# GHG 2 (Clementine Churchill Hospital) Limited

Report and Financial Statements

for the period ended 31 March 2019



Company Number: 05783441

# GHG 2 (Clementine Churchill Hospital) Limited

**Report and financial statements**
**for the period ended 31 March 2019**

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# GHG 2 (Clementine Churchill Hospital) Limited

**Company Directory**

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## Director
D Duggins

## Registered Office
GHG 2 (Clementine Churchill Hospital) Limited
c/o Maitland Administration Services (Scotland) Ltd
Hamilton Centre,
Rodney Way,
Chelmsford,
England,
CM1 3BY

Company Incorporated and Registered in United Kingdom

## Company Secretary
Maitland Administration Services (Scotland) Ltd
20 Forth Street,
Edinburgh,
Scotland,
EH1 3LH

## Legal Advisors
Kirkland & Ellis International LLP
30 St Mary Axe
London
EC3A 8AF

## Independent Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

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 2050. 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 October 2024.

**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 Clementine Churchill), 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 indexation provisions within the lease were amended during the period, and the annual rent is now subject to a minimum increase of 1% and a cap of 4%. 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 property decreased during the period as a result of significant changes to the terms of the lease (described more fully below) and the general property market conditions within the healthcare sector.

The trading performance of the Company's tenant deteriorated significantly during 2017, and subsequently continued at a level which made the payment of the Theatre Propco rent unsustainable. After lengthy negotiations, on 13 December 2018 the Company reached an agreement 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 was significantly extended and other enhancements to the lease were made. These changes are expected to stabilise the value of the Company's investment property in the short term, and lead growth over the longer term as the tenant's covenant strengthens.

At the same time as the leases were amended, the Group's debt facilities were re-negotiated. Maturity was extended to October 2024, the obligations to pay interest and amortisation were relaxed, and financial covenants were re-set. This modification of the debt resulted in a charge of £ 4.340 million to the profit and loss account. The Group's interest rate swaps, which previously ran to 2021 were closed out and replaced with new swaps which run to 2026.

**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**

*2019 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 £62.441 million (16 April 2018: £16.799 million loss). The Director is unable to recommend the payment of a dividend (16 April 2018: £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 (twice) with new swap arrangements which extend to 2026. Details of these arrangements, which convert the Company's floating rate exposure to known fixed rates, are set out within Note 17 to the financial statements. The Company does not speculate in the trading of derivative instruments.

*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 October 2024.

*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 with the minimum annual increase being 1% to a maximum cap of 4%.

*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 2050. 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 floor of 1% and a cap of 4% pa. 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.

Prior to the amendment of the lease on 13 December 2018, the Company held an RPI swap linked to the annual rental income arising under the lease. The RPI swap was cancelled at the same time as the amendments to the lease made.

*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 24 July 2019.

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**D Duggins**
Director

# GHG 2 (Clementine Churchill Hospital) Limited

## Report of the Director

The Director has pleasure in presenting this report and the financial statements of GHG 2 (Clementine Churchill Hospital) Limited ("the Company") for the period 17 April 2018 to 31 March 2019. 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 2 Limited and it was changed to GHG 2 (Clementine Churchill Hospital) 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 24 July 2019.

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**D Duggins**
Director

# GHG 2 (Clementine Churchill Hospital) 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 2 (CLEMENTINE CHURCHILL HOSPITAL) LIMITED

### Opinion

We have audited the financial statements of GHG 2 (Clementine Churchill Hospital) Limited ("the Company") for the period 17 April 2018 to 31 March 2019 which comprise the Income Statement, Statement of Financial Position and Statement of Changes in Equity, and the 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 31 March 2019 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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Director is 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 Director's report for the financial period for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic report and Director's 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 Director's remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

**Responsibilities of the Director**

As explained more fully in the Statement of Director's Responsibilities, the Director is 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 Director determines 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 Director is 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 Director either intends 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 24 July 2019

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

# GHG 2 (Clementine Churchill Hospital) Limited

**Income Statement**
**for the period ended 31 March 2019**

| | Note | Period 17.04.18 - 31.03.19 £000 | Period 19.04.17 – 16.04.18 £000 |
|---|---|---|---|
| **Turnover** | 5 | 7,688 | 10,730 |
| Administrative expense | 6 | (351) | (2,467) |
| Gain / (loss) on revaluation of RPI swap | 6 | 80 | (3,659) |
| Loss from changes in fair value of investment property | 9 | (49,800) | (15,660) |
| Restructuring costs | 6 | (3,808) | - |
| **Loss on ordinary activities before interest and tax** | | **(46,191)** | **(11,056)** |
| Loss on debt modification | 6 | (4,340) | - |
| (Loss) / Gain on revaluation of interest rate swap | 6 | (4,807) | 1,431 |
| Interest payable and similar charges | 7 | (7,103) | (7,174) |
| **Operating loss** | | **(62,441)** | **(16,799)** |
| Tax on ordinary activities | 8 | 4,751 | 738 |
| **Loss for the financial period** | | **(57,690)** | **(16,061)** |
| **Other comprehensive income / (loss)** | | - | - |
| **Total comprehensive loss for the period** | | **(57,690)** | **(16,061)** |

All operations are considered to be continuing.

The notes on pages 14 to 26 form part of these financial statements.

# GHG 2 (Clementine Churchill Hospital) Limited

**Statement of Financial Position**
**at 31 March 2019**

| | Note | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 9 | 73,950 | 123,750 |
| **Current assets** | | | |
| Debtors: due within one year | 10 | 373 | 123 |
| Debtors: due more than one year | 11 | 58 | - |
| | | 431 | 123 |
| **Creditors: amount falling due within one year** | 12 | (23,468) | (182,505) |
| **Net current liabilities** | | (23,037) | (182,382) |
| **Total assets less current liabilities** | | **50,913** | **(58,632)** |
| **Creditors: amount falling due after more than one year** | 13 | (178,262) | (6,252) |
| **Provisions for liabilities** | 15 | (378) | (5,153) |
| **Net liabilities** | | **(127,727)** | **(70,037)** |
| **Capital and reserves** | | | |
| Called up share capital | 18 | - | - |
| Profit and loss account | 19 | (127,727) | (70,037) |
| **Total deficit** | | **(127,727)** | **(70,037)** |

The financial statements for GHG 2 (Clementine Churchill Hospital) Limited, registered number 05783441 were approved by the Director and authorised for issue on 24 July 2019.

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**D Duggins**
Director

The notes on pages 14 to 26 form part of these financial statements.

# GHG 2 (Clementine Churchill Hospital) Limited

**Statements of Changes in Equity**
**for the period ended 31 March 2019**

| | Share Capital £000 | Profit and Loss Account £000 | Total Equity £000 |
|---|---|---|---|
| **18 April 2017** | - | (53,976) | (53,976) |
| Total comprehensive loss for the period | - | (16,061) | (16,061) |
| **16 April 2018** | **-** | **(70,037)** | **(70,037)** |
| Total comprehensive loss for the period | - | (57,690) | (57,690) |
| **31 March 2019** | **-** | **(127,727)** | **(127,727)** |

The notes on pages 14 to 26 form part of these financial statements.

## Definitions
### for the period ended 31 March 2019

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:

**"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.

**"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, Hamilton Centre, Rodney Way, Chelmsford, Essex, England, CM1 3BY.

## 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 property**
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.

## 2 Principal accounting policies (continued)

**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.

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. The amount at which the debt instruments are measured includes the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount due to the lenders. As part of an extension to the repayment dates of the loans, as a one-off exercise, the net present value of the loans and the difference between the initial amount and the maturity amount was calculated. This was deemed not to be a substantive modification and therefore this was charged through the profit and loss.

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade and other 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.

## 2 Principal accounting policies (continued)

**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.

**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.

## 2 Principal accounting policies (continued)

**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 October 2024. 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. On 13 December 2018, agreements were concluded with the tenant, its lenders and the Company's lenders which resulted in substantial amendments to the leases, the tenant's debt facility, and the Company's debt facility, enabling the Director to conclude that the tenant will be able to meet all of its obligations under the leases for the foreseeable future, thereby enabling the Company to comply with its obligations under the debt facility. In addition, the Director has reviewed the forecast of the Company to July 2020 and along with the above assessment has therefore concluded that it is appropriate to prepare the financial statements on a going concern basis and present the financial statements accordingly.

## 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 property is 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.

- *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 used a third-party valuation, applying the concept that fair value is the amount for which the derivative could be traded. There were judgements based on the future rates of inflation, and on the counterparties' ability to make future payments, which affect the valuation. There were no RPI linked derivatives remaining as at 31 March 2019.

## 4 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

- *Deferred tax asset (see note 16)*
  At each financial period end judgement is required in respect of the deferred tax asset. The amount of the deferred tax asset included in the statement of financial position is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In estimating the amount of the deferred tax asset that may be recognised, the director makes judgements based on current budgets and forecasts about the amount of future taxable profits and the timings of when these will be realised.

- *Deferred tax liability (see note 16)*
  The deferred tax liability reflects the deferred tax on the difference between the tax and accounting carrying values at rates substantively enacted at the balance sheet date, offset by the effect of the benefit available from previous tax losses that may reduce the liability arising on such a crystallisation.

- *Rental income (see note 5)*
  The lease with the tenant was extended to 2050, 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 floor of 1% and a cap of 4% pa. As the lease is subject to an inflationary increase, changes in the rental income will be recognised as incurred rather than the first-year discount being spread over the term of the lease.

- *Debt modification*
  The debt was modified during the year, with existing lenders. The modification took the form of an extension of maturity on existing terms, with a relaxation of the mandatory repayment provisions, such that most of the amortisation of the debt is now effectively on a pay-if-you-can basis. The net present value ("NPV") of the future cash flows of the amended debt is higher than the NPV of the old debt, but less than the 10% threshold which would have required its extinguishment and reinstatement. The difference in NPV has therefore been recognised as a loss in the period. The director considers that the modification is not substantial and this is reflected in the financial statements.

## 5 Analysis of turnover

| | **Period 17.04.18 - 31.03.19 £000** | **Period 19.04.17 - 16.04.18 £000** |
|---|---|---|
| Rental income | 7,688 | 10,730 |
| | 7,688 | 10,730 |

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** | **2019 £000** | **2018 £000** |
|---|---|---|
| No later than one year | 4,311 | 10,960 |
| Later than one year and no later than five years | 17,374 | 43,839 |
| Later than 5 years | 115,466 | 93,623 |
| | 137,151 | 148,422 |

## 6 Operating loss

| | Period 17.04.18 - 31.03.19 £000 | Period 19.04.17 - 16.04.18 £000 |
|---|---|---|
| Audit fees | 3 | 2 |
| (Gain) / loss on revaluation of RPI swap | (80) | 3,659 |
| Provision for bad debt against the deferred rent | - | 2,144 |
| Provision for bad debt against loans receivable | 132 | - |
| Other expenses | 216 | 321 |
| Restructuring costs | 3,808 | - |
| | 4,079 | 6,126 |
| Loss / (Gain) on revaluation of interest rate swap | 4,807 | (1,431) |
| Loss on debt modification | 4,340 | - |
| Interest payable and similar charges | 7,103 | 7,174 |
| **Total expenses on ordinary activities before taxation** | 20,329 | 11,869 |

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 £7,445 (2018: £4,415).

The audit fee for the audit of the Company's annual accounts was £2,827 (2018: £1,939). The auditor received no non- audit fees during the period (2018: £Nil).

## 7 Interest payable

| | Period 17.04.18 - 31.03.19 £000 | Period 19.04.17 - 16.04.18 £000 |
|---|---|---|
| On bank loans | 6,983 | 7,051 |
| Debt service costs | 120 | 123 |
| | 7,103 | 7,174 |

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 17.04.18 - 31.03.19 £000 | Period 19.04.17 - 16.04.18 £000 |
|---|---|---|
| Corporation tax | 24 | 387 |
| Deferred tax (see Note 16) | | |
| Credit to the profit and loss account | (4,775) | (1,125) |
| Tax on ordinary activities | (4,751) | (738) |

## 8 Tax on profit on ordinary activities (continued)

### Factors affecting tax credit 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 17.04.18 - 31.03.19 £000 | Period 19.04.17 - 16.04.18 £000 |
|---|---|---|
| UK corporation tax | | |
| Loss on ordinary activities before tax | (62,441) | (16,799) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (April 2018: 19%) | (11,864) | (3,192) |
| **Effects of:** | | |
| Adjustment to carried forward loss for prior year | 530 | 1,707 |
| Other | 6,583 | 747 |
| Total | (4,751) | (738) |

The Director estimates that the Company has tax losses available for offset against future taxable profits of £40.955 million (2018: £39.418 million). Those losses arose principally from the provisions made to state the value of the Company's Interest Rate Swaps.

## 9 Investment property

| | 31 March 2019 £000 |
|---|---|
| Valuation as at 16 April 2018 | 123,750 |
| Revaluation | (49,800) |
| Valuation as at 31 March 2019 | 73,950 |

The 2019 and 2018 valuations were made by Cushman & Wakefield (formerly DTZ Debenham Tie Leung - "DTZ") as independent external valuers, and has been prepared as at 31 March 2019, in accordance with the Appraisal Valuation Standards of the Royal Institution of Chartered Surveyors ("RICS"), on the basis of fair value. This has been incorporated into the financial statements. The original cost of the property was £140.831 million.

## 10 Debtors: due within one year

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Deferred rent due from Tenant | 188 | 2,144 |
| Less provision | - | (2,144) |
| Amounts owed from Hospital Topco Limited | 132 | - |
| Less Provision | (132) | - |
| Corporation Tax | 178 | - |
| Prepayments and accrued income | 7 | 14 |
| Financial assets - RPI swaps (note 17) | - | 109 |
| | 373 | 123 |

Amount owed from Hospital Topco Limited

The loan receivable from Hospital Topco Limited, is unsecured, non-interest bearing and repayable on demand. The Director has made a full provision against the total amount receivable from Hospital Topco Limited.

## 11 Debtors: due more than one year

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Lease incentives | 58 | - |
| | 58 | - |

## 12 Creditors: due within one year

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Bank loans (note 14) | 3,951 | 164,460 |
| Capitalised loan arrangement fee | (151) | (189) |
| Amounts owed to other Theatre Propcos | 12,631 | 10,681 |
| Amounts owed to GHG Holdco 2 Limited | 3,192 | - |
| Corporation Tax | - | (15) |
| Other creditors | 1 | 11 |
| Lease incentives | 33 | - |
| Accruals and deferred income | 1,562 | 3,182 |
| Financial liabilities - Interest rate swaps (note 17) | 2,249 | 4,375 |
| | 23,468 | 182,505 |

Accruals and deferred income

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

Amounts owed to other Theatre Propcos

The amounts arise as a result of other Theatre Propcos assisting the Company with the payment of interest and repayment of principal on its bank debt. These loans are interest free and repayable on demand.

Amounts owed to GHG Holdco 2 Limited

The loan payable to GHG Holdco 2 Limited, is unsecured, non-interest bearing and repayable on demand.

## 13 Creditors: due more than one year

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Bank loans (note 14) | 167,550 | - |
| Capitalised loan arrangement fee | (451) | - |
| Financial liabilities - Interest rate swaps (note 17) | 11,163 | 6,252 |
| | 178,262 | 6,252 |

## 14 Loan schedule

The below includes the maturity analysis for the bank loans only

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Loan maturity analysis | | |
| Due within one year | 3,951 | 164,460 |
| Due greater than one year, less than 5 years | 15,072 | - |
| Due greater than 5 years | 152,478 | - |
| **Total loans due** | 171,501 | 164,460 |

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

| | Interest rate* % | 2019 £000 | Interest rate* % | 2018 £000 |
|---|---|---|---|---|
| Repayable in quarterly instalments with a lump sum payment in October 2024 | 2.99%-6.70% | 84,304 | 2.59%-6.32% | 81,845 |
| Repayable in a lump sum in October 2024 | 0-7.25% | 87,197 | 0-7.25% | 82,615 |
| Total due | | 171,501 | | 164,460 |

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

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 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 and was further extended to 15 October 2024 during the current period. The Company incurred additional costs of £595,270 which were added to the loan principal.

On 13 December 2018, the loans payable to the Lenders had been adjusted to reflect the loss on the debt modification that was not considered as a substantial modification. The loss of £4,340,000 was charged to the profit and loss during the year.

### 14 Loan schedule (continued)

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 31 March 2019, the carrying value of the total Theatre Propcos' Debt was £2,017.0 million (2018: £1,931.9 million).

### 15 Provision

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Deferred taxation | 378 | 5,153 |
| | 378 | 5,153 |

### 16 Deferred taxation

| | Tax on property gains 31.03.19 £'000 | Tax losses available 31.03.19 £'000 | Total 31.03.19 £'000 |
|---|---|---|---|
| Opening deferred tax liability / (asset) | 10,306 | (5,153) | 5,153 |
| Adjustment of carried forward losses | - | 530 | 530 |
| Change in tax rates | (89) | 542 | 453 |
| Movement in property valuation | (9,462) | - | (9,462) |
| Tax loss recognised during the period (17%) | - | (791) | (791) |
| Adjustment to tax losses recognised | | 4,495 | 4,495 |
| **Closing deferred tax liability / (asset)** | 755 | (377) | 378 |

As set out in Note 8 to the financial statements, the Company has tax losses of £40.955 million (2018: £39.418 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 31 March 2019, the Director concluded that the Company's tax losses will be partially recovered against the potential gain on sale of the investment property, based on tax legislation in force at the date until the financial statements were approved.

The indexed base cost of the property is £69.5 million.

## 17 Financial instruments

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

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Financial assets held at amortised cost | 188 | - |
| Financial assets held at fair value | - | 109 |
| | | |
| Financial liabilities held at amortised cost | 188,530 | 175,194 |
| Financial liabilities held at fair value | 13,412 | 10,627 |

Financial assets are measured at amortised cost and comprises of the deferred rent due from the tenant, amounts due from group companies and accrued income.

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

Financial assets at fair value

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 Director's assessment of the tenant's ability to make future payments. The RPI swaps were cancelled in the current period.

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Opening fair value RPI swap asset | (109) | (4,196) |
| | | |
| RPI Swap interest received or accrued during the period | 210 | 450 |
| RPI Swap cost paid or accrued during the period | (10) | (22) |
| Adjustment to prior period allocation | (11) | - |
| (Credit) / Charge to the profit and loss account | (80) | 3,659 |
| | | |
| Closing fair value RPI asset | - | (109) |

## 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 2026. The swaps are carried at fair value.

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| Opening fair value interest rate swap liability | 10,627 | 16,616 |
| Swap cost paid or accrued during the period | (2,022) | (4,558) |
| Charge / (credit) to the profit and loss account | 4,807 | (1,431) |
| Closing fair value interest rate swap liability | 13,412 | 10,627 |

As at 31 March 2019, the total closing value of the interest rate swap due within 1 year was £2,249,000 (16 April 2018: £4,375,000), the closing value of the interest rate swap due more than 1 year was £11,163,000 (16 April 2018: £6,252,000).

The Interest Rate Swap contracts in place at 31 March 2019 with a principal amount of £80.9 million (2018: £81.1 million) have floating interest receipts linked to the 3 month LIBOR rate and have fixed interest rate payments at an interest rate of 3.5655%.

The Director has received from the counterparties a statement of the liability at 31 March 2019 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 which forms the basis of the valuation recognised in the financial statements.

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

| | 31 March 2019 £000 | 16 April 2018 £000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 101 Ordinary shares of £1 each (2018: 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 GHG Propco Holdco Limited and has taken advantage of the exemption in FRS 102 not to disclose transactions with GHG Propco Holdco 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 31 March 2019 was £56.3 million (2018: £54.1 million) with interest charged during the period of £2.161 million (2018: £ 2.165 million).

Hospital Topco Limited is a related party as it is the ultimate parent company. During the year, the Company had interest free loans repayable on demand loans with Hospital Topco Limited, see note 10 for the balance as at the year-end.

GHG Holdco 2 Limited is a related party due to the common ownership of the ultimate parent company, Hospital Topco Limited. During the year, the Company had interest free loans repayable on demand loans with GHG Holdco 2 Limited, see note 12 for the balance as at the year-end.

## 21 Contingent liabilities

<u>Security provided regarding the Theatre Propcos' Debt</u>

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 31 March 2019, the total amount owed to the Lenders by all members of the Theatre Propcos was £2,017 million (2018: £1,931.9 million) the mark-to-market value of the Interest Rate Swaps was £158.3 million (2018: £125.2 million) and the aggregate market value of the property assets provided as security was £1,402.3 million (2018: £1,449.7 million) book value.

## 22 Subsequent events

There were no material post statement of financial position events requiring disclosure identified between 31 March 2019 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 ultimate parent company is Hospital Topco Limited, a company registered in England and Wales.

The largest group in which the results of the company are consolidated is that headed by Hospital Topco Limited. The consolidated accounts of Hospital Topco Limited are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The Director is of the opinion that the company has no controlling party.