borrowings	13	(4,680,741)	(4,909,179)
Net current assets		2,319,513	18,087,245
Total assets less current liabilities		137,353,327	142,194,926
Non-current liabilities			
Borrowings	12/13	(136,860,303)	(141,806,058)
Net assets		493,024	388,868
Equity			
Called up share capital	14	1,000	1,000
Retained earnings	15	492,024	387,868
Equity attributable to the owners of the Company		493,024	388,868

The financial statements of HLR Schools Limited, registered number 09178521 were approved by the Board of Directors on 10 May 2018.

Signed on behalf of the Board of Directors



Graeme Doctor
Director

The notes on pages 13 to 27 form part of these financial statements.

HLR Schools Limited

Statement of changes in equity
For the year ended 31 December 2017

	Called up share capital £	Retained earnings £	Total £
Balance at 1 January 2016	1,000	126,990	127,990
Profit for the period	-	260,878	260,878
Total comprehensive income for the period	-	260,878	260,878
Balance at 31 December 2016	1,000	387,868	388,868
Profit for the year	-	254,156	254,156
Total comprehensive income for the year	-	254,156	254,156
Dividend	-	(150,000)	(150,000)
Balance at 31 December 2017	1,000	492,024	493,024

The notes on pages 13 to 27 form part of these financial statements.

HLR Schools Limited

Cash flow statement
Year ended 31 December 2017

	Note	2017 £	2016 £
Net cash inflow from operating activities	a	(15,322,114)	(92,114,322)
Financing activities			
Dividends paid		(150,000)	-
Increase in share capital		-	-
Increase in borrowings		(5,174,190)	113,715,527
Net cash from financing activities		(5,324,190)	113,715,527
Net increase in cash and cash equivalents	b	(20,646,304)	21,601,205
Cash and cash equivalents at the beginning of the year		31,439,263	9,838,058
Cash and cash equivalents at the end of the year	c	10,792,959	31,439,263

The notes on pages 13 to 27 form part of these financial statements.

HLR Schools Limited

Notes to the Cash flow statement
Year ended 31 December 2017

	2017 £	2016 £
a) Net cash from operating activities		
Profit before taxation	314,744	723,617
Adjustment for:		
Finance income	(5,891,344)	(2,453,030)
Finance costs	5,642,967	2,194,864
Operating cash flows	66,367	465,451
Movements in finance asset	(10,926,133)	(91,762,570)
(Increase) in receivables	1,356,094	(765,534)
Increase in payables	(6,365,013)	1,447,972
Cash generated by operations	(15,868,685)	(90,614,681)
Finance income	(5,303,301)	35,973
Finance cost	5,891,344	(1,517,614)
Income tax paid	(41,472)	(18,000)
Net cash from operating activities	(15,322,114)	(92,114,322)

b) Analysis of changes in net debt

	At 31 December 2016 £	Cash flow £	At 31 December 2017 £
Cash and bank balances	31,439,263	(20,646,304)	10,792,959
Borrowings	(146,317,717)	4,776,673	(141,541,044)
Net debt	(114,878,454)	(15,869,631)	130,748,085

Borrowings comprise sole subordinated and senior loan, as per note 13.

c) Cash and cash equivalents

	2017 £	2016 £
Cash and bank balances	6,202,959	26,672,480
Short term investments	4,590,000	4,766,783
	10,792,959	31,439,263

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

Basis of accounting

HLR Schools Limited is a company incorporated in the United Kingdom under the Companies Act. The company is registered in England and Wales and is a private company limited by shares. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the business review on page 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 3. The Strategic report also describes the financial position of the company; its cash flows, liquidity position and borrowing facilities and exposure to credit, liquidity and cash flow risk.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the company has not applied the following new and revised

IFRSs that have been issued but are not yet effective and had not yet been adopted by the EU:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted; IFRS 9 will impact both the measurement and disclosures of financial instruments; and IFRS 15 may have an impact on revenue recognition and related disclosures.

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements of IFRS 9, which are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model, will generally result in earlier recognition of credit losses.

IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The disclosure requirements are also more extensive.

Beyond this, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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 statement of financial position date.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

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 basis 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 statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position 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.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current tax and deferred tax for the period

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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Revenue

Revenue, which is stated net of value added tax, represents amounts invoiced for services provided in the year after allowing for the repayment of, and interest imputed on, the finance asset (see below).

Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

Financial Assets

The company has adopted IFRIC 12 - Service Concession Arrangements whereby the client the Education Funding Agency has contracted with the company to finance design, build and operate 7 schools for 25 years. IFRIC 12 draws a distinction between two types of concession arrangement; financial asset and intangible asset. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

In accordance with IFRIC 12 the company has an unconditional right to receive specified or determinable amounts of cash from the client in return for constructing and then operating and maintaining the schools. In the construction phase, income is recognised by applying an attributable profit margin on the construction costs representing the fair value of construction services. In the operational phase, income is recognised by allocating a proportion of total cash received over the life of the project to service costs by means of a deemed constant rate of return on these costs. The residual element of projected cash is allocated to the financial asset using the effective interest rate method giving rise to interest income. Due to the nature of the contractual arrangements the projected cash flows can be estimated with a high degree of certainty. Investment income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the PPP financial asset to that asset's net carrying amount on initial recognition.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit and loss ("FVTPL").

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, including redeemable notes classified as available for sale ("AFS") and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When available for sale financial asset is considered impaired, cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit and loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the financial statements
Year ended 31 December 2017

1. Accounting policies (continued)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Operating profit

Operating profit is stated after charging operating costs but before investment income and finance costs.

Notes to the financial statements
Year ended 31 December 2017

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

There are no critical judgements the Directors have made in the process of applying the Group's accounting policies.

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Notwithstanding this, as disclosed in Note 1, the company accounts for the project as a service concession arrangement. The directors use their judgement in selecting the appropriate financial asset rate to be applied in order to allocate the income received between revenue, and capital repayment of and interest income on the financial asset; and also the service margin that is used to recognise service revenue. The directors have also used their judgement in assessing the appropriateness of the future maintenance costs that are included in the company's forecasts. The directors will continue to monitor the condition of the assets and undertake a regular review of maintenance spend.

3. Revenue

	2017 £	2016 £
Unitary charge	817,477	116,133
Deemed sales	15,575,771	93,370,967
	16,393,248	93,487,100

All revenue arose from the one activity and in the United Kingdom.

4. Finance income

	2017 £	2016 £
Bank interest receivable	43,105	35,973
Finance income on financial asset	5,848,239	2,417,057
	5,891,344	2,453,030

Notes to the financial statements
Year ended 31 December 2017

5. Finance costs

	2017 £	2016 £
Bank loan interest	4,390,332	2,413,485
Subordinate loan interest	1,252,635	178,948
	5,642,967	2,592,433

6. Profit on ordinary activities before taxation

	2017 £	2016 £
Operating profit is stated after charging:		
Fees payable to the company's auditor:		
For the audit of the annual accounts:		
Company	6,600	6,600
Parent (borne by the company)	1,000	1,000
Total audit fees	7,600	7,600
Non-audit services:		
Taxation compliance services	1,600	2,100
Total non-audit fees	1,600	2,100
Total fees	9,200	9,700

7. Taxation

	2017 £	2016 £
(a) Tax on profit		
The tax charge comprises:		
Current tax:		
UK corporation tax on profits in the year	60,588	65,219
Total tax on profit	60,588	65,219

The main rate of corporation tax reduced from 20% to 19% effective 1 April 2017, giving an effective corporation tax rate for the year ended 31 December 2017 of 19.25%. Finance Act 2016 provided for a further rate reduction from 19% to 17% effective from 1 April 2020. These rate reductions have been reflected in the calculation of deferred tax assets and liabilities at the statement of financial position date.

Notes to the financial statements
Year ended 31 December 2017

7. Taxation (continued)

(b) Factors affecting tax charge for the year

The total tax assessed for the year is calculated by applying the standard rate of corporation tax in the UK.

	2017 £	2016 £
Profit before tax	314,744	326,097
Profit multiplied by effective rate of UK corporation tax of 19.25% (2016: 20%)	60,588	65,219
Effect of prior year adjustment	-	-
	60,588	60,219

Blended rate for 2017

There is no deferred tax asset or liability at the statement of financial position date.

8. Financial asset

	2017 £	2016 £
At 1 January	124,107,681	30,605,304
Additions in the year	10,926,133	93,502,377
At 31 December 2017	135,033,814	124,107,681

9. Trade and other receivables

	2017 £	2016 £
Trade receivables	117,224	331,689
Prepayments and accrued income	94,948	68,688
Other taxes	-	1,167,889
	212,172	1,568,266

Notes to the financial statements
Year ended 31 December 2017

10. Short-term investments

	2017 £	2016 £
Bank deposits	4,590,000	4,766,783

11. Trade and other payables

	2017 £	2016 £
Trade payables	219,768	284,778
Accruals and deferred income	1,341,343	6,500,055
Construction retention	2,028,585	2,967,860
Subordinated loan interest accrued	316,600	178,948
	3,906,296	9,931,641

12. Non-current liabilities

	2017 £	2016 £
Bank loan (secured)	123,318,303	127,866,538
Subordinated loan (unsecured)	13,542,000	13,542,000
	136,860,303	141,408,538

13. Borrowings

Borrowings are constituted as follows:

	2017 £	2016 £
Bank loan (secured)	131,609,806	136,518,985
Subordinated loan (unsecured)	13,542,000	13,542,000
Less: Interest charge control account	(3,610,762)	(3,345,748)
	141,541,044	146,715,237

Bank loans are repayable as follows:	2017 £	2016 £
Within one year	4,680,741	4,909,179
Between one and five years	10,931,234	19,508,448
Over five years	106,997,831	112,101,358
	131,609,806	136,518,985

Notes to the financial statements
Year ended 31 December 2017

13. Borrowings (continued)

The bank loan, secured by way of a debenture over the company, is under a facility agreement with a consortium of lenders. The bank loan bears a fixed interest rate of 3.442% and is repayable in instalments to November 2040. As a result of associated borrowing costs, the effective rate for the loan is 3.7%.

As described in note 1, the company only capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying assets under IFRIC 12, otherwise they are allocated to the Interest charge control account. Borrowing costs of £nil (2016: £590,266) have been capitalised during the year at a rate of nil% (2016: 4.4%).

The subordinated loan provided by the company's parent, HLR Schools Holding Limited, has a fixed interest rate of 9.25%.

14. Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1,000	1,000

15. Retained earnings

	Retained earnings £
At 1 January 2016	126,990
Profit for the year	260,878
At 31 December 2016	387,868
Profit for the year	254,156
Dividend	(150,000)
At 31 December 2017	492,024

Notes to the financial statements
Year ended 31 December 2017

16. Transactions with directors and other related parties

There were no transactions with the directors in the year.

During the year, the company carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties and the total value of transactions are shown below:

	2017		2016	
	Value of transactions £	Payable at year end £	Value of transactions £	Payable at period-end £
Kajima Partnerships Limited	273,969	-	406,885	-
Interserve Investment Limited	-	-	113,920	-

Kajima Partnerships Limited ("KPL") and Interserve Investments Limited ("IIL) each holds a 45% interest in the company's parent HLRHL. KPL is a member of the Kajima group of companies. The transactions were in respect of: KPL — employer's agent fees and management services. IIL ¬ Development fees.

17. Financial instruments

Company primary financial instruments 2017	Loans and receivables at amortised cost £	Available for sale financial assets £	Financial liabilities measured at amortised cost £	Total carrying amount £
Financial asset	135,033,814	-	-	135,033,814
Trade and other receivables*	117,224	-	-	117,224
Cash and cash equivalents	-	10,792,959	-	10,792,959
Financial assets	135,151,038	10,792,959	-	145,943,997
Trade and other payables**	-	-	536,368	536,368
Borrowings	-	-	141,541,044	141,541,044
Financial liabilities	-	-	142,077,412	142,077,412

Notes to the financial statements
Year ended 31 December 2017

17. Financial instruments (continued)

Company primary financial instruments 2016	Loans and receivables at amortised cost £	Available for sale financial assets £	Financial liabilities measured at amortised cost £	Total carrying amount £
Financial asset	124,107,681	-	-	124,107,681
Trade and other receivables*	1,499,578	-	-	1,499,578
Cash and cash equivalents		31,439,263	-	31,439,263
Financial assets	125,607,259	31,439,263	-	157,046,522
Trade and other payables**	-	-	463,726	463,726
Borrowings	-	-	146,715,237	146,715,237
Financial liabilities	-	-	147,178,963	147,178,963

*Defined as total trade and other receivables excluding prepayments and accrued income.

**Defined as total trade and other payables including related party balances excluding accruals, deferred income, taxation and social security and other non-financial liabilities.

Financial risk management

The company is exposed to a variety of risks including interest rate risk, credit risk and liquidity risk as stated and mitigated in the directors report.

Interest rate risk management

The company mitigates exposure to interest rate risk because it borrows funds at only fixed interest rates.

The company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company and is managed as per disclosed in the Directors report.

Apart from the Department for Education, the sole customer of the company (see below), the company does not have any significant credit risk exposure to any single counterparty or any company of counterparties having similar characteristics.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, as described in the Directors' report.

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Year ended 31 December 2017

17. Financial instruments (continued)

Liquidity and interest risk tables

The following table details the company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The table includes both interest and principal cash flows as owed at the balance sheet date. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date. The contractual maturity is based on the earliest date on which the company may be required to pay.

	Subordinated fixed interest rate loan £	Senior debt fixed interest rate loan £	Total £
31 December 2017			
Weighted average effective interest rate (%)	9.25%	4.4%	
Within 1 year	-	4,680,741	4,680,741
1-5 years	-	19,931,234	19,931,234
5+ years	13,542,000	106,997,831	120,539,831
Total	13,542,000	131,609,806	145,151,806

	Subordinated fixed interest rate loan £	Senior debt fixed interest rate loan £	Total £
31 December 2016			
Weighted average effective interest rate (%)	9.25%	4.4%	-
Within 1 year	-	4,909,179	4,909,179
1-5 years	-	19,508,448	19,508,448
5+ years	13,542,000	112,101,358	125,643,358
Total	13,542,000	136,518,985	150,060,985

18. Directors remuneration

No Director received any remuneration for services provided to the company during the year (2016: £nil).

19. Employees

The company had no employees in the year (2016: nil).

Notes to the financial statements
Year ended 31 December 2017

20. Ultimate and immediate parent company

The company's immediate parent company is HLR Schools Holding Limited, a company incorporated in Great Britain. The only group of which the company is a member and for which group financial statements are prepared is HLR Schools Holding Limited. Copies of its financial statements are available at this company's registered office: 55 Baker Street, London W1U 8EW.

Kajima Partnerships Limited ("KPL") and Interserve Investments Limited ("IIL") each hold a 45% interest in HLR Schools Holding Limited and have equal representation on the board of directors, therefore the directors do not consider the company to have an ultimate parent company as no one entity has ultimate control.

KPL's registered office is: 55 Baker Street, London, WIU 8EW.

IIL's registered office is: Interserve House, Ruscombe Park, Twyford, Reading, Berkshire, RG10 9JU.