MPG Hospital Holdings Limited

Report and Financial Statements

Period ended
31 March 2011

Company No 7179948

Contents

Directors

S L Gumm
J M J M Jensen
N M Leslau

Secretary and registered office

S L Gumm, Cavendish House, 18 Cavendish Square, London, W1G 0PJ

Company number

7179948

Auditors

BDO LLP, Emerald House, East Street, Epsom, Surrey, KT17 1HS

MPG HOSPITAL HOLDINGS LIMITED

Report of the directors for the period ended 31 March 2011

The directors present their report together with the audited financial statements for the period ended 31 March 2011

Date of incorporation

The company was incorporated on 5 March 2010 and the results relate to the period from that date to 31 March 2011 The company commenced operations on 28 May 2010

Results and dividends

The results of the group for the period are set out in the profit and loss account on page 7 and show a profit after tax of £101,378

The directors do not recommend the payment of a dividend

Principal activities

The principal activity of the group is property investment The group owns a portfolio of four private hospitals in Blackburn, Liverpool, Ayr and Stirling, let on long leases with annual RPI linked uplifts in June each year throughout the term on an initial rent of £2,350,000 per annum After the balance sheet date, with effect from 24 June 2011, the rent increased to £2,493,000 per annum The unexpired lease term at 31 March 2011 is 24 2 years All of the group's operations are conducted in the United Kingdom

The principal activity of the company is the provision of finance to and the holding of investments in the subsidiary undertaking

There have been no changes in the principal activities of the company or the group in the period under review

Review of the business and future developments

The company itself did not undertake any trading activities during the period The group has made a small profit, which is expected to increase in future as rents rise in line with RPI, and has also seen a significant increase in the value of its investment properties The group has complied with all of its banking covenants during the period and up to the date of this report

The directors are satisfied with the performance of the group in the period

Directors

The directors who held office during the period were

Huntsmoor Limited	(appointed 5 March 2010, resigned 27 May 2010)
Huntsmoor Nominees Limited	(appointed 5 March 2010, resigned 27 May 2010)
P S Burke	(appointed 5 March 2010, resigned 27 May 2010)
J E Schnider	(appointed 12 April 2010, resigned 27 May 2010)
S L Gumm	(appointed 27 May 2010)
N M Leslau	(appointed 27 May 2010)
J M J M Jensen	(appointed 28 May 2010)

Principal risks and uncertainties - market factors

Since the summer of 2007, both the bank finance and property markets in the UK have experienced very turbulent conditions Whilst conditions have improved, the environment is still fragile, in particular as a result of the limited amount of new bank finance available The directors consider the portfolio of properties owned by the group relatively well placed to withstand market fluctuations by virtue of the quality of the assets, strong tenant, and long term financing terms

Principal risks and uncertainties - risk management objectives and policies

The management of risk is integral to the group's approach to running its property investment activities and financing arrangements The group utilises secured non-recourse bank debt to fund its property investment purchases Cash resources generated from the group's operations, including those resulting from strict credit control over its short term debtors and creditors, are utilised in meeting the group's working capital requirements

Set out below are the policies operated by the group for the management of the principal risks and uncertainties that it is exposed to in the conduct of its operations

General treasury policy

Various financial instruments such as rental and other debtors and trade and other creditors arise directly from the group's operations

Operations are predominantly financed by bank borrowings Bank loans are at fixed rates, by way of purchases of interest rate hedging products, and are secured on the group's assets

Working capital requirements are met principally by cash resources generated from the group's operations Cash levels are monitored regularly to ensure sufficient resources are available to meet the group's short term and long term operational requirements Short term money market deposits are used to manage liquidity whilst maximizing the rate of return on cash resources, giving due consideration to risk

Details of interest rate hedging products in use at 31 March 2011 are set out in note 12 to the financial statements Details of bank borrowings are set out in note 11 to the financial statements

Policy in relation to interest rate risk

The group's policy is to substantially eliminate risk in respect of changes in interest rates such that, over the term of the group's debt facilities, changes in interest rates will have a minimal impact on the reported results and cash flows

The directors monitor the group's current and projected financial position on at least a quarterly basis

Policy in relation to liquidity risk

The group seeks to manage its liquidity risk by ensuring that sufficient liquidity is available to meet its foreseeable needs

Efficient treasury management and strict credit control over rental and other debtors minimise the costs and risks associated with this policy, which ensures that funds are available to meet commitments as they fall due

Policy in relation to credit risk

The group's principal financial assets are bank balances and, where relevant, hedging instruments The group's credit risk on bank balances and hedging instruments is limited because the counterparties are banks with high credit ratings

Statement of directors' responsibilities

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 period Under that law the directors have elected to prepare the group and company 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 group and company and of the profit or loss of the group 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 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

Auditors

All of the directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information The directors are not aware of any relevant audit information which has not been brought to the attention of the auditors

BDO LLP have expressed their willingness to continue in office

On behalf of the Board

S L Gunn
Director

4 August 2011

MPG HOSPITAL HOLDINGS LIMITED

Independent auditors' report to the members of MPG Hospital Holdings Limited

We have audited the financial statements of MPG Hospital Holdings Limited for the period ended 31 March 2011 on pages 7 to 18, which have been prepared under the accounting policies set out on pages 12 and 13 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)

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 auditors

As explained more fully in the statement of directors' responsibilities set out on page 5, 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

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private/cfm

Opinion on financial statements

In our opinion the financial statements

* give a true and fair view of the state of the group's and company's affairs as at 31 March 2011 and of the group's profit for the period 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

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 by the company, or returns adequate for our audit have not been received from branches not visited by us, or
* the company 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

Russell Field (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Epsom
United Kingdom

4 August 2011

BDO LLP is a limited liability partnership registered in England and Wales (registered number OC305127)

MPG HOSPITAL HOLDINGS LIMITED

Consolidated profit and loss account for the period ended 31 March 2011

	Note	Period ended 31 March 2011 £
Turnover		1,981,528
Cost of sales		(4,342)
Gross profit		1,977,186
Administrative expenses		(137,637)
Operating profit	2	1,839,549
Interest receivable		417
Interest payable and similar charges	4	(1,502,399)
Profit on ordinary activities before tax		337,567
Tax on profit on ordinary activities	5	(236,189)
Retained profit for the period	14	101,378

All amounts relate to continuing activities

There were no differences between historical cost profit and reported profit for the period

The notes on pages 12 to 18 form part of the financial statements

MPG HOSPITAL HOLDINGS LIMITED

Consolidated statement of total recognised gains and losses and consolidated reconciliation of movements in shareholders' funds for the period ended 31 March 2011

Consolidated statement of total recognised gains and losses	**Note**	**Period ended 31 March 2011 £**
Retained profit for the period	14	**101,378**
Unrealised surplus on revaluation of investment properties	14	**2,761,995**
Total recognised gains and losses for the period		**2,863,373**

Consolidated reconciliation of movements in shareholders' funds	**Note**	**Period ended 31 March 2011 £**
Issue of ordinary shares	13	**100**
Total recognised gains and losses for the period		**2,863,373**
Increase in shareholders' funds		**2,863,473**
Opening shareholders' funds		**-**
Closing shareholders' funds		**2,863,473**

The notes on pages 12 to 18 form part of the financial statements

MPG HOSPITAL HOLDINGS LIMITED

Consolidated balance sheet at 31 March 2011

	Note	31 March 2011 £	£
Fixed assets			
Investment properties	7a		34,100,000
Current assets			
Debtors due within one year	8	10,606	
Cash at bank and in hand	9	769,849	
		780,455	
Creditors amounts falling due within one year	10	(1,114,927)	
Net current liabilities			(334,472)
Total assets less current liabilities			33,765,528
Creditors. amounts falling due after more than one year	11		(30,902,055)
Net assets			2,863,473
Capital and reserves			
Called up share capital	13		100
Revaluation reserve	14		2,761,995
Profit and loss account	14		101,378
Shareholders' funds			2,863,473

The financial statements were approved by the Board and authorised for issue on 4 August 2011.

S L Gunn
Director

The notes on pages 12 to 18 form part of the financial statements

Company balance sheet at 31 March 2011

	Note	31 March 2011 £	£
Fixed assets			
Investment in subsidiary undertaking	7b		1
Current assets			
Debtors due within one year	8	30,217,759	
Cash at bank and in hand	9	769,849	
		30,987,608	
Creditors amounts falling due within one year	10	(303,785)	
Net current assets			30,683,823
Total assets less current liabilities			30,683,824
Creditors amounts falling due after more than one year	11		(30,902,055)
Net liabilities			(218,231)
Capital and reserves			
Called up share capital	13		100
Profit and loss account	14		(218,331)
Shareholders' deficit			(218,231)

The financial statements were approved by the Board and authorised for issue on 4 August 2011.

S L Gumm
Director

The notes on pages 12 to 18 form part of the financial statements

MPG HOSPITAL HOLDINGS LIMITED

Consolidated cash flow statement for the period ended 31 March 2011

	Note	Period ended 31 March 2011	
		£	£
Net cash inflow from operating activities	15		2,427,597
Returns on investments and servicing of finance			
Interest received		417	
Interest and other finance costs paid		(1,116,683)	
Net cash outflow from returns on investments and servicing of finance			(1,116,266)
Capital expenditure and financial investment			
Cost of acquiring investment properties			(1,338,005)
Cash outflow before management of liquid resources and financing			(26,674)
Financing			
Drawdown of bank loans		1,540,156	
Repayment of bank loans		(407,070)	
Financing fees		(336,663)	
Issue of share capital		100	
Net cash inflow from financing			796,523
Increase in cash	16		769,849

The notes on pages 12 to 18 form part of the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and are in accordance with applicable accounting standards

The financial statements have been prepared on a going concern basis, which assumes that the group and company will continue to meet their liabilities when they fall due, for the foreseeable future Since the company has net liabilities, it is dependent on the continuing support of its parent and subsidiary undertakings to meet its liabilities

Basis of consolidation

The consolidated financial statements incorporate the results of MPG Hospital Holdings Limited and its subsidiary undertaking as at 31 March 2011, using the acquisition method of accounting incorporating the results of the subsidiary undertaking from the date of acquisition

Turnover

Turnover represents rents receivable during the period from the letting of investment properties at invoiced amounts less value added tax Turnover is wholly attributable to the principal activity of the group and arises solely in the United Kingdom

Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date, on the basis of an annual valuation Aggregate surpluses or deficits arising on valuation are transferred to the revaluation reserve Permanent diminutions in the value of the properties are charged directly to the profit and loss account

Additions to investment properties include only costs of a capital nature Costs such as interest and other property outgoings are treated as revenue expenditure and are written off as incurred

In accordance with SSAP 19 (as amended), no depreciation or amortisation is provided in respect of freehold investment properties This treatment is a departure from the requirements of the Companies Act 2006 concerning depreciation of fixed assets However, the group's investment properties are held not for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate The accounting policy is therefore necessary for the financial statements to give a true and fair view Depreciation or amortisation is only one of the factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified

Deferred tax

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that

* deferred tax is not recognised on timing differences arising on revalued properties unless the group has entered into a binding sale agreement and is unable to utilise existing capital losses, and
* the recognition of deferred tax assets is limited to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

1 Accounting policies *(continued)*

Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost in the company's balance sheet Any permanent diminution in value is written off to the profit and loss account

Cash

For the purposes of the cash flow statement, cash comprises cash in hand and deposits repayable on demand and liquid resources consist of cash deposits not repayable on demand without penalty

Financial instruments

The group does not trade in derivative financial instruments Hedging instruments are used to protect the group's exposure to movements in interest rates Gains or losses are not recognised in the financial statements until the related interest in the hedging instrument is realised

Loan issue costs

Costs relating to the raising of bank loan facilities are amortised over the life of the loan and charged to the profit and loss account as part of the group's financing costs The bank loans are disclosed net of the unamortised loan issue costs

2 Operating profit

	Period ended 31 March 2011 £
This is arrived at after charging	
Auditors' remuneration	
- audit services (group)	7,650

Fees payable to the company's auditors for the audit of the company's annual consolidated financial statements were £5,100 Fees payable to the company's auditors for the audit of the company's subsidiary undertaking, pursuant to legislation, were £2,550

3 Employees and directors

The group and company had no employees during the period

No director received any emoluments from the group or company during the period

4 Interest payable and similar charges

	Period ended 31 March 2011 £
On bank loans	947,332
Swap interest	498,280
Amortisation of prepaid finance fees	56,787
	1,502,399

5 Tax

5a Tax charge

The tax assessed for the period varies from the standard rate of corporation tax in the UK The differences are explained below

	Period ended 31 March 2011 £
Profit on ordinary activities before tax	337,567
Tax on profit on ordinary activities at the standard rate of corporation tax in the UK of 28%	(94,519)
Effects of	
Provision for disallowed interest under thin capitalisation rules	(141,670)
Current tax charge for the period	(236,189)

5b Unprovided deferred tax liability

	Group 31 March 2011 Unprovided £	Company 31 March 2011 Unprovided £
Arising on carrying value of investment properties over their indexed base cost	(393,900)	-

6 Result for the financial period

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements

The group profit for the period includes a loss after tax of £218,331 which is dealt with in the financial statements of the company

7 Fixed assets

7a Investment properties - group

	Freehold land and buildings £	Total £
Cost or valuation		
On acquisition	31,338,005	31,338,005
Surplus on revaluation	2,761,995	2,761,995
At 31 March 2011	**34,100,000**	**34,100,000**

At 31 March 2011 the group's investment properties were independently valued at £34,100,000 on an open market basis by CB Richard Ellis Limited, Commercial Real Estate Advisers, in their capacity as external valuers The historical cost of the properties to the group is £31,338,005

The investment properties are held as security by a fixed charge in respect of bank borrowings provided to the company

7b Investment in subsidiary undertaking - company

	£
Cost and net book value	
Additions and at 31 March 2011	**1**

The company owns 100% of the ordinary share capital of MPG Hospital Properties Limited, a company incorporated in England and Wales and operating in the United Kingdom, whose principal activity is property investment

8 Debtors due within one year

	Group 31 March 2011 £	Company 31 March 2011 £
Prepayments and accrued income	**10,606**	**9,206**
VAT recoverable	-	**1,119**
Amounts due from subsidiary undertaking	-	**30,207,434**
	10,606	**30,217,759**

The amounts due from subsidiary undertaking are unsecured and have no fixed repayment date Interest is receivable at a rate equivalent to that paid by the company on its bank borrowings, which averaged 5 5% in the period

9 Cash at bank and in hand

Included within the group and company's cash balances is £614,346 of cash in accounts held as security by the provider of the secured bank debt

10 Creditors Amounts falling due within one year

	Group 31 March 2011 £	Company 31 March 2011 £
Interest payable	**280,085**	**280,085**
VAT payable	**25,505**	-
Corporation tax payable	**236,189**	-
Accruals and deferred income	**573,148**	**23,700**
	1,114,927	**303,785**

11 Creditors: Amounts falling due after more than one year

	Group 31 March 2011 £	Company 31 March 2011 £
Secured bank loans	31,181,931	31,181,931
Prepaid finance fees	(279,876)	(279,876)
	30,902,055	30,902,055

The bank loans are secured by charges over the investment properties held by the subsidiary undertaking and by fixed and floating charges over the assets of the group companies

The group's strategy in respect of the use of financial instruments is to hedge future interest rate risk for at least the term of the loans to ensure that expected loan balances are fully hedged for the term of the loan

The bank loans bear interest at three month LIBOR plus a lender's margin Interest has been fixed by way of purchases of interest rate hedging products which fix the interest rate payable (inclusive of lender's margin) at 5 5%

The bank loans are partly repayable quarterly from rental surpluses within the group and the balance is payable in full on 28 May 2015

12 Financial instruments

The narrative disclosures required by FRS25 in relation to the principal risks arising from the company's financial instruments and the policies in respect of them are shown in the directors' report

The financial instruments in place at 31 March 2011 and the impact their valuation would have on the profit & loss account is as follows

	Protected rate %	Expiry	Period ended 31 March 2011 Market value gain / (loss) £
£30 7m amortising swap	2 74%	July 2015	(250,866)
£0 4m amortising swap	1 51%	January 2013	60
£30 1m receiver's swaption	2 74%	July 2015	96,777
Total net loss before tax			(154,029)
Total net loss after tax			(110,901)

The market values of the hedging portfolio change with interest rate fluctuations In accordance with accounting standards, the valuations are struck using a mid-market interest rate at the balance sheet date The valuation therefore does not reflect the cost or gain to the group of cancelling its interest rate protection at 31 March 2011, which is generally a marginally higher cost (or smaller gain) than a market valuation

13 Share capital

	31 March 2011 Number	31 March 2011 £
Allotted, called up and fully paid		
Ordinary A shares of £1 each	50	50
Ordinary B shares of £1 each	45	45
Ordinary C shares of £1 each	5	5
	100	100

The B shares have weighted voting rights such that on any resolution the B shares taken together and A shares taken together have equal votes Subject to that, the A and B shares rank pari passu in respect of voting rights The C shares do not entitle the holders to attend or vote at any general meeting or participate in written resolutions unless the business relates to any amendment of articles where such an amendment would have an adverse effect on the rights of the C shareholders in which case requires the approval of the holders of at least 75% of the C share capital Dividends, capital returns or other consideration shall be distributed pro rata of the numbers of shares held with all classes of share ranking equally

14 Reserves - group

	Profit and loss account £	Revaluation reserve £	Total £
Retained profit for the period	101,378	-	101,378
Unrealised surplus on revaluation of investment properties	-	2,761,995	2,761,995
Additions and at 31 March 2011	**101,378**	**2,761,995**	**2,863,373**

Reserves - company

	Profit and loss account £
Retained loss for the period	(218,331)

15 Reconciliation of operating profit to net cash inflow from operating activities - group

	Period ended 31 March 2011 £
Operating profit	1,839,549
Increase in debtors	(10,606)
Increase in creditors	598,654
Net cash inflow from operating activities	2,427,597

16 Reconciliation of net cash inflow to movement in net debt - group

		Period ended 31 March 2011 £
Increase in cash in the period		769,849
Cash inflow from movements in debt financing		(796,423)
Decrease in net debt resulting from cash flows		(26,574)
Non cash movements	- amortisation of prepaid finance fees	(56,787)
	- interest capitalised on bank loans	(48,845)
	- loan acquired in consideration for investment property	(30,000,000)
Movement in net debt in the period		(30,132,206)
Net debt at 31 March 2011 (note 17)		(30,132,206)

17 Analysis of net debt

	Cash flow £	Other non-cash changes £	31 March 2011 £
Cash at bank and in hand	769,849	-	769,849
Cash	769,849	-	769,849
Debt due after one year	(1,133,086)	(30,048,845)	(31,181,931)
Prepaid finance fees	336,663	(56,787)	279,876
Financing	(796,423)	(30,105,632)	(30,902,055)
Total	(26,574)	(30,105,632)	(30,132,206)

18 Related party transactions

The investment properties were acquired for £30,000,000 with consideration being the assumption of the same amount of secured bank loans Both transactions were with entities owned and controlled by Lloyds Banking Group plc, which is the controlling party of one of the shareholders in the company

The company has paid management fees of £94,666 in the period to Prestbury Investments LLP, none of which was outstanding at 31 March 2011 N M Leslau, a director of the company, is chairman of and holds partnership interests in Prestbury Investments LLP, and S L Gumm, a director of the company, holds partnership interests in Prestbury Investments LLP

The group has taken advantage of the exemption in FRS 8 and has not disclosed transactions between members of the group

19 Controlling party information

The group and company are jointly controlled by Uberior Equity Limited, holder of the ordinary A shares, and Max Investor Limited, holder of the ordinary B shares