

HOSPITAL FINANCE LIMITED

(Registered Number 3104269)

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

31 DECEMBER 2009

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HOSPITAL FINANCE LIMITED

Registered number 3104269

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 activity of the Company is that of an investment holding company

2. Business review

The profit for the year, after taxation, amounted to £87.7m (2008 loss £1.6m)

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

HOSPITAL FINANCE LIMITED

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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

HOSPITAL FINANCE LIMITED

Registered number 3104269

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 LIMITED

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOSPITAL FINANCE LIMITED

We have audited the financial statements of Hospital Finance 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

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 LIMITED

Registered number 3104269

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HOSPITAL FINANCE 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 LIMITED

Registered number 3104269

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2009

	<i>Note</i>	2009 £	2008 £
Interest receivable and similar income	4	2,135,764	20,320,991
Interest payable and similar charges	5	(13,802,944)	(17,329,213)
Other operating income		-	11
Operating (loss)/profit		<u>(11,667,180)</u>	<u>2,991,789</u>
Negative finance cost	7	99,770,141	-
Profit before taxation		<u>88,102,961</u>	<u>2,991,789</u>
Tax on profit on ordinary activities	8	(381,400)	(4,557,223)
Profit/(loss) for the financial year		<u><u>87,721,561</u></u>	<u><u>(1,565,434)</u></u>

The operating profit/(loss) is all derived from continuing activities

There were no recognised gains or losses other than the profit for the financial year

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 LIMITED

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BALANCE SHEET

as at 31 December 2009

	<i>Note</i>	2009 £	2008 £
Fixed Assets			
Investments	9	244,179,672	309,053,750
Current Assets			
Cash at bank and in hand		-	8,600
Creditors amounts falling due within one year	10	(12,468,028)	(78,331,448)
Net current liabilities		<u>(12,468,028)</u>	<u>(78,322,848)</u>
Total assets less current liabilities		231,711,644	230,730,902
Creditors amounts falling due after one year	10	-	(286,740,819)
Net assets/(liabilities)		<u>231,711,644</u>	<u>(56,009,917)</u>
Capital and reserves			
Called up share capital	11	200,020,200	20,200
Profit and loss account	12	<u>31,691,444</u>	<u>(56,030,117)</u>
Shareholders' funds/(deficit)		<u>231,711,644</u>	<u>(56,009,917)</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 notes on pages 9 to 14 form part of these financial statements

HOSPITAL FINANCE LIMITED**Registered number 3104269****RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****for the year ended 31 December 2009**

	2009 £	2008 £
Profit/(loss) for the year	87,721,561	(1,565,434)
Conversion of preference shares to ordinary shares	<u>200,000,000</u>	<u>-</u>
Net increase/(reduction) in shareholders' funds	287,721,561	(1,565,434)
Opening shareholders' deficit	(56,009,917)	(54,444,483)
Closing shareholders' funds/(deficit)	<u>231,711,644</u>	<u>(56,009,917)</u>

HOSPITAL FINANCE LIMITED

Registered number 3104269

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 applicable UK accounting standards and 'under historical cost accounting rules, modified to include the revaluation of properties. In view of the letter of support from Bupa Finance plc, which undertakes to provide such support as is necessary to enable the Company to meet its liabilities as they fall due, the financial statements are also prepared on a going concern basis

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 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) 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

(c) 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

HOSPITAL FINANCE LIMITED

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

1. STATEMENT OF ACCOUNTING POLICIES - continued

(d) 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
- 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

(e) Classification of financial instruments issued by the company - FRS 25

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

HOSPITAL FINANCE LIMITED

Registered number 3104269

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 - continued

1. STATEMENT OF ACCOUNTING POLICIES - continued

(e) Classification of financial instruments issued by the company - FRS 25 - continued

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.

2. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The Company is a subsidiary of Hospital Finance Investments Limited, a company incorporated in England and Wales.

The ultimate parent company and the largest group in which the results of the Company are consolidated is that headed by The British United Provident Association Limited, a company incorporated in England and Wales. The smallest group in which they are consolidated is that headed by Bupa Finance Plc, a company incorporated in England and Wales. The consolidated financial statements of these groups are available from The Registrar of Companies, Cardiff, CF14 3UZ.

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. INTEREST RECEIVABLE AND SIMILAR INCOME

	2009	2008
	£	£
Interest receivable from group undertakings	2,135,763	20,320,912
Other interest receivable	1	79
	<u>2,135,764</u>	<u>20,320,991</u>

HOSPITAL FINANCE LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 - continued

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2009	2008
	£	£
Interest payable to Group undertakings	773,622	4,329,213
Finance cost on shares classified as liabilities	13,029,322	13,000,000
	<u>13,802,944</u>	<u>17,329,213</u>

6. 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.

7. NEGATIVE FINANCE COST

	2009	2008
	£	£
Negative finance cost	<u>99,770,141</u>	<u>-</u>

On 22 December 2009, Hospital Finance Investments Ltd, 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 11).

The conversion of the preference shares to ordinary shares extinguished the historical liability (Note 10). The finance cost liability has therefore been released to the profit and loss account which includes the finance cost for the year up to 22 December 2009.

HOSPITAL FINANCE LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 - continued

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2009	2008
	£	£
<i>i) Analysis of tax charge</i>		
UK corporation tax on profit for the year	<u>381,400</u>	<u>4,557,223</u>

ii) Factors affecting the tax charge

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

	2009	2008
	£	£
Profit on ordinary activities before tax	<u>88,102,961</u>	<u>2,991,789</u>
Tax charge on profit on ordinary activities at 28% (2008 28.5%)	24,668,829	852,578
Effect of		
Income not taxable	(27,935,629)	-
Finance charge on shares classified as liabilities	<u>3,648,200</u>	<u>3,704,645</u>
Total current tax charge for the year	<u>381,400</u>	<u>4,557,223</u>

9. INVESTMENTS

Loans to group
undertakings
£

Cost

At beginning of year	309,053,750
Additions	1,997,232
Repayments	(66,871,310)
At end of year	<u>244,179,672</u>

Net book value

At 31 December 2009	<u>244,179,672</u>
At 31 December 2008	<u>309,053,750</u>

HOSPITAL FINANCE LIMITED

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NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2009 - continued

10. CREDITORS

	2009	2008
	£	£
Amounts falling due within one year:		
Bank loans and overdrafts	54,521	-
Amounts owed to Group undertakings	12,413,507	78,331,448
	<u>12,468,028</u>	<u>78,331,448</u>
Amounts falling due after more than one year:		
Shares classified as liabilities	-	200,000,000
Finance cost payable	-	86,740,819
	<u>-</u>	<u>286,740,819</u>

11. SHARE CAPITAL

	2009	2008
	£	£
Authorised, allotted, called-up and fully paid		
200,000,000 6 5% cumulative redeemable preference shares of £1 each	-	200,000,000
10,000 'A' ordinary shares of £1 each	-	10,000
10,000 'B' ordinary shares of £1 each	-	10,000
200 'C' ordinary shares of £1 each	-	200
200,020,200 Ordinary shares of £1 each	200,020,200	-
	<u>200,020,200</u>	<u>200,020,200</u>
Shares classified as liabilities	-	200,000,000
Shares classified in shareholders' funds	200,020,200	20,200
	<u>200,020,200</u>	<u>200,020,200</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 waiver of the accrued but unpaid dividends, each of the 6 5% cumulative redeemable shares, 'A' ordinary shares, 'B' ordinary shares and 'C' ordinary shares were converted to one single class of 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.

12. RESERVES

	Profit and loss account
	£
At the beginning of the year	(56,030,117)
Gain for the financial year	87,721,561
At the end of the year	<u>31,691,444</u>