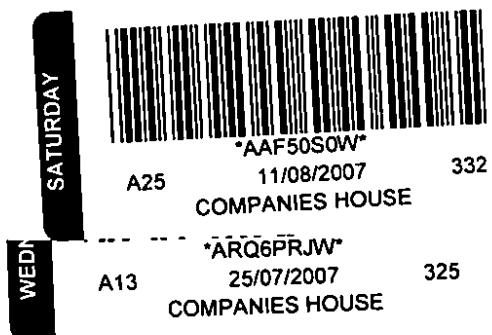


**Capital Hospitals (Issuer) PLC**  
**Directors' report and financial statements**

31 December 2006  
Registered number 5462494



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## **Company information**

### **Directors**

A Finegan  
AR Gillman  
D Hardy  
TR Pearson  
R Weston  
H Wilson

### **Secretary**

DP Hammond

### **Registered office**

3 White Oak Square,  
London Road,  
Swanley,  
Kent, BR8 7AG  
United Kingdom

### **Auditors**

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

## **Directors' report**

The directors present their report and the audited financial statements for the year ended 31 December 2006

### **Principal activity**

The principal activity of the company is to act as a special purpose vehicle to raise finance and on-lend the proceeds to Capital Hospitals Limited, a special purpose vehicle contracted to design, construct and partially to operate hospitals at the Royal London and St Bartholomew sites under the Government's Private Finance Initiative

### **Business review**

On 27<sup>th</sup> April 2006 the Company issued 1 703% Index Linked Guaranteed Secured Bonds due 2046 at a nominal value of £745,400,000, drew down sums from the European Investment Bank under two £125,000,000 loan facilities and issued 10 5% mezzanine notes at a value of £20,000,000. These sums were immediately on-lent to Capital Hospitals Limited pursuant to a proceeds on-loan agreement

### **Dividends**

The directors do not recommend the payment of a dividend (2005 £nil)

### **Directors**

The directors who held office during the year were as follows

A Finegan	Appointed 30 May 2006
JE Gemmell	Resigned 1 December 2006
AR Gillman	
D Hardy	
CL Mitchell	Resigned 30 May 2006
TR Pearson	
R Weston	
H Wilson	Appointed 5 February 2007

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the group companies

### **Financial instruments**

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out in Note 9 of the Notes on the financial statements

### **Policy on payment of creditors**

It is policy to comply with the payment terms agreed with suppliers. Where payment terms are not negotiated the Company endeavours to adhere with suppliers standard terms

### **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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

### **Financial risk management policies and objectives**

The Company's principal financial instruments comprise inter group loan and index linked and fixed rate bonds. The main purpose of these financial instruments is to ensure, via the terms of the financial instruments, that the profile of the debt service costs is tailored to match expected revenues arising from the Concession Agreement of a fellow subsidiary

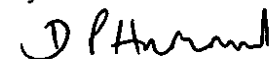
The Company does not undertake financial instrument transactions which are speculative or unrelated to the Company's trading activities. Board approval is required for the use of any new financial instrument, and the Company's ability to do so is restricted by covenants in its existing funding agreements

Exposure to liquidity, credit and interest rate risks arise in the normal course of the company's business. Further details relating to these risks are given in note 9 to the accounts

**Auditors**

During the year KPMG Audit Plc were re-appointed as auditors of the company. In accordance with Section 385 of the Companies Act 1985, a resolution to reappoint KPMG Audit Plc as auditors is to be proposed at the next Annual General meeting.

By order of the board



**DP Hammond**

*Secretary*

Date 22 June 2007

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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 auditors' report to the members of Capital Hospitals (Issuer) PLC**

We have audited the financial statements of Capital Hospitals (Issuer) PLC for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Independent auditors' report to the members of Capital Hospitals (Issuer) PLC**  
*(continued)*

**Opinion**

**In our opinion**

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its results for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*KPMG Audit Plc*

**KPMG Audit Plc**  
*Chartered Accountants*  
Registered Auditor

*22/6/07*

**Profit and loss account**  
*for the year ended 31 December 2006*

	<i>Note</i>	<b>Year ended 31-Dec-06 £</b>	<b>Period from 25-May-05 to 31-Dec-05 £</b>
Turnover		-	-
Net operating costs		-	-
<b>Operating loss</b>		-	-
Interest payable and similar charges	2	(30,712,961)	-
Other interest receivable and similar income	3	30,712,961	-
<b>Profit on ordinary activity before taxation</b>		-	-
Taxation on profit on ordinary activity		-	-
<b>Profit for the financial year/period</b>		-	-

There were no other recognised gains and losses for the period other than the profit stated above. There is no difference between the historical cost profit and the profit stated above. All of the results relate to continuing activities.

**Balance sheet**  
**at 31 December 2006**

	<i>Note</i>	2006 £	2005 £
<b>Current assets</b>			
Debtors amounts falling due after more than one year	4	1,017,319,377	-
Cash at bank and in hand		-	50,000
		<u>1,017,319,377</u>	<u>50,000</u>
Creditors amounts falling due within one year	5	<u>(4,911,721)</u>	-
Net current assets		1,012,407,656	50,000
Creditors amounts falling due after more than one year	6	<u>(1,012,357,656)</u>	-
Net assets		<u><u>50,000</u></u>	<u><u>50,000</u></u>
<b>Capital and reserves</b>			
Called up share capital	7	50,000	50,000
Profit and loss account	8	-	-
Equity shareholders' funds	9	<u><u>50,000</u></u>	<u><u>50,000</u></u>

These financial statements were approved by the board of directors on 22 June 2007 and were signed on its behalf by



**T.R. Pearson**  
*Director*

The notes on pages 9 to 15 form part of these financial statements

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

#### *(i) Basis of preparation of the accounts*

The financial statements have been prepared in accordance with applicable accounting standards and under historical accounting rules

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds of that a parent undertaking includes the company in its own published consolidated financial statements

As the company is a subsidiary of Capital Hospitals (Holdings) Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Capital Hospitals (Holdings) Limited, within which this company is included, can be obtained from the address given in note 11

#### *(ii) Taxation*

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

### 2 Interest payable and similar charges

	Year ended 31-Dec-06 £	Period from 25-May-05 to 31-Dec-05 £
Interest on bonds	30,296,431	-
Finance arrangement costs expensed during the year/period	<u>416,530</u>	<u>-</u>
	<u><u>30,712,961</u></u>	<u><u>-</u></u>

### 3 Other interest receivable and similar income

	Year ended 31-Dec-06 £	Period from 25-May-05 to 31-Dec-05 £
Interest receivable on inter group loans	30,296,431	-
Finance arrangement costs recharged during year/period	<u>416,530</u>	<u>-</u>
	<u><u>30,712,961</u></u>	<u><u>-</u></u>

**Notes (continued)**

**4 Debtors: amounts falling due after more than one year**

	2006 £	2005 £
Inter group loan		
Instalments due over 5 years	<u>1,017,319,377</u>	<u>-</u>

The debtor represents an intercompany loan between the Company and Capital Hospitals Limited

**5 Creditors: amounts falling due within one year**

	2006 £	2005 £
Accruals	<u>4,911,721</u>	<u>-</u>

**6 Creditors: amounts falling due after more than one year**

	2006 £	2005 £
Instalments over 5 years		
Bonds	758,473,612	-
Bank loan	254,384,765	-
Mezzanine notes	20,000,000	-
	<u>1,032,858,377</u>	<u>-</u>
Less unamortized debt issuance costs	<u>(20,500,721)</u>	<u>-</u>
	<u>1,012,357,656</u>	<u>-</u>

Bonds are secured by an irrevocable and unconditional financial guarantee issued by Financial Security Assurance (UK) Ltd and Ambac Assurance UK Ltd respectively. The bonds are repayable in half-yearly instalments commencing 30<sup>th</sup> September 2016 and are subject to an interest rate of 1.703% subject to Retail Price Index adjustment calculated on a half yearly basis. The Company's subsidiary has retained £275,000,000 of bonds ("variation bonds") which it may sell, subject to certain restrictions, to fund variations to the project.

Bank loan is secured by an irrevocable and unconditional financial guarantee issued by Financial Security Assurance (UK) Ltd (50%) and Ambac Assurance UK Ltd (50%) respectively. The loan is repayable in half-yearly instalments commencing 30<sup>th</sup> September 2016 and is subject to an interest rate of 1.550% subject to Retail Price Index adjustment calculated on a half yearly basis.

Mezzanine Notes are unsecured and repayable in 2036 subsequent to the repayment of the company's other loans and is subject to an interest rate of 10.5%.

## Notes (continued)

### 7 Called up share capital

	2006 £	2005 £
<b>Equity</b>		
Authorised		
50,000 ordinary shares of £1 each (2005 50,000)	<u>50,000</u>	<u>50,000</u>
Called up and fully paid		
At the beginning of the period	50,000	-
Issue of shares	<u>-</u>	<u>50,000</u>
At the end of the period	<u>50,000</u>	<u>50,000</u>

### 8 Reconciliation of movements in equity shareholders' funds

	Year ended 31-Dec-06 £	Period from 25-May-05 to 31 Dec 05 £
Profit for the period	-	-
Issue of shares	-	50,000
Opening equity shareholders' funds	<u>50,000</u>	<u>-</u>
Closing equity shareholders' funds	<u>50,000</u>	<u>50,000</u>

### 9 Financial instruments

Exposure to credit and interest rate risks arise in the normal course of the Company's business

#### *Interest rate risk*

The Company aims to manage exposure to interest rate fluctuations through a balance of fixed rate borrowings along with floating rate borrowings. Except Guaranteed Secured Index-Linked Bonds which is subject to bi-annual indexation calculated from an agreed formula based on the Retail Price Index, all the other interest bearing assets and liabilities are primarily of fixed rate. The indexation risk is also offset by turnover being subject to similar indexation terms.

#### *Effective interest rates and repricing analysis*

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at balance sheets date and the periods in which they mature, or, if earlier, are repriced.

## Notes (continued)

### 9 Financial instruments (continued)

2006

	Effective Interest Rate	Total £	Over 5 years £
Inter-group Loans	1.864%	1,017,319,377	1,017,319,377
Bonds	1.703%	(758,473,612)	(758,473,612)
Bank loan	1.55%	(254,384,765)	(254,384,765)
Mezzanine notes	10.5%	(20,000,000)	(20,000,000)
<b>Total</b>		<b>(15,539,000)</b>	<b>(15,539,000)</b>

2005

	Effective Interest Rate	Total £	Less than 1 year £
Cash	2.23%	50,000	50,000
<b>Total</b>		<b>50,000</b>	<b>50,000</b>

#### *Fair Values*

The fair values together with the carrying amounts shown in the balance sheet of all financial assets and financial liabilities are as follows

	2006 Carrying amount £	2006 Fair value £	2005 Carrying amount £	2005 Fair value £
Cash	-	-	50,000	50,000
Inter group loans	1,017,319,377	1,045,267,632	-	-
Bonds	(758,473,612)	(779,402,515)	-	-
Bank Loan	(254,384,765)	(261,404,118)	-	-
Mezzanine Notes	(20,000,000)	(20,000,000)	-	-
	<b>(15,539,000)</b>	<b>(15,539,001)</b>	<b>50,000</b>	<b>50,000</b>

## Notes (continued)

### 9 Financial instruments (continued)

#### *Estimation of fair values*

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table

Guaranteed index linked bonds are valued based on a quoted trading price for the last business day preceding the year end

Bank Loan is valued based on the bond value premium over issue price, as the risks, security and indexation of the loan and bonds are substantially similar

Mezzanine Notes are valued based upon discounted expected future principal and interest cash flows

Fair value of the inter-group loan, which represents loan and share issue proceeds passed on to Capital Hospitals Limited under the terms of a Proceeds On-Loan agreement, less finance costs incurred, are valued by totalling the values comprising the separate constituent parts of the loan, as itemised within this note

#### *Interest rates used for determining fair values*

For the Mezzanine Notes, where fair value has been assessed by discounting carrying amounts of future principal and interest cash values, the discount rate used is 10.5% pa reflecting the risks associated with the unsecured loan

#### *Sensitivity analysis*

Since the Company has offsetting fixed rate financial assets and liabilities, a general increase of one percentage point in interest rates would not significantly impact the profits of the Company

### 10 Profit on ordinary activities before taxation

Auditors' remuneration of the Company is borne by a related party

The directors of the company did not receive any emoluments from the company during the year (2005 £Nil). Apart from the directors there were no other employees of the company during the year (2005 Nil)

### 11 Ultimate parent company and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Capital Hospitals (Holdings) Limited incorporated in the United Kingdom

The smallest and largest group in which the financial statements of the Company are consolidated is Capital Hospitals (Holdings) Limited

The consolidated accounts of the group are available to the public and may be obtained from 3 White Oak Square, London Road, Swanley, Kent, BR8 7AG