

**HOSPITAL FINANCE INVESTMENTS LIMITED**

**(Registered Number 3104255)**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED**

**31 DECEMBER 2009**

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**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**REPORT OF THE DIRECTORS**  
**for the year ended 31 December 2009**

The directors present their directors' report and financial statements for the year ended 31 December 2009.

**1. Principal activities**

The principal activities of the Company in the year was, and for the foreseeable future will be, that of an investment holding company

**2. Business review**

The profit for the year, after taxation, amounted to £56 2m (2008 £7 9m)

The directors consider the development of the Company during the year to be satisfactory, and do not foresee any significant changes in the forthcoming year

**3. Proposed dividend**

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2009 (2008 £nil)

**4. Companies (Audit, Investigations and Community Enterprise) Act 2004**

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the directors, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company

**5. Directors**

The directors who held office during the year were as follows.

N T Beazley  
G M Evans  
F D Gregory  
M A Merchant

**6. Political and charitable contributions**

The Company made no political or charitable donations or incurred any political expenditure during the year

**7. International Financial Reporting Standards**

The ultimate parent undertaking has prepared Group accounts in accordance with International Financial Reporting Standards (IFRS) The Company is not required to report under IFRS and therefore these accounts are prepared in accordance with applicable UK accounting standards.

**REPORT OF THE DIRECTORS - continued**  
**for the year ended 31 December 2009**

**8. Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**9. Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in the office.

Registered Office.

Bupa House  
15-19 Bloomsbury Way  
London  
WC1A 2BA

17 March 2010

By order of the Board



For and on behalf of  
Bupa Secretaries Ltd  
Secretary

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS  
REPORT AND 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 and 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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOSPITAL FINANCE INVESTMENTS LIMITED**

We have audited the financial statements of Hospital Finance Investments Limited for the year ended 31 December 2009 set out on pages 6 to 14

The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 Directors' Responsibilities Statement set out on page 3, 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 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 web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

**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 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with UK 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOSPITAL FINANCE  
INVESTMENTS LIMITED - continued**

**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



**Simon Pashby (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants

8 Salisbury Square  
London EC4Y 8BB

17 March 2010

**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**PROFIT AND LOSS ACCOUNT**  
**for the year ended 31 December 2009**

	<i>Note</i>	2009 £	2008 £
Income from investment activities	4	24,117,516	47,337,045
Interest payable and similar charges	5	(23,631,263)	(39,068,108)
Other interest receivable and similar income		19	1,043
<b>Operating profit</b>		<u>486,272</u>	<u>8,269,980</u>
Negative finance cost	6	99,515,137	-
Negative finance income	7	(43,740,023)	-
<b>Profit before taxation</b>		<u>56,261,386</u>	<u>8,269,980</u>
Tax on profit on ordinary activities	9	(13,047)	(404,868)
<b>Profit for the financial year</b>		<u><u>56,248,339</u></u>	<u><u>7,865,112</u></u>

The profit for the year has been derived from continuing operations.

There were no recognised gains and losses in the current or preceding financial year, other than the amounts shown above.

There were no material differences between reported profit and losses and historical profit and losses on ordinary activities before and after taxation

The accounting policies and notes on pages 9 to 14 form part of these financial statements.

**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**BALANCE SHEET**  
**as at 31 December 2009**

	<i>Note</i>	2009 £	2008 £
<b>Fixed assets</b>			
Investments	10	720,891,780	709,793,585
<b>Current assets</b>			
Debtors	11	425,762	31,770,354
Cash at bank and in hand		87,070	90,268
<b>Creditors, amounts falling due within one year</b>	12	(13,047)	(4,007,494)
<b>Net current assets</b>		<u>499,785</u>	<u>27,853,128</u>
<b>Total assets less current liabilities</b>		<u>721,391,565</u>	<u>737,646,713</u>
<b>Creditors, amounts falling due after more than one year</b>	12	(521,919,993)	(794,423,480)
<b>Net assets/(liabilities)</b>		<u><u>199,471,572</u></u>	<u><u>(56,776,767)</u></u>
<b>Capital and reserves</b>			
Called up share capital	13	200,010,200	10,200
Profit and loss account	14	(538,628)	(56,786,967)
<b>Shareholders' funds/(deficit)</b>		<u><u>199,471,572</u></u>	<u><u>(56,776,767)</u></u>

These financial statements were approved by the Board of Directors on 17 March 2010 and were signed on its behalf by



F D Gregory  
Director

The accounting policies and notes on pages 9 to 14 form part of these financial statements



**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT**  
**for the year ended 31 December 2009**

	2009 £	2008 £
Profit for the financial year	56,248,339	7,865,112
Conversion of preference shares to ordinary shares	<u>200,000,000</u>	<u>-</u>
<b>Net increase in shareholders' deficit</b>	256,248,339	7,865,112
Opening shareholders' deficit	(56,776,767)	(64,641,879)
<b>Closing shareholders' funds/(deficit)</b>	<u><u>199,471,572</u></u>	<u><u>(56,776,767)</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

**1. STATEMENT OF ACCOUNTING POLICIES**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

**(a) Basis of preparation**

The financial statements have been prepared in accordance with the applicable accounting standards, under the historical cost accounting rules, except for financial instruments that are stated per the accounting policy below, and the financial statements are prepared on a going concern basis

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As at the company is a wholly owned subsidiary of the British United Provident Association Limited ("Bupa") the company has taken advantage on the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Bupa, within which this Company is included, can be obtained from the address given in note 2

**(b) Investment income**

Investment income is recognised on an accruals basis

**(c) Interest bearing borrowings**

Immediately after issue, debt is stated at the fair value of the consideration received after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount

**(d) Investments**

Listed investments are stated at market value and unrealised gains and losses are taken directly to the reserves. All other investments are included at cost less any provision for impairment in value. Dividends on equity investment are accounted for on a received basis and other investment income is accounted for on an accruals basis. Profits or losses on disposal are accounted for by a reference to carrying values

**(e) Taxation**

The charge for taxation is based on the result for the year and takes into account deferred tax

Deferred tax is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more tax with the following exceptions

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2009**

**1. STATEMENT OF ACCOUNTING POLICIES - continued**

**(e) Taxation - continued**

- Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing difference can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on current tax rates and laws

**(f) Classification of financial instruments issued by the company (FRS 25 Financial Instruments Presentation)**

Following the adoption of FRS 25, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- a) They include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- b) Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' deficit.

**2. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS**

The immediate parent undertaking of the company and the smallest group into which these financial statements are consolidated is that headed by Bupa Finance Plc, a company registered in England and Wales.

The ultimate parent undertaking and the largest group into which these financial statements are consolidated is that headed by The British United Provident Association Limited (Bupa), a company registered in England and Wales. Copies of the accounts of Bupa and Bupa Finance Plc can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ.

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2009**

**3. STAFF COSTS AND DIRECTORS' REMUNERATION**

**(a) Employees**

The company had no employees during the year (2008 nil) and consequently incurred no staff costs

**(b) Directors' remuneration**

No remuneration was paid to any of the directors for the year (2008 nil)

**4. INCOME FROM INVESTMENT ACTIVITIES**

	2009 £	2008 £
Interest receivable from group undertakings	11,088,194	27,487,793
Income from shares in group undertakings	13,029,322	19,849,252
	<u>24,117,516</u>	<u>47,337,045</u>

The income from shares in group undertakings are dividends on preference shares in Hospital Finance Limited

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	2009 £	2008 £
Interest payable to group undertakings	11,042,319	26,068,108
Finance cost on shares classified as liabilities	12,588,944	13,000,000
	<u>23,631,263</u>	<u>39,068,108</u>

**6. NEGATIVE FINANCE COST**

	2009 £	2008 £
Negative finance cost	<u>99,515,137</u>	<u>-</u>

On 22 December 2009, Bupa Finance Plc, holders of the 200,000,000 6 5% cumulative redeemable preference shares of £1 each, waived all accrued but unpaid dividends and, as holders of the ordinary share capital of the Company, authorised the conversion of the preference shares into ordinary share capital (Note 14)

The conversion of the preference shares to ordinary shares extinguished the historical liability (Note 13)  
The finance cost liability has therefore been released to the profit and loss account, this includes the finance cost for the year up to 22 December 2009

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2009**

**7. NEGATIVE FINANCE INCOME**

	2009 £	2008 £
Negative finance income	<u>(43,740,023)</u>	<u>-</u>

On 22 December 2009, the Company, holders of the 200,000,000 6.5% cumulative redeemable preference shares of £1 each in Hospital Finance Ltd, waived all accrued but unpaid dividends owed to it and, as holders of the ordinary share capital of Hospital Finance Ltd, authorised the conversion of the preference shares into ordinary share capital

The conversion of the preference shares to ordinary shares extinguished the historical asset (Note 12). The dividend receivable on the preference shares has been de-recognised through to the profit and loss account, this includes the amount receivable for the year up to 22 December 2009

**8. AUDITORS' REMUNERATION**

	2009 £	2008 £
Fees for the audit of the Company	<u>5,000</u>	<u>5,073</u>

Fees for the audit of the Company represent the amount receivable by the Company's auditors. The amount may not be borne by the Company.

Fees paid to the Company's auditors, KPMG Audit Plc, and its associates for services other than the statutory audit of the Company are not disclosed in these accounts since the consolidated accounts of Bupa, the ultimate parent undertaking, are required to disclose non-audit fees on a consolidated basis.

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

<i>i) Analysis of tax credit</i>	2009 £	2008 £
UK corporation tax on profit for the year	<u>13,047</u>	<u>404,868</u>

*ii) Factors affecting the tax charge/(credit)*

The tax assessed for the year is lower (2008: lower) than the 2009 rate of corporation tax in the UK of 28% (2008: 28.5%). The differences are explained below:

Profit on ordinary activities before tax	<u>56,261,386</u>	<u>8,269,980</u>
Tax charge on loss on ordinary activities at 28% (2008: 28.5%)	15,753,188	2,356,718
Effects of:		
Transfer pricing adjustments	197	-
Finance charge on shares classified as liabilities	3,524,905	3,704,644
Expenses not deductible for tax purposes	12,247,206	-
Income not taxable	(31,512,449)	(5,656,494)
Total current tax charge for the year	<u>13,047</u>	<u>404,868</u>

**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2009**

**10. INVESTMENTS**

	Shares in group undertakings £	Loans to group undertakings £	Total £
<i>Cost</i>			
At beginning of year	200,010,200	509,783,385	709,793,585
Additions	10,000	11,088,195	11,098,195
At end of year	<u>200,020,200</u>	<u>520,871,580</u>	<u>720,891,780</u>
<i>Net book value</i>			
At 31 December 2009	<u>200,020,200</u>	<u>520,871,580</u>	<u>720,891,780</u>
At 31 December 2008	<u>200,010,200</u>	<u>509,783,385</u>	<u>709,793,585</u>

The subsidiary undertaking of the company listed below is directly and wholly owned and is registered in England and Wales

	Holdings	Class of share
Hospital Finance Limited	100%	Ordinary shares

**11. DEBTORS**

	2009 £	2008 £
<b>Amounts falling due within one year:</b>		
Amounts owed by Group undertakings	425,762	1,059,654
Dividend receivable on preference shares in group undertakings	-	30,710,701
	<u>425,762</u>	<u>31,770,354</u>

**12. CREDITORS**

	2009 £	2008 £
<b>Amounts falling due within one year:</b>		
Amounts owed to Group undertakings	<u>13,047</u>	<u>4,007,494</u>
<b>Amounts falling due after more than one year</b>		
Amounts owed to Group undertakings	521,919,993	507,497,287
Shares classified as liabilities (Note 13)	-	200,000,000
Finance cost payable	-	86,926,193
	<u>521,919,993</u>	<u>794,423,480</u>

**HOSPITAL FINANCE INVESTMENTS LIMITED**  
**Registered number 3104255**

**NOTES TO THE FINANCIAL STATEMENTS - continued**  
**for the year ended 31 December 2009**

**13. SHARE CAPITAL**

	2009 £	2008 £
<b>Authorised, allotted, called-up and fully paid</b>		
200,000,000 6 5% cumulative redeemable preference shares of £1 each	-	200,000,000
10,200 Ordinary shares of £1 each	-	10,200
200,010,200 Ordinary shares of £1 each'	200,010,200	-
	<u>200,010,200</u>	<u>200,010,200</u>
Shares classified as liabilities	-	200,000,000
Shares classified in shareholders' funds	200,010,200	10,200
	<u>200,010,200</u>	<u>200,010,200</u>

On 22 December 2009, the holders of the 200,000,000 6 5% cumulative redeemable shares of £1 each waived all accrued but unpaid dividends. Following the waivers of the accrued but unpaid dividends, each of the 6 5% cumulative redeemable shares were converted to ordinary shares of £1 each. In order to accommodate the conversion of Preference to Ordinary shares, the Board increased the authorised Ordinary share capital of the Company by 200,000,000.

Prior to 22 December 2009, the 6 5% cumulative redeemable preference shares were redeemable at the option of the shareholder at any time before 31 December 2050 at £1 per share. The preference shares carried a dividend of 6 5% per annum. Dividends were payable annually in arrears, in equal amounts, within 14 days of the approval and signature by the Board of the audited accounts for the financial year. The dividend rights were cumulative.

**14. RESERVES**

	Profit and loss account 2009 £
At the beginning of the year	(56,786,967)
Profit for the year	56,248,339
At the end of the year	<u>(538,628)</u>

**15. GUARANTEES AND OTHER FINANCIAL COMMITMENTS**

The Company has given a guarantee and other undertakings, as part of the Group banking arrangements, in respect of the overdraft and loans of certain other Group undertakings.