

# **Ayrshire Hospitals Limited**

Directors' report and financial statements

Registered number SC248921

Year ended 31 August 2016



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## **Directors and Advisors**

### **Directors**

Rory Christie  
Stephen Gordon

### **Registered Office**

c/o Maclay Murray and Spens LLP  
Quartermile One,  
15 Lauriston Place  
Edinburgh  
EH3 9EP

### **Company Secretary**

Peter Johnstone

### **Registered Auditor**

Johnston Carmichael LLP  
7-11 Melville Street  
Edinburgh  
EH3 7PE

### **Solicitors**

Maclay Murray & Spens LLP  
Quartermile One  
15 Lauriston Place  
Edinburgh  
EH3 9EP

### **Bankers**

Allied Irish Bank  
227 West George Street  
Glasgow  
G2 2ND

## **Directors' Report**

The directors present their annual report and audited financial statements for the year ended 31 August 2016.

### **Principal activities**

The principal activity of the company is the construction and maintenance of a hospital unit under the PFI/PPP scheme. The company entered into a long term contract on 6 October 2004 with Ayrshire & Arran Health Authority for the construction and maintenance of Ayrshire Maternity Unit (AMU). Construction of AMU was completed during the year to 31 August 2006 and the company continues to provide facilities management and maintenance under the PFI/PPP contract entered into in October 2004. The facility continues to be a success and the company continues to operate in line with the financial model agreed at financial close.

The loss for the year after taxation and fair value movements on cash flow hedging instruments is £1,542,664 (2015: £394,233) as set out in the Statement of Comprehensive Income on page 7. The loss for the year will be transferred to reserves.

This is the first year that the financial statements have been reported under FRS 102. As the transition was effective from 1 September 2014, comparatives with 2015 have also been restated where necessary, in order to comply with FRS 102. Details of how FRS 102 has affected the reported financial position and financial performance are given in note 19.

### **Dividend**

The directors do not recommend the payment of a dividend (2015: £ nil).

### **Directors**

The directors who held office during the year and after the year end are set out below.

Rory Christie

John McDonagh (resigned 02 March 2017)

Stephen Gordon (appointed 02 March 2017)

### **Financial Instruments**

Due to the nature of the company's business, the financial risks the directors consider relevant to the company are credit, interest rate, cash flow and liquidity risk.

### **Interest Rate Risk**

The financial risk management objectives of the company are to ensure that the financial risks are mitigated by the use of financial instruments. The company uses interest rate swaps to reduce its exposure to interest rate movements. Financial instruments are not used for speculative purposes.

### **Liquidity Risk**

The company's liquidity risk is principally managed through financing the company by means of long term borrowing.

### **Auditors**

Johnston Carmichael LLP were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they will be reappointed will be put at a General Meeting.

**Disclosure of information to the auditor**

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

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption.

By order of the board



P Johnstone  
Secretary  
Date: 23 March 2017

## **Statement of Directors' Responsibilities in respect of the Directors' Report and the financial statements**

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The Directors' Responsibilities were approved by the board on 23 March 2017 and signed on its behalf by:



P Johnstone  
Secretary

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AYRSHIRE HOSPITALS LIMITED**

### **Year end 31 August 2016**

We have audited the financial statements of Stonehouse Hospitals Limited for the year ended 31 August 2016 on pages 7 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland and Chapter 1A Small Entities."

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.

#### **Respective responsibilities of directors and auditor**

As more fully explained in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify any material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of our audit, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and the Directors' Report 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 have not identified any material misstatements in the Directors' Report.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' Report and from preparing a strategic report.

*Johnston Carmichael LLP*

**Irvine Spowart (Senior Statutory Auditor)**  
**for and on behalf of Johnston Carmichael LLP**

**Chartered Accountants**

**Statutory Auditor**

7-11 Melville Street

Edinburgh

EH3 7PE

Date 4 April 2017

**Statement of Comprehensive Income**  
*for the year ended 31 August 2016*

|                                                                      | <i>Note</i> | <b>2016</b><br><b>£</b> | <b>2015</b><br><b>£</b> |
|----------------------------------------------------------------------|-------------|-------------------------|-------------------------|
| <b>Turnover</b>                                                      | <i>1</i>    | <b>1,510,514</b>        | 1,364,120               |
| Operating expenses                                                   | <i>2</i>    | <b>(1,132,106)</b>      | (790,785)               |
| Operating expenses - exceptional                                     | <i>16</i>   | -                       | (295,000)               |
| <b>Operating profit</b>                                              |             | <b>378,408</b>          | 278,335                 |
| Interest receivable and similar income                               | <i>5</i>    | <b>812,862</b>          | 827,390                 |
| Interest payable and similar charges                                 | <i>6</i>    | <b>(1,138,344)</b>      | (1,160,014)             |
| <b>Profit/(loss) on ordinary activities before taxation</b>          |             | <b>52,926</b>           | (54,289)                |
| Tax on profit/(loss) on ordinary activities                          | <i>7</i>    | <b>(10,585)</b>         | 10,858                  |
| <b>Profit/(loss) for the financial year end</b>                      |             | <b>42,341</b>           | (43,431)                |
| Fair value movements on cash flow hedging instruments,<br>net of tax |             | <b>(1,585,005)</b>      | (350,803)               |
| <b>Total comprehensive expense for the year</b>                      |             | <b>(1,542,664)</b>      | (394,234)               |

All the activities of the company are from continuing activities.

The notes on pages 10 to 20 form part of the financial statements.

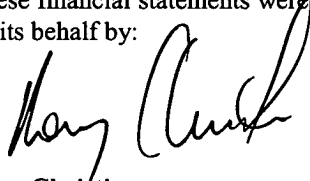
## Statement of Financial Position

at 31 August 2016

|                                                                | Note | 2016<br>£           | 2015<br>£           |
|----------------------------------------------------------------|------|---------------------|---------------------|
| <b>Current assets</b>                                          |      |                     |                     |
| Debtors - due within one year                                  | 8    | 631,924             | 805,508             |
| Debtors - due after more than one year                         | 8    | 15,902,916          | 16,219,974          |
| Deferred tax asset                                             | 11   | 1,224,062           | 997,821             |
| <b>Total debtors</b>                                           |      | <b>17,758,902</b>   | <b>18,023,303</b>   |
| Cash at bank and in hand                                       |      | 2,374,668           | 2,385,742           |
|                                                                |      | <b>20,133,570</b>   | <b>20,409,045</b>   |
| <b>Creditors: amounts falling due within one year</b>          | 9    | <b>(1,945,797)</b>  | <b>(2,192,123)</b>  |
| <b>Current assets less current liabilities</b>                 |      | <b>18,187,773</b>   | <b>18,216,922</b>   |
| <b>Creditors: amounts falling due after more than one year</b> | 10   | <b>(22,191,878)</b> | <b>(20,952,609)</b> |
| Provisions for liabilities and charges                         | 12   | (1,465,193)         | (1,190,947)         |
| <b>Net liabilities</b>                                         |      | <b>(5,469,298)</b>  | <b>(3,926,634)</b>  |
| <b>Capital and reserves</b>                                    |      |                     |                     |
| Called up share capital                                        | 13   | 2,000               | 2,000               |
| Hedging reserve                                                | 14   | (5,576,290)         | (3,991,285)         |
| Retained earnings                                              | 14   | 104,992             | 62,651              |
| <b>Shareholders' deficit</b>                                   |      | <b>(5,469,298)</b>  | <b>(3,926,634)</b>  |

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

These financial statements were approved by the board of directors and authorised for issue on 23 March 2017 and were signed on its behalf by:



**Rory Christie**  
Director

**Statement of Changes of Equity**  
*Year to 31 August 2016*

|                                                                   | <b>Called up<br/>share<br/>capital<br/>£</b> | <b>Profit<br/>and loss<br/>account<br/>£</b> | <b>Hedge<br/>Reserve<br/>£</b> | <b>Total<br/>Equity<br/>£</b> |
|-------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|--------------------------------|-------------------------------|
| <b>At 1 September 2014</b>                                        | 2,000                                        | 106,082                                      | (3,640,482)                    | (3,532,400)                   |
| Loss for the year                                                 | -                                            | (43,431)                                     | -                              | (43,431)                      |
| Other comprehensive income for the year:                          |                                              |                                              |                                |                               |
| Fair value movements on cash flow hedging instruments, net of tax | -                                            | -                                            | (350,803)                      | (350,803)                     |
|                                                                   | <b>2,000</b>                                 | <b>62,651</b>                                | <b>(3,991,285)</b>             | <b>(3,926,634)</b>            |
| <b>As at 31 August 2015</b>                                       |                                              |                                              |                                |                               |
| Profit for the year                                               | -                                            | 42,341                                       | -                              | 42,341                        |
| Other comprehensive income for the year:                          |                                              |                                              |                                |                               |
| Fair value movements on cash flow hedging instruments, net of tax | -                                            | -                                            | (1,585,005)                    | (1,585,005)                   |
|                                                                   | <b>2,000</b>                                 | <b>104,992</b>                               | <b>(5,576,290)</b>             | <b>(5,469,298)</b>            |
| <b>As at 31 August 2016</b>                                       |                                              |                                              |                                |                               |

## Notes

*(forming part of the financial statements)*

### Company information

Ayrshire Hospitals Limited is a limited company domiciled and incorporated in Scotland. Their registered office is Maclay Murray & Spens LLP, Quartermile One, 15 Lauriston Place, Edinburgh, EH3 9EP.

### Statement of compliance

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006. The disclosure requirements of section 1A of FRS 102 have been applied other than where additional disclosure is required to show a true and fair view.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £. The financial statements have been prepared on the historical cost convention.

These financial statements for the year ended 31 August 2016 are the first financial statements of George Street Capital Limited prepared in accordance with FRS 102 1A. The date of transition to FRS 102 was 01 September 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 19.

### Accounting policies

#### *Basis of preparation*

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting 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 further in the accounting policies.

The principal accounting policies adopted are set out below have been consistently applied to the years presented, unless otherwise stated.

#### *Going concern*

The directors acknowledge that the company is in net liabilities, however this is as a result of the interest rate swaps, which are significantly out of the money, being brought onto the balance sheet. There is no going concern impact as the swaps will not result in an outflow of cash that is in excess of the total debt interest forecast within the company's original projections. It is not the intention to close out these instruments before their maturity date, therefore there is no impact on the company's ability to meet its liabilities as they fall due. After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

#### *Disclosure exemptions*

The company has taken advantage of the exemption in FRS 102 Section 7 'Statement of Cash Flows' part 1B, which states that a small company is not required to prepare a cash flow statement.

***Judgement and key sources of estimation uncertainty***

In the application of the accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount 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 where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

***Critical judgements***

The judgements (apart from those involving estimations) that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

i) Hedge accounting and consideration of the fair value of derivative financial instruments

The company uses a derivative financial instrument to hedge certain economic exposures in relation to movements in interest rates as compared with the position that was expected at the date the underlying transaction being hedged was entered into. The company fair values its derivative financial instrument and records the fair value of the swap instrument on its Statement of Financial Position. No market prices are available for this instrument and consequently the fair value is derived using financial models developed by the lender based on counterparty information that is independent of the company, but uses observable market data in respect of interest rates as an input to valuing the derivative financial instrument. There is also a judgement on whether an economic hedge relationship exists in order to achieve hedge accounting. Appropriate documentation has been prepared detailing the economic relationship between the hedging instrument and the underlying loan being hedged.

The effective interest rate on senior debt instruments was calculated and is not deemed to be materially different to the interest rate applied in the financial statement and as such no adjustment has been made to the interest charge in the financial statements. This will continue to be monitored.

ii) Market rate of interest

The directors have reviewed the interest rates applied to the unsecured subordinated loan stock and consider these to be at a market rate.

***Key sources of estimation uncertainty***

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty are as follows:

i) Accounting for service concession arrangements

Accounting for the service concession contract and finance debtors requires estimation of service margins, finance debtor interest rates and associated amortisation profile which is based on forecast results of the contract. These were forecast initially within the operating model at financial close monitored throughout the duration of the project.

ii) Impairment of assets

The carrying value of those assets recorded in the company's Statement of Financial Position, at amortised cost, could be materially reduced where circumstances exist which might indicate that an asset has been impaired and an impairment review is performed. Impairment reviews consider the fair value and or value in use of the potentially impaired asset or assets and compares that with the carrying value of the asset or assets in the Statement of Financial Position. Any reduction in value arising from such a review would be recorded in the Statement of Comprehensive Income. Impairment reviews involve the significant use of assumptions. Consideration has to be given as to the price that could be obtained for the asset or assets, or in relation to a consideration of value in use, estimates of the future cash flows that could be generated by the potentially impaired asset or assets, together with a consideration of an appropriate discount rate to apply to those cash flows.

### ***Revenue recognition***

Turnover represents the services' share of the management services income received by the company for the provision of a PFI asset to the customer. This income is received over the life of the concession period. Management service income is allocated between turnover, finance debtor interest and reimbursement of finance debtor so as to generate a constant rate of return in respect of the finance debtor over the life of the contract. Turnover is represented net of VAT.

### ***Income tax***

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Current or deferred taxation assets and liabilities are not discounted.

#### **i) Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### **ii) Deferred tax**

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is also recognised on the revaluations of derivative financial instruments, with the movements going through the Statement of Comprehensive Income.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the deferred tax asset or liability.

### ***Provisions***

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the company will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the Statement of Financial Position and the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in the Statement of Comprehensive Income unless the provision was originally recognised as part of the cost of the finance debtor.

### ***Financial instruments***

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102, in full, to all of its financial instruments. A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price and subsequently at amortised cost, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are initially recognised at the present value of cash payable to the lender and are subsequently measured at amortised cost using the effective interest rate method, less impairment. The effective interest rate method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. The effective interest rate amortisation is included in interest payable and similar charges in the Statement of Comprehensive Income.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised. 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 entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the Statement of Financial Position. Finance costs and gains or losses relating to financial liabilities are included in the Statement of Comprehensive Income. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

#### ***Hedge accounting***

The Company has entered into an arrangement with third parties that is designed to hedge future cash flows arising on variable rate interest loan arrangements, with the net effect of exchanging the cash flows arising under those arrangements for a stream of fixed interest cash flows ("interest rate swaps").

To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. Changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ("cash flow hedges") are recognised directly in a hedging reserve in equity and any ineffective portion is recognised immediately in the Statement of Comprehensive Income. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the Statement of Comprehensive Income in the same period in which the hedged item affects net profit or loss or the hedging relationship is terminated and the underlying position being hedged has been extinguished.

#### ***Cash and cash equivalents***

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of six months or less and bank overdrafts.

# 1. Turnover

|                        | 2016<br>£        | 2015<br>£        |
|------------------------|------------------|------------------|
| Turnover arises from : |                  |                  |
| Service fee            | 1,510,514        | 1,364,120        |
|                        | <u>1,510,514</u> | <u>1,364,120</u> |

The whole of the turnover is attributable to the principal activity of the company, wholly undertaken in the UK.

# 2. Operating expenses

|                          | 2016<br>£        | 2015<br>£      |
|--------------------------|------------------|----------------|
| FM management fees       | 881,512          | 642,768        |
| Other operating expenses | 250,594          | 148,017        |
|                          | <u>1,132,106</u> | <u>790,785</u> |

# 3. Result on ordinary activities before taxation

|                                                                                | 2016<br>£ | 2015<br>£ |
|--------------------------------------------------------------------------------|-----------|-----------|
| <i>Profit on ordinary activities before taxation is stated after charging:</i> |           |           |
| Auditor's remuneration:                                                        |           |           |
| Audit of these financial statements                                            | 6,000     | 6,000     |
| Audit of company's fellow group undertakings                                   | 1,500     | 1,500     |
| Other services relating to taxation                                            | 4,500     | 1,600     |
|                                                                                | <u></u>   | <u></u>   |

Auditor's remuneration is payable to Johnston Carmichael LLP (2015: RSM UK Audit LLP)

# 4. Directors' and employees' remuneration

The directors, who are also key management personnel, received no emoluments from the company during the period for their services as directors. There are no other employees of the company.

George Street Capital Limited, the parent company of Ayrshire Hospitals Limited, received fees of £27,631 (2015: £27,328) from the company in respect of the services of J McDonagh and R Christie as directors.

# 5. Interest receivable and similar income

|                                       | 2016<br>£      | 2015<br>£      |
|---------------------------------------|----------------|----------------|
| Bank interest receivable              | 1,825          | 1,809          |
| Interest receivable on finance debtor | 811,037        | 825,581        |
|                                       | <u>812,862</u> | <u>827,390</u> |

## 6. Interest payable and similar charges

|                            | 2016<br>£        | 2015<br>£        |
|----------------------------|------------------|------------------|
| Senior debt                | 949,009          | 968,372          |
| Subordinated loan interest | 189,335          | 191,642          |
|                            | <u>1,138,344</u> | <u>1,160,014</u> |

## 7. Taxation

| Major components of tax expense / (income)                       | 2016<br>£     | 2015<br>£       |
|------------------------------------------------------------------|---------------|-----------------|
| Current corporation tax                                          | 10,585        | (10,292)        |
| Deferred tax timing differences                                  | -             | (566)           |
|                                                                  | <u>10,585</u> | <u>(10,858)</u> |
|                                                                  | <u>10,585</u> | <u>(10,858)</u> |
|                                                                  | 2016<br>£     | 2015<br>£       |
| <b>Factors affecting the tax charge in the year :</b>            |               |                 |
| Profit/(loss) on ordinary activities before taxation             | 52,926        | (54,289)        |
|                                                                  | <u>52,926</u> | <u>(54,289)</u> |
| Corporation tax at 20 % (2015: 20.58%)                           | 10,585        | (11,173)        |
| Losses carried back                                              | -             | 10,591          |
| Adjustments in respect of previous periods                       | -             | (10,292)        |
| Unrelieved tax losses and other deductions arising in the period | -             | 582             |
|                                                                  | <u>-</u>      | <u>582</u>      |
| <b>Total tax charge for the year</b>                             | <u>10,585</u> | <u>(10,292)</u> |

### Factors that may affect future tax expense

On 26 October 2015, a reduction in the UK corporation tax rate from 20% to 18% was substantively enacted. The reduction is to take effect in two stages from 1 April 2017 (19%) and then from 1 April 2020 (18%). As a result, relevant deferred tax balances have been re-measured at the rate at which the majority of the deferred tax balance is expected to unwind.

This change has reduced the deferred tax asset at the Statement of Financial Position date by £136,007.

In his Budget speech on 16 March 2016, the Chancellor of the Exchequer proposed that the above UK corporation tax rate of 18% effective from 1 April 2020 be further reduced to 17%. This change has not been substantively enacted at the balance sheet date, and therefore is not recognised in these financial statements. If enacted, the change would reduce the deferred tax asset at the balance sheet by £68,004.

## 8. Debtors

|                                                                                                   | 2016<br>£         | 2015<br>£         |
|---------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <i>Amounts falling due within one year</i>                                                        |                   |                   |
| Finance debtor                                                                                    | 317,058           | 290,879           |
| Trade debtors                                                                                     | 222,511           | 427,811           |
| Prepayments                                                                                       | 21,730            | 13,606            |
| Corporation tax                                                                                   | 272               | 10,858            |
| Amounts owed by group undertakings and undertakings in which company has a participating interest | 70,353            | 62,354            |
|                                                                                                   | <u>631,924</u>    | <u>805,508</u>    |
|                                                                                                   |                   |                   |
|                                                                                                   | 2016<br>£         | 2015<br>£         |
| <i>Amounts falling due after more than one year</i>                                               |                   |                   |
| Finance debtor                                                                                    | 15,902,916        | 16,219,974        |
|                                                                                                   | <u>15,902,916</u> | <u>16,219,974</u> |
|                                                                                                   |                   |                   |
|                                                                                                   | 2016<br>£         | 2015<br>£         |
| <i>Finance debtor</i>                                                                             |                   |                   |
| At beginning of year                                                                              | 16,510,853        | 16,821,978        |
| Repayments received                                                                               | (290,879)         | (311,125)         |
|                                                                                                   | <u>16,219,974</u> | <u>16,510,853</u> |
| <b>At end of year</b>                                                                             |                   |                   |

The finance debtor represents payments due from NHS Trust in respect of the Project Agreement. These payments are receivable over the remaining life of the agreement.

## 9. Creditors: amounts falling due within one year

|                                | 2016<br>£        | 2015<br>£        |
|--------------------------------|------------------|------------------|
| Senior debt                    | 520,000          | 445,000          |
| Subordinated debt              | 20,978           | 18,495           |
| Trade creditors                | 19,091           | 18,541           |
| Other creditors                | 505,648          | 836,062          |
| Amounts due to related parties | 111,080          | 136,025          |
| Derivative financial liability | 769,000          | 738,000          |
|                                | <u>1,945,797</u> | <u>2,192,123</u> |

**10. Creditors: amounts falling due after more than one year**

|                                | 2016<br>£         | 2015<br>£         |
|--------------------------------|-------------------|-------------------|
| Senior debt (secured)          | 14,731,360        | 15,251,360        |
| Subordinated debt              | 1,429,165         | 1,450,143         |
| Derivative financial liability | 6,031,353         | 4,251,106         |
|                                | <u>22,191,878</u> | <u>20,952,609</u> |

The senior debt is repayable in bi-annual instalments which commenced in October 2004. The final repayment date is September 2033.

The senior debt bears interest based on LIBOR. As part of its interest rate management strategy the company entered into an interest rate swap agreement in respect of the debt maturing in September 2033. Under this swap the company pays interest at a fixed rate of 6.12%.

The loan is secured by a floating charge and standard security over the assets of the company.

Other loans relate to subordinate debt which carries an interest rate of 13%. The principal is repayable on 30 September 2034.

|                                             | 2016<br>£         | 2015<br>£         |
|---------------------------------------------|-------------------|-------------------|
| <i>Debt can be analysed as falling due:</i> |                   |                   |
| In one year or less, or on demand           | 540,978           | 463,495           |
| Between one and two years                   | 583,793           | 520,000           |
| Between two and five years                  | 1,987,315         | 1,810,000         |
| In five years or more                       | 13,589,417        | 14,371,503        |
|                                             | <u>16,701,503</u> | <u>17,164,998</u> |

**11. Deferred tax**

Deferred tax has been provided for at 18% (2015: 20 %) in the financial statements and is set out below:

|                                                         | 2016<br>£               | 2015<br>£             |
|---------------------------------------------------------|-------------------------|-----------------------|
| <b>Deferred tax credit / (charge) comprises:</b>        |                         |                       |
| Deferred tax credit relating to movement in fair value  | 326,023                 | 87,701                |
| Charge relating to change in tax rate                   | (99,782)                | -                     |
| Total tax credit included in other comprehensive income | <u>226,241</u>          | <u>87,701</u>         |
| <b>Deferred tax asset:</b>                              |                         |                       |
| Balance at 1 September                                  | 997,821                 | -                     |
| Credit upon adoption of hedge accounting                | -                       | 910,120               |
| Charged in year                                         | 326,023                 | 87,701                |
| Re state opening balance for change in tax rate         | (99,782)                | -                     |
| <b>Balance at 31 August</b>                             | <u><u>1,224,062</u></u> | <u><u>997,821</u></u> |

The deferred tax asset will unwind over the life of the hedge which expires in September 2033.

No portion of the deferred tax balance is likely to be recovered or settled in the 12 months following the Statement of Financial Position date.

## 12. Provisions for liabilities and charges

A provision has been recognised in respect of future payment due on lifecycle underspends in line with the Facilities Management agreement and the clauses therein.

|                                  | Lifecycle<br>£   |
|----------------------------------|------------------|
| Balance at 1 September 2015      | 1,190,947        |
| Provided in year                 | 274,246          |
| <b>Balance at 31 August 2016</b> | <b>1,465,193</b> |

## 13. Called up share capital

|                                           | 2016<br>£ | 2015<br>£ |
|-------------------------------------------|-----------|-----------|
| <i>Allotted, called up and fully paid</i> |           |           |
| 2,000 Ordinary shares of £1 each          | 2,000     | 2,000     |

## 14. Reserves

The company has two main reserves:

Hedging reserve - This reserve records fair value movements on cash flow hedging instruments.

Retained earnings - This reserve records retained earnings and accumulated losses.

## 15. Hedge Accounting

Derivatives are financial instruments that derive their value from the price of an underlying item, such as interest rates or other indices. The company's use of derivative financial instruments is described below.

### *Interest rate swaps*

The company has entered into an interest rate swap with a third party for a specified amount of the company's variable rate borrowings with banks which has the commercial effect of swapping the variable rate interest coupon on those components of the loan for a fixed rate coupon. The bank loans and related interest rate swaps amortise at the same rate over the life of the loan / swap arrangements. The interest rate swap was entered into at a fixed interest rate of 6.12% in October 2004 and expires in March 2033.

The directors believe that the hedging relationship between the interest rate swap and related variable rate bank loan is highly effective and as a consequence have concluded that these derivatives meet the definition of a cash flow hedge and have formally designated them as such.

The company's derivative financial instrument is carried at fair value. The net carrying value of the interest swap at 31 August 2016 amounted to net liabilities of £6,800,353 (2015: £4,989,106). All the movements during the year in the fair value of these financial instruments have been recorded in the cash flow hedge reserve amounting to a debit of £1,585,005 (2015: £350,803) which has been recorded in the cash flow hedge reserve.

## 16. Exceptional item

In the year to 31 August 2015 there was a post balance sheet adjusting event in relation to monies over charged to the NHS due to an error in the way revenues had been calculated in the financial model. Agreement was reached with the NHS and a settlement quantified at £295,000. The company adjusted the accounts last year as these amounts related to historical over charges and were disclosed in the profit and loss account as a one off exceptional item.

## 17. Related Party Transactions

The company has taken advantage of the exemption available in FRS 102 section 33 1A from the requirement to disclose related party transactions with wholly owned group companies.

## 18. Immediate and ultimate holding Company

George Street Capital Limited is the immediate parent entity. The ultimate controlling entity is considered to be Dalmore Capital Fund LP. Dalmore Capital Fund LP is owned by a number of investors, with no one investor having individual control.

## 19. First Time adoption of FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 August 2015. The date of transition to FRS 102 was 1 September 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 August 2015 and the total equity as at 1 September 2014 and 31 August 2015 between UK GAAP as previously reported and FRS 102.

| Reconciliation of equity for the year         | Note | At 31 August 2015<br>£ | At 1 September 2014<br>£ |
|-----------------------------------------------|------|------------------------|--------------------------|
| Equity reported under previous UK GAAP        |      | 64,651                 | 108,082                  |
| Adjustment to equity on transition to FRS 102 |      |                        |                          |
| Derivative financial instruments              | A    | (4,989,106)            | (4,550,602)              |
| Deferred tax on fair value of swap liability  | B    | 997,821                | 910,120                  |
| FRS 102                                       |      | <u>(3,926,634)</u>     | <u>(3,532,400)</u>       |
| Loss for the year                             |      |                        | 31 August 2015<br>£      |
| UK GAAP as previously reported                |      |                        | <u>43,431</u>            |
| FRS 102                                       |      |                        | <u>43,431</u>            |
| Other Comprehensive Income                    |      |                        |                          |
| UK GAAP as previously reported                |      |                        | -                        |
| Derivative Financial Instrument               | A    |                        | (438,504)                |
| Deferred Tax Impact of Adjustments            | B    |                        | <u>87,701</u>            |
| - Derivative financial instrument             |      |                        | <u>(350,803)</u>         |

### A. Derivative Financial Instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. This requires the instrument to be brought onto the Statement of Financial Position. The company has decided to adopt hedge accounting limiting the impact of fair value movements in the Statement of Comprehensive Income. Previously under UK GAAP the company did not recognise this instrument in the financial statements. Accordingly at transition a liability of £4,550,602 was recognised and a loss of £350,803 was recognised in the Statement of Comprehensive Income for the year ended 31 August 2015. A liability of £4,989,106 was recognised at that date, made up of the interest rate swap.

### B. Deferred Taxation

The company has accounted for deferred taxation on transition as follows:

Deferred tax of £910,120 has been recognised at 20% as the liability recognised at transition on 1 September 2014. In the year ended 31 August 2015 the company recognised a debit of £87,701 in the Statement of Comprehensive Income in respect of the increase in value of the derivative financial instruments.

**19. First Time adoption of FRS 102 (continued)**

**Effective Interest Rate Adjustment to bank loans**

Under FRS 102, debt instruments must be recorded at amortised cost using the effective interest method, previously finance costs were allocated over the term of the instrument on a straight line basis. The company has considered this requirement and judged that as interest paid is consistent throughout the life of the project, no adjustment is required.