GHG 18 (Saxon Clinic) Limited

Report and Financial Statements

for the period ended 16 April 2018

Company Number: 05783495

GHG 18 (Saxon Clinic) Limited

Report and financial statements
for the period ended 16 April 2018

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Company Directory

Director
D Duggins

Registered Office
GHG 18 (Saxon Clinic) Limited
c/o Maitland Administration Services (Scotland) Ltd
Springfield Lodge
Colchester Road
Essex
England
CM2 5PW

Company Incorporated and Registered in United Kingdom

Company Secretary
Maitland Administration Services (Scotland) Ltd
Springfield Lodge,
Colchester Road,
Chelmsford,
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England,
CM2 5PW

Legal Advisors
Milbank, Tweed, Hadley & McCloy LLP
10 Gresham Street
London
EC2V 7JD

Independent Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

GHG 18 (Saxon Clinic) Limited

Strategic Report

The Director, in preparing this strategic report, has complied with s414C of the Companies Act 2006.

Background

The Company is one of 36 companies which were formed in 2006. One of the companies acts as cash collection and disbursement agent for the others, each of which acquired a single UK private hospital property which were simultaneously all leased to a single tenant on long term leases expiring in 2031, with the tenant having the right to extend for a further ten years. Collectively, those companies which own a property are hereinafter referred to as the "Theatre Propcos" and each a "Theatre Propco".

Debt funding for the acquisition of the properties was provided to the Theatre Propcos under a single set of finance agreements by multiple banks on a medium-term basis, with final repayment due in October 2013. Each Theatre Propco, including the Company, received an allocated amount of the debt and became and continues to be a joint guarantor under those financing arrangements; the assets of each Theatre Propco being pledged to guarantee and secure the entire debt which was £1.65 billion at the outset, together with related interest rate swaps. The finance agreement was subsequently renewed and maturity was extended to 15 April 2019.

A proposal to further extend the maturity of the finance agreement has been made to the Company's lenders. Negotiations over the commercial terms of the extension are continuing, and it is expected that an agreement will be reached during the autumn of 2018.

Ownership

Throughout the period, the Company was a wholly-owned subsidiary of Hospital Midco S.a.r.l, a company incorporated in Luxembourg. The ultimate parent and controlling party throughout the period was Hospital Topco Limited, a company incorporated in the United Kingdom.

Business review

The Company owns a single UK private hospital/healthcare property (The Saxon Clinic), which is occupied and operated by a single tenant (which is also the sole tenant of all the properties owned by the Theatre Propcos) on a long-term lease, with the tenant being responsible for the insurance of, repairs to and maintenance of the property. The rent under the lease is increased annually by reference to changes in the UK Retail Prices Index ("RPI"). The tenant is solely responsible for the operation of the private hospital/healthcare facility, including compliance with applicable health and safety legislation as it relates to the property.

The Company's business is therefore one of an investment property company. The Company's only source of income is the rent from the property, which is received quarterly in advance and paid directly to an agent company as described in the financial statements. Those funds are used to pay interest on, and the quarterly repayments of the Company's bank debt and interest rate swap costs, together with lenders' fees and certain administrative costs. For each Theatre Propco, any surplus funds each quarter are swept by the lenders to further repay that company's debt facility and/or the bank debt of other Theatre Propcos of which the Company is a joint guarantor. Conversely, if a Theatre Propco's income is insufficient to meet its mandatory debt repayment, interest and swap costs, it is made good by other Theatre Propcos which have surpluses.

The valuation of the Company's properties decreased during the period as a result of the underlying performance of the hospitals and the general property market conditions within the healthcare sector.

The trading performance of the Company's tenant deteriorated significantly during 2017, and has subsequently continued at a level which makes the payment of the Theatre Propco rent unsustainable. The Company is at an advanced stage of negotiations with the tenant to significantly reduce the rent, enabling the tenant to improve its operating performance. At the same time, the term of the lease will be significantly extended and other enhancements to the leases will be made. These changes are expected to stabilise the value of the Company's investment properties in the short term, and lead to growth over the longer term as the tenant's covenant strengthens. However, as at the date of these financial statements, no formal agreement has been reached.

The Company has no cash and no bank account; all its cash receipts and payments being administered by GHG 38 (Property Holdings) Limited which acts as cash collection and disbursement agent for all the Theatre Propcos. The Company has no permanent staff and relies on outsourced services.

Business review (continued)

Company objectives

The Company's objectives are to manage its property, collect the rent due and service and gradually pay down the Company's debt.

Results and dividends

2018 results

As will be seen in the Income Statement within the attached financial statements, the Company made a loss before taxation for the period of £2.448 million (18 April 2017: £0.296 million profit). The Director is unable to recommend the payment of a dividend (18 April 2017: £Nil) as the Company does not have distributable reserves.

Principal risks and uncertainties

The Company is exposed to financial risk through its assets and liabilities. The most important components of financial risk are interest rate risk, currency risk, liquidity risk, credit risk and price risk.

Due to the nature of the Company's business and the assets and liabilities contained within the Company's Statement of Financial Position, the Director considers that all financial risks except currency risk are relevant to the Company.

Interest rates risk

The only significant assets and liabilities of the Company that are interest bearing are its obligations to its lenders. The interest rate on that debt was established in 2006 on a floating rate basis. However, to protect the Company from unexpected rises in interest rates, interest rate swap agreements were put in place to cover the period until the expiry of the existing lease on the Company's property in 2031. These swap arrangements were subsequently cancelled and replaced with new swap arrangements which extend to 2021. Details of these arrangements, which convert the Company's floating rate exposure to known fixed rates, are set out within Note 14 to the financial statements. The Company does not speculate in the trading of derivative instruments.

It is expected that the interest rate swap agreements will be amended and extended as part of the extension of the finance agreement.

Liquidity risk

The Company's income is contractually determined within a long-term lease of its property and, subject to an annual operating budget, its bank lenders are entitled to sweep the entirety of that income towards repayment and servicing of the bank debt and the interest rate swap costs. The Company (in common with the other Theatre Propcos) has a committed debt facility which matures in April 2019.

The continued availability of finance to the Company will depend upon the successful conclusion of negotiations with lenders to extend the maturity of the finance agreement.

Credit risk

The Company has one property that is occupied by a single tenant. The Company therefore monitors the financial position of its tenant. The rent is indexed upwards by reference to RPI annually. In addition, the tenant owes the Company and other Theatre Propcos deferred rent totalling some £28 million in respect of the initial quarter's rent in 2006, which both parties agreed to defer at the outset of the property leases in 2006.

Credit risk (continued)

The deterioration in the tenant's trading performance makes it more likely than not that the deferred rent will need to be waived, therefore a provision has been made to reduce the carrying amount of the deferred rent to zero at the year end.

Also, there is an indemnity agreement between the Theatre Propcos and the tenant, which may give rise to other material obligations on the tenant. In view of the tenant's financial position, if claims were successfully pursued, it is unlikely that funds would be available to settle them.

Price risk

The terms of the lease over the property between the Company and the tenant are established within a long-term lease which runs to 2031, with a tenant option to extend for a further ten years. The lease requires the rent to be increased (but not reduced) each year by reference to the United Kingdom Index of Retail Prices, subject to a cap of 4% pa. The Company also has RPI swap arrangements which have the effect of adjusting the annual rent increase to 2.5%. Other than through future changes to the lease arrangements, the Company is not able to manage price risk until the maturity of the current lease.

In recent years, the RPI swaps have resulted in substantial payments becoming due from the tenant in addition to the rent, which are expected to continue and increase through to the maturity of the leases. The Directors have concluded that the tenant is unable to sustain these payments, and it is most likely that the RPI swaps will be cancelled. A provision has been made to reduce the carrying amount of the RPI swaps to reflect this.

Property Valuation Risk

As noted on page 2, the valuation of the property reflects the underlying performance of the hospital, and the general property market conditions within the healthcare sector.

Going concern

Having carefully considered the uncertainty described in Note 3 to the financial statements, the Director has concluded that it is appropriate to prepare the financial statements on the going concern basis and therefore presents the financial statements accordingly.

This report was approved by the Director and signed on 8 August 2018.

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D Duggins
Director

GHG 18 (Saxon Clinic) Limited

Report of the Director

The Director has pleasure in presenting this report and the financial statements of GHG 18 (Saxon Clinic) Limited ("the Company") for the period 19 April 2017 to 16 April 2018. Certain matters have been dealt with in the Strategic Report and are not repeated here.

Incorporation

The Company was incorporated on 18 April 2006 in the United Kingdom. The Company's name on incorporation was Pantomime Propco 18 Limited and it was changed to GHG 18 (Saxon Clinic) Limited on 7 November 2006.

Principal activity

The principal activity of the Company is to hold investment property located in the United Kingdom.

Director

The Director holding office during the period and through to the date of signing of this report is:

D Duggins

Directors' and officers' insurance

The Company has director's and officers' insurance for the benefit of, amongst others, the Director of the Company, which is in place at the date of this report.

Independent auditor

The auditors, BDO LLP have expressed their willingness to continue in office.

So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and the Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This report was approved by the Director and signed on 8 August 2018.

....

D Duggins
Director

GHG 18 (Saxon Clinic) Limited

Statement of Director's Responsibilities

The Director is responsible for preparing the Strategic report and the Report of the Director and the financial statements in accordance with applicable law and regulations.

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including the Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

Under company law the Director must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the Company and its profit or loss for that period. In preparing these financial statements, the Director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue the business; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Director confirms they have complied with all the above requirements in preparing the financial statements.

The Director is 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GHG 18 (SAXON CLINIC) LIMITED

Opinion

We have audited the financial statements of GHG 18 (Saxon Clinic) Limited ("the Company") for the period ended 16 April 2018 which comprise the income statement, statement of financial position, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 16 April 2018 and of its loss 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.

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.

Material uncertainty in relation to going concern

We draw attention to note 3 to the financial statements, which indicates that the Company's current banking arrangements are due to expire on 15 April 2019 and alternative financing arrangements have not yet been agreed. As stated in note 3, these events or conditions, along with other matters as set out in note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the 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 this regard.

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 Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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 material misstatements in the Strategic report and Director's report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities, 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 at the Financial Reporting Council's website at:
https://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.

BDO LLP

Charles Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London

Date 8 August 2018

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

GHG 18 (Saxon Clinic) Limited

Income Statement
for the period ended 16 April 2018

	Note	Period 19.04.17 - 16.04.18 £000	Period 16.04.16 - 18.04.17 £000
Turnover	5	2,687	2,673
Administrative expense	6	(925)	(535)
(Loss) / gain on revaluation of RPI swap	6	(946)	533
Loss from changes in fair value of investment property	9	(2,135)	(647)
(Loss) / profit on ordinary activities before interest and tax		**(1,319)**	**2,024**
Gain / (loss) on revaluation of interest rate swap	6	282	(299)
Interest payable and similar charges	7	(1,411)	(1,429)
Operating (loss) / profit		**(2,448)**	**296**
Tax on ordinary activities	8	330	81
(Loss) / profit for the financial period		**(2,118)**	**377**
Other comprehensive income / (loss)		-	-
Total comprehensive (loss) / income for the period		**(2,118)**	**377**

All operations are considered to be continuing.

The notes on pages 14 to 25 form part of these financial statements.

GHG 18 (Saxon Clinic) Limited

Statement of Financial Position
at 16 April 2018

	Note	16 April 2018 £000	18 April 2017 £000
Fixed assets			
Tangible assets	9	30,200	32,335
Current assets			
Debtors: due within one year	10	25	540
Debtors: due more than one year	11	-	1,050
		25	1,590
Creditors: amount falling due within one year	12	(33,769)	(1,977)
Net current liabilities		(33,744)	(387)
Total assets less current liabilities		**(3,544)**	**31,948**
Creditors: amount falling due after more than one year	13	(1,230)	(34,154)
Provisions for liabilities	15	(2,745)	(3,195)
Net liabilities		**(7,519)**	**(5,401)**
Capital and reserves			
Called up share capital	18	-	-
Profit and loss account	19	(7,519)	(5,401)
Total deficit		**(7,519)**	**(5,401)**

The financial statements for GHG 18 (Saxon Clinic) Limited, registered number 05783495 were approved by the Director and authorised for issue on 8 August 2018.

....
D Duggins
Director

The notes on pages 14 to 25 form part of these financial statements.

GHG 18 (Saxon Clinic) Limited

Statements of Changes in Equity
for the period ended 16 April 2018

	Share Capital £000	Profit and Loss Account £000	Total Equity £000
15 April 2016	-	(5,778)	(5,778)
Total comprehensive income for the period	-	377	377
18 April 2017	**-**	**(5,401)**	**(5,401)**
Total comprehensive loss for the period	-	(2,118)	(2,118)
16 April 2018	**-**	**(7,519)**	**(7,519)**

The notes on pages 14 to 25 form part of these financial statements.

Definitions
for the period ended 16 April 2018

Due to the complexity and inter-related nature of a number of matters set out within these financial statements, to eliminate the need for repeated descriptions, the following defined terms are used throughout the financial statements:

"Deferred Rent Agreement" means the agreement entered into in 2006 between the Theatre Propcos and the Tenant under which it was mutually agreed that the Tenant deferred payment of the first quarter's rent under its leases with the Theatre Propcos.

"Interest Rate Swaps" mean the arrangements described in more detail in Note 17 to the financial statements under which the Theatre Propcos pay interest on the Theatre Propcos' Debt at a fixed rate of interest rather than the floating rate that was originally specified by the Lenders;

"Lenders" means the various banks and other financial institutions which provided and continue to provide the Theatre Propcos' Debt, including at any time new lenders that have subsequently bought such debt from the original issuers;

"Senior Debt" means that tranche of the Company's debt facilities which ranks ahead of other tranches for repayment in the event that the Lenders' security is enforced.

"Tax & Expenses Indemnity" means the agreement entered into in 2006 between the Theatre Propcos, the Tenant and others under which the Tenant is required to settle (without being entitled to reimbursement by the relevant Theatre Propco) any costs, fees and expenses required to maintain each Theatre Propco's corporate existence and any administrative costs, directors' fees, professional fees and regulatory costs incurred in the ordinary course of each Theatre Propco's business and, under certain circumstances, liabilities to taxation for which each Theatre Propco becomes liable.

"Tenant" means BMI Healthcare Limited, which is the sole lessee of all properties owned by the Theatre Propcos;

"Theatre Propcos" means the Company and 34 other UK companies which are each joint guarantors of the Theatre Propcos' Debt and a further company which acts as agent; each Theatre Propco owning a UK hospital property, the acquisition of which was partly financed by the Theatre Propcos' Debt and which properties are leased to and operated by the Tenant and **"Theatre Propco"** means any one of the Theatre Propcos; and

"Theatre Propcos' Debt" means the amount outstanding at any time of the loan facility of £1.65 billion advanced by the Lenders and drawn in full by the Theatre Propcos in 2006 (of which the Company's bank debt forms a part) and which is secured upon all the assets and shares of the Theatre Propcos and their Immediate Holding Company.

1 Company Information

Date of Incorporation

The Company was incorporated in the United Kingdom under the Companies Act 2006 on 18 April 2006.

Principal activity

The principal activity of the Company is to hold investment property located in the United Kingdom.

Registered office

The registered office of the Company is c/o Maitland Administration Services (Scotland) Ltd, Springfield Lodge, Colchester Road, Chelmsford, Essex, England, CM2 5PW.

2 Principal accounting policies

The principal accounting policies are summarised below, which have all been applied consistently throughout the period and prior period, except where stated otherwise.

Basis of preparation
The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) and with The Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 4).

The financial statements have been presented in Pounds Sterling (£) rounded to the nearest thousand, this is the functional currency of the Company.

Going concern
The financial statements are prepared on the going concern basis unless it is inappropriate to assume that the Company will be able to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements.

Note 3 to the financial statements sets out the matters considered by the Director in arriving at the conclusion that it is appropriate to prepare these financial statements on the going concern basis.

Investment properties
Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in profit or loss.

Financial assets
Basic financial assets, including trade and other receivables, are initially recognised at transaction price.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

2 Principal accounting policies (continued)

Financial assets (continued)
If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities
Basic financial liabilities, including trade and other payables, loans, are initially recognised at transaction price.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Borrowing costs
Borrowing costs incurred, are deducted from the initial carrying value of loans and are charged to profit or loss as part of the interest charge calculated using the straight-line method over the length of the loan.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognise at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in the profit and loss account in the year it arises.

Cash flow statement
The Company does not have a bank account. The rental income receivable by the Company from the Tenant is paid to GHG 38 (Property Holdings) Limited ("GHG 38"), which acts as cash collection and disbursement agent for all the Theatre Propcos, and is distributed from there principally to the Lenders and Interest Rate Swap counterparties in accordance with the overall finance documents. GHG 38's bank accounts are operated by the Lenders' Facility Agent in accordance with the Lenders' instructions. In view of these contractual arrangements, the Company is not required to present a cash flow statement.

2 Principal accounting policies (continued)

Derivative financial instruments
The Company has entered into derivative financial instruments to eliminate exposure to interest rate movements, and to adjust the variable annual rent increases under its property lease to a fixed annual increase. The Company does not hold or issue derivative financial instruments for speculative purposes.

These financial instruments are carried at fair value, based on expected future cash flows adjusted for any credit risk associated with the contractual counterparty. Movements in fair value are recognised in profit and loss.

Share capital
Called up share capital is determined using the nominal value of share that have been issued.

Turnover
Company turnover comprises rental income receivable from operating leases in the normal course of the business net of all refunds, allowances and value added tax. Rental income recognition is based on an accruals basis.

Taxation
The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where timing differences relate to interests in subsidiaries, associates, branches and joint ventures and the Company can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Related parties
The Company discloses transactions with related parties. It does not disclose transactions with members of the same Group that are wholly owned.

Expenses
Expenses are accounted for on an accruals basis.

3 Going concern

In determining whether there is a reasonable prospect of the Company continuing in business as a going concern, the key matter that must be considered is the debt due to the Lenders, which matures on 15 April 2019. The Company's ability to comply with all requirements of the debt facility is inextricably linked to its tenant's ability to continue paying the rent due under the leases, which it cannot do unless the rent is substantially reduced, which in turn necessitates substantial amendments to the Company's debt facility. Complex negotiations aimed at simultaneously amending and extending the leases and the Company's debt facility are well advanced, but are unlikely to be completed before the autumn of 2018. The Directors are confident that amended leases and amended debt facilities will be agreed before 15 April 2019, and have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis and present the financial statements accordingly. These matters nevertheless indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. No adjustments have therefore been made to reduce the value of assets or to provide for further liabilities that might arise should the going concern basis cease to be appropriate.

4 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

- Determine whether closing debtor balances are deemed fully collectable. This action requires a review of debt balances and the economic viability of tenants owing monies, using judgement to estimate the amount of impairment loss to recognise through the income statement.

Other key sources of estimation uncertainty

- *Investment property (see note 9)*

  Investment properties are professionally valued annually using a yield methodology which have been based on comparable transactional evidence in the market place together with the assessment of the quality and length of the income stream, current rental values, capitalised at a market rate, but there is an inevitable degree of judgement involved, as each property is unique and value can only be reliably tested in the market itself.

- *Going concern (see note 3)*

- *Interest rate derivatives (see note 17)*

  The most critical estimates, assumptions and judgements relate to the determination of carrying value of swaps at fair value through the income statement. In determining this, the Company uses a third-party valuation, applying the concept that fair value is the amount for which the derivative could be traded. There are judgements based on the future rates of interest and on the counterparties' ability to make future payments, which affect the valuation.

- *RPI linked derivatives (see note 17)*

  The most critical estimates, assumptions and judgements relate to the determination of carrying value of swaps at fair value through the income statement. In determining this, the Company uses a third-party valuation, applying the concept that fair value is the amount for which the derivative could be traded. There are judgements based on the future rates of inflation and on the counterparties' ability to make future payments, which affect the valuation. The credit default risk has risen considerably over the past year resulting in the Directors determining that there are not expected to be any cashflow arising after July 2018 from these arrangements.

5 Analysis of turnover

	Period 19.04.17 - 16.04.18 £000	Period 16.04.16 - 18.04.17 £000
Rental income	2,687	2,673
	2,687	2,673

All turnover within the Company has arisen within the United Kingdom, where the investment property is situated.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

Future rentals under operating leases	2018 £000	2017 £000
No later than one year	2,744	2,665
Later than one year and no later than five years	10,977	10,660
Later than 5 years	23,444	25,432
	37,165	38,757

6 Operating profit

	Period 19.04.17 - 16.04.18 £000	Period 16.04.16 - 18.04.17 £000
Audit fees	2	2
Loss / (gain) on revaluation of RPI swap	946	(533)
Provision for bad debt against the deferred rent	537	-
Other expenses	68	103
Intercompany provision movement	318	430
	1,871	2
(Gain) / loss on revaluation of interest rate swap	(282)	299
Interest payable and similar charges	1,411	1,429
Total expenses on ordinary activities before taxation	3,000	1,730

There were no employees of the Company in either period.

The Director received remuneration for his activities as a director of all the Theatre Propcos. The Company's share of that remuneration during the period was £4,415 (2017: £4,626).

The audit fee for the audit of the Company's annual accounts was £1,939 (2017: £2,491). The auditor received no non- audit fees during the period (2017: £Nil).

7 Interest payable

	Period 19.04.17 - 16.04.18 £000	Period 16.04.16 - 18.04.17 £000
On bank loans	1,387	1,404
Debt service costs	24	25
	1,411	1,429

The Company continues to pay the fixed rate of interest specified in the Interest Rate Swap agreements. The floating rate of interest has been charged to the current period's income statement.

8 Tax on profit on ordinary activities

	Period 19.04.17 - 16.04.18 £000	Period 16.04.16 - 18.04.17 £000
Corporation tax	120	-
Deferred tax (see Note 16)		
Credit to the profit and loss account	(450)	(81)
Tax on ordinary activities	(330)	(81)

Factors affecting tax charge for the period

The difference between the corporation tax shown above and the amounts calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

	Period 19.04.17 - 16.04.18 £000	Period 16.04.16 - 18.04.17 £000
UK corporation tax		
(Loss) / profit on ordinary activities before tax	(2,448)	296
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (April 2017: 19.84%)	(465)	59
Effects of:		
Impact of change in tax rates	-	(163)
Adjustment to carried forward loss for prior year	(124)	(18)
Other	259	41
Total	(330)	(81)

The Director estimates that the Company has tax losses available for offset against future taxable profits of £4.183 million (2017: £4.165 million). Those losses arose principally from the provisions made to state the value of the Company's Interest Rate Swaps.

9 Investment properties

	16 April 2018 £000
Valuation as at 18 April 2017	32,335
Revaluation	(2,135)
Value at 16 April 2018	30,200

The 2018 and 2017 valuations were made by Cushman & Wakefield (formerly DTZ Debenham Tie Leung - "DTZ") and Colliers International Healthcare UK LLP as independent external valuers, and has been prepared as at 16 April 2018, in accordance with the Appraisal Valuation Standards of the Royal Institution of Chartered Surveyors ("RICS"), on the basis of fair value. Properties have been valued on an individual basis. This has been incorporated into the financial statements.

10 Debtors: due within one year

	16 April 2018 £000	18 April 2017 £000
Deferred rent due from Tenant	537	537
Less provision	(537)	-
Amounts owed from other Theatre Propco	3,207	2,889
Less provision	(3,207)	(2,889)
Prepayments and accrued income	3	3
Financial assets - RPI swaps (Note 17)	22	-
	25	540

Deferred rent

The deferred rent receivable by the Company from the Tenant under the terms of the Deferred Rent Agreement has been shown as falling due within one year; being the earliest that the amount could be recovered under the terms of the Deferred Rent Agreement. The trading performance of the Company's tenant deteriorated significantly during 2017, and has subsequently continued at a level which makes the payment of the Theatre Propco rent unsustainable. Having considered the recoverability of the amount due, in the context of the financial circumstances of the Tenant, the Director has concluded that the amount is unlikely to be recoverable and has made full provision against the total amount.

Amounts owed from other Theatre Propcos

These amounts arose from payments made by the Company on behalf of other Theatre Propcosto repay and/or service the Theatre Propcos' Debt allocated to those companies, where their own rental income is insufficient to cover their obligations. These loans are interest free and repayable on demand.

The Director has made full provision against the total amount receivable from the other Theatre Propcos.

11 Debtors: due more than one year

	16 April 2018 £000	18 April 2017 £000
Financial assets - RPI swaps (Note 17)	-	1,050
	-	1,050

12 Creditors: due within one year

	16 April 2018 £000	18 April 2017 £000
Bank loans (note 14)	32,128	265
Capitalised loan arrangement fee	(37)	-
Tax Accrual	20	-
Other creditors	2	3
Accruals and deferred income	796	771
Financial liabilities - Interest rate swaps (note 17)	860	938
	33,769	1,977

Accruals

Accruals represent costs incurred not invoiced, and deferred income represents rent received in advance.

13 Creditors: due more than one year

	16 April 2018 £000	18 April 2017 £000
Bank loans (Note 14)	-	31,901
Capitalised loan arrangement fee	-	(75)
Financial liabilities - Interest rate swaps (note 17)	1,230	2,328
	1,230	34,154

14 Loan schedule

	16 April 2018 £000	18 April 2017 £000
Loan maturity analysis		
Due within one year	32,128	265
Due greater than one year, less than 5 years	-	31,901
Total loans due	32,128	32,166

14 Loan schedule *(continued)*

The principal terms of the secured bank loan are set out below:

	Interest rate* %	2018 £000	Interest rate* %	2017 £000
Repayable in quarterly instalments with a lump sum payment on 15 April 2019	2.59% - 6.32%	15,878	2.41% - 6.11%	16,578
Repayable in a lump sum on 15 April 2019	0% - 7.25%	16,250	0% - 7.25%	15,588
Total due		32,128		32,166

*Where not fixed, the interest rate disclosed is the floating rate at period end, excluding the effect of the Interest Rate Swaps.

Security

The loan to the Company is secured by means of fixed and floating charges over all the of the Company's assets.

Similar security is provided by each Theatre Propco in respect of the Theatre Propcos' Debt and the loan amounts allocated to each Theatre Propco are cross-collateralised. The Company is therefore a guarantor of the total Theatre Propcos' Debt. At 16 April 2018, the total Theatre Propcos' Debt outstanding was £1,931.9 million (2017: £1,933.4 million).

15 Provision

	16 April 2018 £000	18 April 2017 £000
Deferred taxation	2,745	3,195
	2,745	3,195

16 Deferred taxation

	Tax on property gains 16.04.18 £000	Tax losses available 16.04.18 £000	Total 16.04.18 £000
Opening deferred tax liability / (asset)	3,987	(792)	3,195
Adjustment of carried forward losses	-	(124)	(124)
Movement in property valuation	(447)	-	(447)
Tax loss recognised during the period (19%)	-	121	121
Closing deferred tax liability / (asset)	3,540	(795)	2,745

16 Deferred taxation *(continued)*

As set out in Note 8 to the financial statements, the Company has tax losses of £4.183 million (2017: £4.165 million) available to be used against taxable profits in future periods.

The recognition of the deferred tax asset in relation to those tax losses is determined by United Kingdom Generally Accepted Accounting Practice, with which the Company's accounting policies conform. This requires that a deferred tax asset is recognised only to the extent that it is probable that it will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

As at 16 April 2018, the Director concluded that the Company's tax losses will be partially recovered against the potential gain on sale of the investment properties, based on tax legislation in force at the date until the financial statements were approved.

17 Financial instruments

The Company's financial instruments may be analysed as follows:

	16 April 2018 £000	18 April 2017 £000
Financial assets held at amortised cost	-	537
Financial assets held at fair value	22	1,050
Financial liabilities held at amortised cost	32,139	32,190
Financial liabilities held at fair value	2,090	3,266

Financial assets are measured at amortised cost and comprises of the deferred rent due from the tenant.

Financial liabilities are measured at amortised cost credit risk and comprise of loans, trade creditors, other creditors and amounts due from group companies.

<u>Financial assets at fair value</u>

On 29 May 2015, Retail Price index ("RPI") swap contracts originally entered into by the Theatre Propcos' former immediate parent company were novated to the Theatre Propco's. The contractual counterparty holds "mirror image" RPI swap contracts with the Theatre Propco's tenant. The two sets of contracts result in the annual rent increases payable by the tenant being fixed at 2.5%. The movement in the fair value of the RPI swap asset during the period reflects changes in anticipated inflation as measured by the RPI, and changes in the Directors' assessment of the tenant's ability to make future payments. The trading performance of the tenant deteriorated significantly during 2017, and has subsequently continued at a level which makes it clear that the tenant is unable to sustain these payments, and it is most likely that the RPI swaps will be cancelled. The Directors consider appropriate credit risk and in light of the current financial performance of the tenant, consider that the fair value at 16 April 2018 shall reflect purely the payments expected in July 2018 with no further cash expected.

	16 April 2018 £000	18 April 2017 £000
Opening fair value RPI swap asset	(1,050)	(598)
RPI Swap interest received or accrued during the period	86	85
RPI Swap cost paid or accrued during the period	(4)	(4)
Charge / (credit) to the profit and loss account	946	(533)
Closing fair value RPI asset	(22)	(1,050)

17 Financial instruments *(continued)*

Financial liabilities at fair value

The Company (and the rest of the Theatre Propcos) has secured bank loans which bear interest at fixed and floating rates of interest, some of which is paid in cash and some of which is accrued on a "payment in kind (PIK)" basis. The senior components of these debts are covered by Interest Rate Swaps which mature in 2021. The swaps are carried at fair value.

	16 April 2018 £000	18 April 2017 £000
Opening fair value interest rate swap liability	3,266	3,902
Swap cost paid or accrued during the period	(894)	(935)
(Credit) / charge to the profit and loss account	(282)	299
Closing fair value interest rate swap liability	2,090	3,266

Interest Rate Swap contracts with a principal amount of £15.9 million (2017: £16.7 million) have floating interest receipts linked to the 3 month LIBOR rate and have fixed interest rate payments at an interest rate commencing at 4.84% and rising to 6.13% over the term of the swaps.

The Director has received from the counterparties a statement of the liability at 16 April 2018 of the Interest Rate Swaps. He has also received a valuation from an appropriately skilled independent valuer, which corroborates the value received from the counterparties.

The movement in the fair value of the Interest Rate Swap during the period reflects changes in anticipated future long-term interest rates, the cost of replacing the Interest Rate Swaps, and the contracted amounts payable by the Company during the period for the difference between floating and fixed interest rates.

18 Called up share capital

	16 April 2018 £000	18 April 2017 £000
Allotted, called up and fully paid		
101 Ordinary shares of £1 each (2017: 101)	-	-

On 18 April 2006, the Company was incorporated with 101 £1 shares issued at par. All shares issued during the period were ordinary share capital carrying equal voting rights.

19 Reserves

Called up share capital represents the nominal value of issued shares.

The profit and loss account includes all current and prior period retained profit and losses.

20 Transactions with related parties

The Company is a wholly owned subsidiary of Hospital Topco Limited and has taken advantage of the exemption in FRS 102 not to disclose transactions with Hospital Topco Limited or other wholly owned subsidiaries within the Group.

On 29 May 2015, certain of the Company's lenders became the shareholders of Hospital Topco Limited, the Company's ultimate parent company. The amount of the Company's loan facility attributable to shareholders as at 16 April 2018 was £10.6 million (2017: £10.3 million) with interest charged during the period of £0.426 million (2017: £0.412 million).

21 Contingent liabilities

Security provided regarding the Theatre Propcos' Debt

The Company has charged all its assets to secure its liabilities to the Lenders and to Interest Rate Swap counterparties. The Company has cross-collateralised that security with loans and Interest Rate Swaps made at the same time under the same overall arrangements to other Theatre Propcos and is therefore a guarantor of all such arrangements. At 16 April 2018, the total amount owed to the Lenders by all members of the Theatre Propcos was £1,931.9 million (2017: £1,933.4 million) the mark-to-market value of the Interest Rate Swaps was £125.2 million (2017: £195.7 million) and the aggregate market value of the property assets provided as security was £1,449.7 million (2017: £1,599.8 million) book value.

22 Subsequent events

There were no material post statement of financial position events requiring disclosure identified between 16 April 2018 and the date the financial statements were signed.

23 Controlling party

The Company's immediate parent company is Hospital Midco S.a.r.l, a company incorporated in Luxembourg. The Directors are of the opinion that the Company has no controlling party.