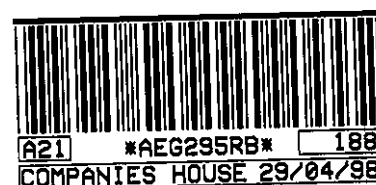


Company Registration No. 2141256 (England and Wales)

CYGNET HEALTH CARE PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 1997



CYGNET HEALTH CARE PLC

COMPANY INFORMATION

Directors

K A R Wilson - Chairman
J C Hughes - Chief Executive
J B Randle - Non Executive
R Holmes - Non Executive

Secretary

R C Dinham

Company number

2141256

Registered office

Godden Green Clinic, Godden Green
Sevenoaks
Kent
TN15 0JR

Auditors

Noel & Co Chartered Accountants
4, Parliament Close, Prestwood
Great Missenden
Buckinghamshire
HP16 9DT

Bankers

Midland Bank plc Epsom
54 High Street
Epsom
Surrey
KT19 8DS

3i plc
91 Waterloo Road
London
SE1 8XP

Solicitors

Peter Ware & Co
43 Kensington High Street
London
W8 5ED

CYGNET HEALTH CARE PLC

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CYGNET HEALTH CARE PLC

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 OCTOBER 1997

Corporate Goals

The goal of Cygnet Health Care Plc is to enhance shareholder value whilst improving the quality, range and value for money of services offered. The objective is to achieve accelerated growth through willingness and ability to adapt quickly to the changing requirements of patients and purchasers. Ongoing investment in the development of our staff is a central element of our strategy for generating sustainable growth.

The company is focused on the acute psychiatric and elderly care markets. A continuing objective is to broaden the range of services within these areas, identifying niche higher added value opportunities.

Trading performance

The 1996/97 financial year has seen a substantial uplift in the operating performances of most units, realising the investment in the previous year and through successfully addressing competitive threats in key local markets. The policy of developing niche specialities has delivered improved returns and the year includes the cost of further investment in such areas. This is expected to benefit future years.

In addition, the uncertainty over the long term prospects of Stamford Wing was successfully resolved by the acquisition of a replacement facility in Ealing.

The results for the year ended 31st October 1997 show a profit before taxation of £900,000 including property profits of £114,000 compared with £305,000 in the previous year. Excluding property profits, profitability from core trading increased by £481,000 in 1996/97

Long term loans of £316,000 (1995/96: £316,000) were repaid during the year. Gearing reduced from 108% to 68% at 31st October 1997.

Property Review

An extension to the premises at Bowden House joint venture hospital, providing a 10 bed psychiatric intensive care unit, gymnasium and additional therapy areas, was completed and commissioned in January 1997.

In May 1997, the company acquired Westlands Nursing Home which has now been converted to provide a 14 bed psychiatric nursed hostel as an adjunct to the Bowden House joint venture. The unit opened, after refurbishment, on 1st November 1997.

In November 1997, contracts were exchanged to acquire long leases on two facilities in Ealing and Blackheath which increase the company's acute psychiatric capacity.

Remodelling and commissioning of the Cygnet Hospital, Ealing was completed in January 1998. Ealing is a 31 bed stand alone facility which replaces, on much improved terms, the 21 bed Stamford Wing unit. The Stamford Wing operation was transferred to Ealing in January 1998.

Commissioning and alterations at Blackheath will be completed in February 1998. Cygnet Blackheath is a 44 bed hospital occupying 50% of a brand new medical facility.

Acute Psychiatric Care Review

The Company's acute psychiatric business divides broadly into two parts with the private pay and insured business showing a small reduction in size while NHS funded business showing significant growth.

CYGNET HEALTH CARE PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1997

The managed care system, under which insured in-patient treatment is pre-authorised, continues to require active management in the face of continuing modification by insurers. This activity exposes the very substantial differences between the various insurances on offer in an increasingly competitive market and, in particular, the contradiction between policies which are marketed as comprehensive but exclude psychiatry. The Company is actively working with the industry to educate the buying public as to the broad range of medical conditions which fall under the heading of psychiatry and the benefit of truly comprehensive policies.

The value of the services provided by the independent sector to the NHS now appears to be well accepted. There is no doubt that the use of the independent sector to provide overflow facilities promotes optimal utilisation of NHS bed capacity and allows the NHS to avoid the cost of carrying empty beds. Not all NHS managers appreciate this fact

We continue to demonstrate the cost effectiveness of the services we provide to the NHS on a per episode basis. The high quality of our facilities, with intensive treatment and restful atmosphere, promotes reduced lengths of stay. Consequently, an episode of treatment in one of the Company's hospitals on average costs less to the NHS than treatment in one of its own hospitals.

In addition, our follow up surveys of every discharged patient shows that the NHS users of our facilities overwhelmingly prefer our services to those of NHS providers.

Elderly Care Review

The long stay residential and nursing care market has seen continued pressure from Government through lack of availability of funding for new residents and pressure to reduce prices for existing residents.

Our strategy has therefore been to move further toward the top end of the private pay market and the year has seen significant investment in upgrading both our facilities. The result has been that, with a 10% rise in occupancy, revenues increased by 17% and operating profits by 67%. This success is very much contrary to industry trends. The operating profit increase was achieved in spite of much of the upgrade costs having been charged against revenue.

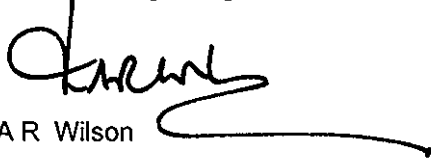
Employees

In a market which continues to change, our ability to succeed is dependent on the willingness of our employees to adapt and to develop skills to meet the new challenges. Undoubtedly, our employees are our greatest asset. The skills, commitment, dedication and determination exhibited during this last year is to their great credit and has enabled substantial progress to be made in a very short timescale.

Personally, and on behalf of each member of the Company's Board, I would like to thank each member of staff for their loyalty, dedication, perseverance and enthusiasm.

Prospects

Whilst the results for 1996/97 show a substantial improvement, the real value of the year has been the foundations laid for the future. The opening of new hospitals in Ealing and Blackheath provides 75 beds of expansion capacity at a low capital cost and removes the uncertainty over the future of the Stamford Wing service. With a low cost base, the new units are expected to be able to capture significant market share. In late 1997, Harrogate Clinic saw the demise of a local competing hospital which should improve occupancy going forward. Other niche services under development also offer the prospect of accelerated growth. The Company is now strongly cash generative and, with much reduced gearing levels, able to capitalise on development opportunities as they arise.


K A R Wilson
Chairman

CYGNET HEALTH CARE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1997

The directors present their report and financial statements for the year ended 31 October 1997.

Principal activities and review of the business

The principal activity of the company continued to be that of acquiring, developing and operating psychiatric and elderly health care facilities.

<u>Acute psychiatric units</u>	<u>Bed capacity</u>
Godden Green Clinic, Sevenoaks, Kent	54
Harrogate Clinic, Harrogate, North Yorkshire	34
Lindisfarne Suite, Nuffield Hospital, Newcastle upon Tyne	13
Cygnnet Hospital, Ealing	31
Cygnnet, Blackheath	45
Bowden House, Harrow on the Hill (joint venture)	<u>49</u>
	<u>226</u>
<u>Psychiatric nursed Hostel</u>	
Westlands, Harrow on the Hill (joint venture)	<u>14</u>
<u>Elderly care</u>	
Tabley House, Knutsford, Cheshire	54
Tupwood Gate Nursing Home, Caterham, Surrey	<u>39</u>
	<u>93</u>

The 21 bed Stamford Wing acute psychiatric unit was closed after the year end and replaced by Cygnnet Hospital, Ealing. Cygnnet, Blackheath will be open in February 1998.

Results

The results for the year are set out on page 7.

Directors

The following directors have held office since 1 November 1996:

K A R Wilson - Chairman
J C Hughes - Chief Executive
J B Randle - Non Executive
R Holmes - Non Executive

CYGNET HEALTH CARE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1997

Directors' interests

The directors' beneficial interests in the shares of the company were as stated below:

	New ordinary shares of 1p each	
	31 October 1997	1 November 1996
K A R Wilson	15	-
J C Hughes	1,020	1,000
J B Randle	-	-
R Holmes	-	-

	A Ordinary shares of 50p each	
	31 October 1997	1 November 1996
K A R Wilson	187,500	187,500
J C Hughes	229,325	332,325
J B Randle	-	-
R Holmes	-	-

	New Preference shares of £1 each	
	31 October 1997	1 November 1996
K A R Wilson	-	-
J C Hughes	200,000	200,000
J B Randle	-	-
R Holmes	-	-

	New Deferred shares of 50p each	
	31 October 1997	1 November 1996
K A R Wilson	67,500	67,500
J C Hughes	570,325	570,325
J B Randle	-	-
R Holmes	-	-

At 31 October 1997 immediate relatives of Mr J C Hughes held 782,500 shares (1996:722,500) comprising 628,600 A ordinary shares (1996:568,600) and 153,900 new deferred shares (1996:153,900). Mr KAR Wilson holds options over 85 new ordinary shares (1996:100).

Employee involvement

The company's policy is to consult and discuss with employees matters likely to affect employees' interests.

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

Disabled persons

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

CYGNET HEALTH CARE PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1997

Creditor payment policy

It is company policy to pay approved liabilities to creditors promptly and within agreed terms.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Noel & Co be reappointed as auditors of the company will be put to the Annual General Meeting.

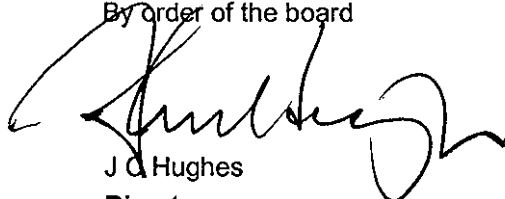
Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which 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 those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 which 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



J C Hughes
Director

12 January 1998

CYGNET HEALTH CARE PLC

AUDITORS' REPORT TO THE SHAREHOLDERS OF CYGNET HEALTH CARE PLC

We have audited the financial statements on pages 7 to 18 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on page 11.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 October 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Noel & Co

12 January 1998

**Chartered Accountants
Registered Auditor**

4 Parliament Close, Prestwood
Great Missenden
Buckinghamshire
HP16 9DT

CYGNET HEALTH CARE PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 1997

	Notes	1997 £	1996 £
Turnover	2	6,745,603	5,419,629
Administrative expenses		(5,604,025)	(4,737,471)
Operating profit	3	1,141,578	682,158
Profit on sale of property	3	113,815	-
Profit on ordinary activities before interest		1,255,393	682,158
Other interest receivable and similar income	4	17,795	2,843
Interest payable and similar charges	5	(373,054)	(380,115)
Profit on ordinary activities before taxation		900,134	304,886
Tax on profit on ordinary activities	6	(694)	174,075
Profit on ordinary activities after taxation	14	899,440	478,961

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

CYGNET HEALTH CARE PLC

BALANCE SHEET AS AT 31 OCTOBER 1997

	Notes	1997 £	£	1996 £	£
Fixed assets					
Tangible assets	7		7,823,507		7,598,458
Current assets					
Stocks	8	12,806		9,737	
Debtors	9	711,419		718,047	
Cash at bank and in hand		1,027,376		106,478	
		<u>1,751,601</u>		<u>834,262</u>	
Creditors: amounts falling due within one year	10	<u>(2,296,269)</u>		<u>(1,877,821)</u>	
Net current liabilities			<u>(544,668)</u>		<u>(1,043,559)</u>
Total assets less current liabilities			7,278,839		6,554,899
Creditors: amounts falling due after more than one year	11		<u>(2,818,448)</u>		<u>(3,000,948)</u>
			<u>4,460,391</u>		<u>3,553,951</u>
Capital and reserves					
Called up share capital	13		6,202,611		6,202,611
Share premium account	14		153,933		146,933
Revaluation reserve	14		1,225,740		1,225,740
Profit and loss account	14		<u>(3,121,893)</u>		<u>(4,021,333)</u>
Shareholders' funds	15		<u>4,460,391</u>		<u>3,553,951</u>
Equity interests			2,334,129		1,427,689
Non-equity interests			<u>2,126,262</u>		<u>2,126,262</u>
			<u>4,460,391</u>		<u>3,553,951</u>

The financial statements were approved by the Board on 12 January 1998


J C Hughes
Director


K A R Wilson
Director

CYGNET HEALTH CARE PLC

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1997

	1997 £	1996 £
Net cash inflow from operating activities	1,396,916	549,398
Returns on investments and servicing of finance		
Interest received	17,795	2,843
Interest paid	(373,054)	(380,115)
Net cash outflow for returns on investments and servicing of finance	(355,259)	(377,272)
Taxation	(694)	(925)
Capital expenditure		
Payments to acquire tangible assets	(566,217)	(36,563)
Receipts from sales of tangible assets	305,402	1,493
Net cash outflow for capital expenditure	(260,815)	(35,070)
Net cash inflow before management of liquid resources and financing	780,148	136,131
Financing		
Issue of ordinary share capital	7,000	-
Other new long term loans	450,000	-
Repayment of long term bank loan	(316,250)	(316,250)
Net cash inflow/(outflow) from financing	140,750	(316,250)
Increase/(decrease) in cash in the year	920,898	(180,119)

CYGNET HEALTH CARE PLC

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1997

1 Reconciliation of operating profit to net cash inflow from operating activities		1997	1996
		£	£
Operating profit		1,141,578	682,158
Depreciation of tangible assets		136,757	142,053
Loss on disposal of tangible assets		12,824	596
Increase in stocks		(3,069)	(375)
Decrease/(increase) in debtors		6,628	(153,077)
Increase/(decrease) in creditors within one year		102,198	(121,957)
Net cash inflow from operating activities		1,396,916	549,398

2 Analysis of net debt	1 November 1996	Cash flow	Other non-cash changes	31 October 1997
	£	£	£	£
Net cash:				
Cash at bank and in hand	106,478	920,898		1,027,376
Debt:				
Debts falling due within one year	(948,750)	(316,250)	-	(1,265,000)
Debts falling due after one year	(3,000,948)	182,500	-	(2,818,448)
	(3,949,698)	(133,750)	-	(4,083,448)
Net debt	(3,843,220)	787,148	-	(3,056,072)

3 Reconciliation of net cash flow to movement in net debt	1997	1996
	£	£
Increase/(decrease) in cash in the year	920,898	(180,120)
Cash (inflow)/outflow from (increase)/decrease in debt	(133,750)	316,250
Movement in net debt in the year	787,148	136,130
Opening net debt	(3,843,220)	(3,979,350)
Closing net debt	(3,056,072)	(3,843,220)

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

1.2 Compliance with accounting standards

The accounts have been prepared in accordance with applicable accounting standards.

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts and the share of surplus from the joint venture at St Andrew's at Harrow, Bowden House.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

Land and buildings Freehold	No provision
Land and buildings Leasehold	Over the term of the lease for short leaseholds, no provision for long leaseholds
Fixtures, fittings & equipment	5 - 10 years
Motor vehicles	5 years

No depreciation is provided in respect of freehold or long leasehold land and buildings as it is the company's policy to maintain these so as to extend their useful lives.

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Stock

Stock is valued at the lower of cost and net realisable value.

1.7 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with SSAP 24.

1.8 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

3	Operating profit	1997	1996
		£	£
	Operating profit is stated after charging:		
	Depreciation of tangible assets	136,757	142,053
	Operating lease rentals	9,309	10,158
	Auditors' remuneration	12,500	12,500
	Remuneration of auditors for non-audit work	3,953	3,520
		<u> </u>	<u> </u>
4	Other interest receivable and similar income	1997	1996
		£	£
	Bank interest	17,795	2,843
		<u> </u>	<u> </u>
5	Interest payable	1997	1996
		£	£
	On bank loans and overdrafts	-	2,831
	On other loans wholly repayable within 5 years	8,848	-
	On loans repayable after 5 years	364,206	377,284
		<u> </u>	<u> </u>
		373,054	380,115
		<u> </u>	<u> </u>
6	Taxation	1997	1996
		£	£
	U.K. current year taxation		
	U.K. corporation tax at 23% (1996 - 25%)	-	(175,000)
	Prior years		
	U.K. Corporation tax	694	925
		<u> </u>	<u> </u>
		694	(174,075)
		<u> </u>	<u> </u>

The company has estimated losses of £2,600,000 (1996 - £3,350,000) available for carry forward against future trading profits.

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

7 Tangible fixed assets

	Land and buildings Freehold £	Land and buildings Leasehold £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost or valuation					
At 1 November 1996	5,294,202	2,005,304	1,224,200	64,998	8,588,704
Additions	472,289	13,654	71,704	8,570	566,217
Disposals	-	(287,966)	(12,866)	(10,995)	(311,827)
At 31 October 1997	5,766,491	1,730,992	1,283,038	62,573	8,843,094
Depreciation					
At 1 November 1996	-	100,369	840,481	49,396	990,246
On disposals	-	(86,388)	(10,034)	(10,994)	(107,416)
Charge for the year	-	2,822	128,321	5,614	136,757
At 31 October 1997	-	16,803	958,768	44,016	1,019,587
Net book value					
At 31 October 1997	5,766,491	1,714,189	324,270	18,557	7,823,507
At 31 October 1996	5,294,202	1,904,935	383,719	15,602	7,598,458

Freehold properties were revalued on 8th March 1994 on the basis of an open market valuation for existing use by Erdman Lewis, International Property Consultants.

8 Stocks	1997 £	1996 £
Finished goods and goods for resale	12,806	9,737
	<u>12,806</u>	<u>9,737</u>
9 Debtors	1997 £	1996 £
Trade debtors	638,663	674,024
Other debtors	5,641	4,043
Prepayments and accrued income	67,115	39,980
	<u>711,419</u>	<u>718,047</u>

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

10 Creditors: amounts falling due within one year	1997 £	1996 £
Bank loans and overdrafts	1,265,000	948,750
Trade creditors	299,069	295,799
Taxes and social security costs	79,064	64,927
Other creditors	102,317	238,136
Accruals and deferred income	550,819	330,209
	<u>2,296,269</u>	<u>1,877,821</u>

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

11 Creditors: amounts falling due after more than one year	1997 £	1996 £
Bank loans	2,368,448	3,000,948
Other loans	450,000	-
	<u>2,818,448</u>	<u>3,000,948</u>
Analysis of loans		
Not wholly repayable within five years by instalments:		
Variable rate secured loan notes 1991-2002	2,297,817	2,504,067
Term loan	1,335,631	1,445,631
Other loans	200,000	-
Wholly repayable within five years	250,000	-
	<u>4,083,448</u>	<u>3,949,698</u>
Included in current liabilities	(1,265,000)	(948,750)
	<u>2,818,448</u>	<u>3,000,948</u>
Loan maturity analysis		
Between one and two years	632,500	632,500
Between two and five years	1,985,948	1,897,500
In five years or more	200,000	470,948

The loan notes and the term loan are secured by fixed charges on the company's tangible fixed assets and by floating charges on all assets of the company.

The loan notes and the term loan are repayable by equal six monthly instalments from June 1993 to December 2002. Interest is payable on each loan at 3% above LIBOR.

12 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

13 Share capital	1997 £	1996 £
Authorised		
9,000 New ordinary shares of 1p each	90	90
30,562,500 A Ordinary shares of 50p each	15,281,250	15,281,250
800,000 New Preference shares of £1 each	800,000	800,000
25,000,000 New Deferred shares of 50p each	12,500,000	12,500,000
	<u>28,581,340</u>	<u>28,581,340</u>
 Allotted, called up and fully paid		
8,635 New ordinary shares of 1p each	86	86
8,152,526 A Ordinary shares of 50p each	4,076,263	4,076,263
800,000 New Preference shares of £1 each	800,000	800,000
2,652,524 New Deferred shares of 50p each	1,326,262	1,326,262
	<u>6,202,611</u>	<u>6,202,611</u>

The company has authority to issue warrants and options over 365 new ordinary shares. The options have been issued under an approved Inland Revenue Share Option Scheme. Warrants and options currently in issue are as follows:-

170 warrants, exercisable at £200 per share, between 30 September 1994 and 18 November 2001;
110 options, exercisable at £200 per share, between 30 September 1994 and 30 September 2001; and
43 options, exercisable at £250 per share, between 12 January 1999 and 12 January 2006.

The new ordinary shares rank pari passu with the A ordinary shares except that as a class they represent 89.6212% of the voting, income and capital rights applicable to the holders of all issued ordinary shares.

The A ordinary shares represent in total 10.3788% of the voting, income and capital rights applicable to the holders of all issued ordinary shares.

The new preference shares are redeemable at par by 31 December 2002.

The new deferred shares have no rights to dividends or to voting and only minimal rights in the event of a winding up.

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

14 Statement of movements on reserves

	Share premium account £	Revaluation reserve £	Profit and loss account £
Balance at 1 November 1996	146,933	1,225,740	(4,021,333)
Retained profit for the year	-	-	899,440
Premium on shares issued during the year	7,000	-	-
Balance at 31 October 1997	<u>153,933</u>	<u>1,225,740</u>	<u>(3,121,893)</u>

15 Reconciliation of movements in shareholders' funds

	1997 £	1996 £
Profit for the financial year	899,440	478,961
Proceeds from issue of shares	7,000	-
Net addition to shareholders' funds	<u>906,440</u>	<u>478,961</u>
Opening shareholders' funds	3,553,951	3,074,990
Closing shareholders' funds	<u>4,460,391</u>	<u>3,553,951</u>

16 Financial commitments

At 31 October 1997 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1997 £	1996 £
Expiry date:		
In over five years	<u>5,000</u>	<u>5,000</u>

Leasing commitments entered into after the year end for the new hospitals at Ealing and Blackheath are for leases in excess of five years at a total annual rental of £450,000.

CYGNET HEALTH CARE PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1997

17 Directors' emoluments	1997 £	1996 £
Emoluments for qualifying services	326,078	175,790
Company pension contributions to money purchase schemes	2,625	2,625
	<u>328,703</u>	<u>178,415</u>

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	<u>212,552</u>	<u>111,525</u>
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The remuneration of the executive directors includes a basic remuneration which has remained unchanged since 1991 and a balance that is profit related.

18 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	1997 Number	1996 Number
Full time	170	147
Part time	86	98
	<u>256</u>	<u>245</u>

Employment costs

	£	£
Wages and salaries	3,479,147	2,942,579
Social security costs	291,374	246,242
Other pension costs	27,447	21,678
	<u>3,797,968</u>	<u>3,210,499</u>