Dr Foster Limited

Financial statements

For the year ended 31 December 2006

Grant Thornton

Company No. 3812015

Officers and professional advisers

Company registration number	3812015
Registered office	82 Saint John Street London EC1M 4JN
Directors	Tim Hailstone Tim Kelsey Sir Robin Young
Secretary	Nigel Medhurst
Bankers	HSBC Bank Plc Bedford Square Tavistock Devon PL19 0AH
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors Churchill House Chalvey Road East Slough Berkshire SL1 2LS

Contents

Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2006.

Principal activities and business review

Dr Foster Limited is the UK's leading independent health service information provider. It collects and analyses large datasets to create accessible information products for doctors, managers and the general public. The company also provides closely related research, marketing and consultancy services and publishes magazines and guides, without advertising support, on UK health care subjects

On 16 January 2006, following a reorganisation of the business, the company became a wholly owned subsidiary of Dr Foster Intelligence Limited, which itself is a joint venture between Dr Foster Holdings LLP and The Information Centre for health and social care (formerly The Health and Social Care Information Centre). At that date, the private sector business was transferred to a related undertaking, Dr Foster Research Limited.

The Company continued to grow turnover and increase its market penetration of the NHS despite the difficult financial climate within the NHS and the reorganization within the primary care market. The Company continued to develop new products for the future.

The principal risks facing the Company include procurement delays, NHS budget constraints and recruiting enough of the right people to build the business for the future.

The directors utilize various KPIs in order to measure the performance of the business against previous periods and plan, including turnover, gross margin, market penetration and renewal rates.

Results and dividends

The loss for the year amounted to £2,383,826. The directors have not recommended a dividend.

Financial risk management objectives and policies

The company uses various financial instruments. These include amounts owed to group companies, cash and various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations.

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below.

The main risks arising from the company's financial instruments are, liquidity risk, interest rate risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Liquidity risk
The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

Report of the directors

Interest rate risk
The company finances its operations through amounts owed to group undertakings. Amounts owed to group undertakings bear interest at 5%. The company's cash assets are all held in floating rate accounts. Trade debtors and creditors do not attract interest and are therefore subject to fair value interest rate risk.

Credit risk
The company's principal financial assets are cash and trade debtors The credit risk associated with the cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from its trade debtors which are primarily public sector bodies consequently with a sovereign credit rating

Research and development

The company undertakes a variety of research and development projects in the field of healthcare data analysis and information provision.

The directors and their interests

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows

		Ordinary shares of £0.01		Ordinary shares of £0.01	
		At 31 December 2006	At 1 January 2006	At 31 December 2006	At 1 January 2006
Tim Hailstone		-	-	-	-
Tim Kelsey		-	50,000	-	27,315
Sir Robin Young		-	-	-	-
Frank Hollendoner	(Resigned 16 January 2006)	-	40,000	-	3,297
Stewart Millman	(Resigned 16 January 2006)	-	-	-	263
Jake Arnold Forster	(Resigned 16 January 2006)	-	-	-	7,143
Nigel Medhurst	(Resigned 16 January 2006)	-	-	-	-
Mark Britnell	(Resigned 16 January 2006)	-	-	-	-

The company is a wholly owned subsidiary and the interests of the directors are disclosed in the financial statements of the parent company, Dr Foster Intelligence Limited.

Report of the directors

Share options

As at 31 December 2006 the following individuals held options to subscribe for the ordinary £0.01 shares of the company:

Jake Arnold Forster	£nil (2005: 4,198 granted on 6 July 2004 at an exercise price of £18 1,717 granted on 24 August 2005 at an exercise price of £24)
Tim Kelsey	£nil (2005: 3,500 granted on 24 August 2005 at an exercise price of £24)
Nigel Medhurst	£nil (2005: 4,000 granted on 24 August 2005 at an exercise price of £24)

In contemplation of the reorganisation of the business which took place on 16 January 2006, the interests of the directors in the Convertible Loan Notes and Share Options were satisfied on 5 January 2006, by the issue of 83,125 ordinary shares in the company. These shares were subsequently acquired by Dr Foster Intelligence on 16 January 2006

Directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom 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 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 in business.
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

Report of the directors

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 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.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditor

Grant Thornton UK LLP were appointed as auditors during the year to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

N Medhurst
Secretary

Grant Thornton

Report of the independent auditor to the members of Dr Foster Limited

We have audited the financial statements of Dr Foster Limited for the year ended 31 December 2006 which comprise the accounting policies, profit and loss account, balance sheet, statement of total recognised gains and losses and notes 1 to 20. 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 auditor

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

Basis of 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 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.

Report of the independent auditor to the members of Dr Foster Limited (continued)

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss 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 Report of the Directors is consistent with the financial statements

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LONDON THAMES VALLEY OFFICE
SLOUGH

19 April 2007

Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The principal accounting policies of the company are set out below and have remained unchanged from the prior period except for the recognition of revenue

Changes in accounting policies and prior year adjustments

In preparing the financial statements for the current year, the company has adopted Financial Reporting Standard ('FRS') 20 - Share based payment (IFRS 2).

FRS 20 'Share-based payment (IFRS 2)' requires the recognition of equity-settled share based payments at fair value at the date of the grant. Prior to the adoption of FRS 20, the company did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provision of FRS 20, the Standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

For the year ended 31 December 2005, the change in accounting policy has resulted in a net increase in the loss for the year of £378,843.

For the year ended 31 December 2006 there has been no impact as the share options vested on 16 January 2006.

The directors have reviewed the accounting policy applied to the recognition of revenue in respect of management information services. Previously, income was recognised on such contracts at points at which the directors estimated that a fair value of service provided could be attributed. The policy has now been changed to recognise such income evenly over the period of the contract as in the view of the directors this reflects more accurately the fulfilment of the company's obligations to customers

The impact of this change has been to increase the loss for the current year by £900,000 (2005:-£538,000 increase in loss)

Going concern

The directors have prepared the financial statements under the going concern concept as the company's parent undertaking has provided a letter of support which confirms its intention to provide sufficient funding to enable the company to meet its liabilities as and when they fall due for the foreseeable future, being a period of not less than twelve months from the date of approval of these financial statements.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Accounting policies

Turnover

Turnover represents the amounts (exclusive of VAT) derived from the provision of services to customers in the period.

Income derived from the provision of management information is recognised over the period of the contract on a straight line basis. Income derived from other activities is recognised to the extent that identifiable work has been performed in relation to each contract in the period and a right to consideration obtained.

Research and development

Development expenditure incurred on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised and amortised over the useful economic life of that asset.

Share-based payments

The company uses equity-settled share based payments to certain employees (including directors). Equity-settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, together with a corresponding increase in equity, based upon the company's estimate of the shares that will eventually vest.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Product and website development	- straight line over 3 years
Intellectual property	- straight line over 3 years

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold Improvements	-	straight line over the period to the first break in the lease
Fixtures & Fittings	-	straight line over 10 years
Computer Equipment	-	straight line over 3 years

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Accounting policies

Pension costs

The company operates a defined contribution scheme for employees. The assets of the scheme are held separately from those of the company. The company makes no contribution to the pension scheme

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Profit and loss account

	Note	2006 £	2005 (restated) £
Turnover	1	9,589,021	8,169,438
Operating costs:			
Staff costs	2	4,692,394	4,145,389
Depreciation and amortisation	3	562,786	290,954
Other operating charges	3	6,496,728	4,089,009
Operating loss	3	(2,162,887)	(355,914)
Exceptional item	5	-	(1,121,937)
		(2,162,887)	(1,477,851)
Interest receivable		131,271	35,971
Interest payable and similar charges	6	(352,210)	(168,000)
Loss on ordinary activities before taxation		(2,383,826)	(1,609,880)
Tax on loss on ordinary activities	7	-	-
Loss for the financial year	17	(2,383,826)	(1,609,880)

All of the activities of the company are classed as continuing.

Balance sheet

	Note	2006 £	2005 *(restated)* £
Fixed assets			
Intangible assets	8	784,071	435,550
Tangible assets	9	1,135,807	360,609
		1,919,878	796,159
Current assets			
Debtors	10	4,654,404	2,682,894
Cash at bank		1,254,649	928,693
		5,903,053	3,611,587
Creditors: amounts falling due within one year	11	9,386,300	4,551,463
Net current liabilities		(3,477,247)	(939,876)
Total assets less current liabilities		(1,557,369)	(143,717)
Creditors: amounts falling due after more than one year	12	-	1,272,667
		(1,557,369)	(1,416,384)
Capital and reserves			
Called-up equity share capital	15	2,548	1,717
Share premium account	16	4,568,894	2,326,884
Profit and loss account	17	(6,128,811)	(3,744,985)
	19	(1,557,369)	(1,416,384)

These financial statements were approved by the directors on 17 April 2007 and are signed on their behalf by:

Mr T Kelsey
Director

The accompanying accounting policies and notes form part of these financial statements.

Statement of recognised gains and losses

	2006	2005 *(restated)*
	£	£
Loss for the financial year	(2,383,826)	(1,609,880)
Total recognised gains and losses for the year	(2,383,826)	(1,609,880)
Prior year adjustment - revenue recognition	(741,744)	-
Contra reserves movement - share based payment	-	378,843
Total gains and losses recognised since the last financial statements	(3,152,570)	(1,231,037)

Notes to the financial statements

1 Turnover

The turnover and loss before tax are attributable to the principal activity of the company.
An analysis of turnover is given below

	2006	2005 (restated)
	£	£
United Kingdom	9,589,021	8,169,438

2 Particulars of employees

The average number of staff employed by the company during the financial year amounted to:

	2006	2005
	No	No
Number of administrative staff	84	67

The aggregate payroll costs of the above were:

	2006	2005 (restated)
	£	£
Wages and salaries	4,215,790	3,403,318
Equity-settled share based payments	-	378,843
Social security costs	476,604	363,228
	4,692,394	4,145,389

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2006	2005 *(restated)*
	£	£
Amortisation	326,123	168,706
Depreciation of owned fixed assets	236,663	122,248
Loss on disposal of fixed assets	23,901	-
Auditor's remuneration.		
Audit fees	18,000	16,552
Other	3,500	-
Operating lease costs:		
Plant and equipment	48,538	2,871
Land and buildings	542,208	209,133

4 Directors

Remuneration in respect of directors was as follows.

	2006	2005 *(restated)*
	£	£
Emoluments receivable	253,487	920,374

Emoluments of highest paid director:

	2006	2005 *(restated)*
	£	£
Total emoluments (excluding pension contributions)	165,738	256,187

5 Exceptional item

	2006	2005
	£	£
Cost of restructuring	-	1,121,937

On 14 December 2005, the directors reached agreement on the terms of a proposed joint venture with the Information Centre (formerly the Health and Social Care Information Centre) This resulted in the entire share capital of the company being acquired by Dr Foster Intelligence Limited on 16 January 2006 Exceptional restructuring costs with respect to this transaction amounted to £1,121,937.

6 Interest payable and similar charges

	2006	2005
	£	£
Other similar charges payable	**352,210**	168,000

Included within the above is interest payable to group undertakings amounting to £204,812 (2005 - £nil).

7 Taxation on ordinary activities

The company has tax losses of £5,213,054 (2005 - £3,581,000) available to offset against future profits. No deferred tax asset has been recognised in respect of these losses.

Factors affecting current tax charge

The tax assessed on the loss of ordinary activities for the year is the same as the standard rate of corporate tax in the UK of 30% (2005 30%)

	2006	2005 *(restated)*
	£	£
Loss on ordinary activities before taxation	**(2,383,826)**	(1,609,880)
Loss on ordinary activities multiplied by rate of tax	**(715,148)**	(482,964)
Expenses not deductible for tax purposes	**22,179**	134,295
Capital allowances for period in excess of depreciation	**78,169**	(1,726)
Losses carried forward to offset against future taxable profits	**634,566**	350,395
Group relief surrendered	**61,444**	-
Other timing differences	**(81,210)**	-
Total current tax	**-**	-

8 Intangible fixed assets

	Intellectual property £	Product development & website costs £	Total £
Cost			
At 1 January 2006	2,700	906,726	909,426
Additions	-	674,644	674,644
At 31 December 2006	2,700	1,581,370	1,584,070
Amortisation			
At 1 January 2006	2,700	471,176	473,876
Charge for the year	-	326,123	326,123
At 31 December 2006	2,700	797,299	799,999
Net book value			
At 31 December 2006	-	784,071	784,071
At 31 December 2005	-	435,550	435,550

9 Tangible fixed assets

	Leasehold Improvements £	Fixtures & Fittings £	Equipment £	Total £
Cost				
At 1 January 2006	-	48,455	556,676	605,131
Additions	459,574	63,850	512,338	1,035,762
Disposals	-	(38,322)	-	(38,322)
At 31 December 2006	459,574	73,983	1,069,014	1,602,571
Depreciation				
At 1 January 2006	-	12,022	232,500	244,522
Charge for the year	20,304	5,925	210,434	236,663
On disposals	-	(14,421)	-	(14,421)
At 31 December 2006	20,304	3,526	442,934	466,764
Net book value				
At 31 December 2006	439,270	70,457	626,080	1,135,807
At 31 December 2005	-	36,433	324,176	360,609

10 Debtors

	2006	2005
	£	£
Trade debtors	3,693,904	2,266,022
Amounts owed by group undertakings	19,615	-
Amounts owed by related undertakings	74,197	-
Other debtors	484,742	150,332
Prepayments and accrued income	381,946	266,540
	4,654,404	2,682,894

11 Creditors: amounts falling due within one year

	2006	2005 *(restated)*
	£	£
Trade creditors	534,880	870,726
Amounts owed to parent undertaking	4,479,155	-
Other taxation and social security	542,369	299,615
Other creditors	86,252	1,182,620
Accruals and deferred income	3,743,644	2,198,502
	9,386,300	4,551,463

12 Creditors: amounts falling due after more than one year

	2006	2005
	£	£
Other creditors	-	1,272,667

The comparative figures refer to convertible unsecured loan notes on which interest was payable at 12%. During the year these loan notes were converted into ordinary shares in the company (see note 15 below).

13 Commitments under operating leases

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below.

	2006 Land & Buildings	2006 Other Items	2005 Land & Buildings	2005 Other Items
	£	£	£	£
Operating leases which expire:				
Within 1 year	84,083	-	43,219	7,179
Within 2 to 5 years	381,524	81,040	6,200	34,959
	465,607	81,040	49,419	42,138

14 Related party transactions

As a wholly owned subsidiary, the company has taken advantage of the exemption in Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with its parent undertaking Dr Foster Intelligence Limited.

During the year recharges of £442,287 (2005 nil) and of £201,154 (2005: nil) were made to and from Dr Foster Research Limited respectively. At the year end the amount due from Dr Foster Research Limited totalled £394,387 (2005: nil). Dr Foster Research Limited is a related party by virtue of common ownership through Dr Foster Holdings LLP.

15 Share capital

Authorised share capital:

	2006	2005
	£	£
1,000,000 Ordinary shares of £0.01 each	10,000	10,000

Allotted, called up and fully paid:

	2006 No	2006 £	2005 No	2005 £
Ordinary shares of £0.01 each	254,835	2,548	171,710	1,717

On 5 January 2006, the company issued 83,125 ordinary shares of £0.01 each for cash consideration amounting to £2,242,841 in contemplation of a reorganisation of the business which tool place on 16 January 2006, and at which date the company became a wholly owned subsidiary undertaking of Dr Foster Intelligence Limited.

16 Share premium account

	2006	2005
	£	£
Balance brought forward	2,326,884	2,326,884
Premium on shares issued in the year	2,242,010	-
Balance carried forward	4,568,894	2,326,884

17 Profit and loss account

	2006	2005 (restated)
	£	£
Balance brought forward as previously reported	(3,003,241)	(2,310,204)
Prior year adjustment (see note 18)	(741,744)	(203,744)
Balance brought forward as restated	(3,744,985)	(2,513,948)
Loss for the financial year	(2,383,826)	(1,609,880)
Recognition of equity settled share-based payments	-	378,843
Balance carried forward	(6,128,811)	(3,744,985)

18 Prior period adjustment

Comparative figures have been restated to reflect a change in the recognition of income for management information services. Such services are now recognised on a straight line basis over the term of the contract. The effect of this change is to reduce turnover in 2004 and 2005 by £203,744 and £538,000 respectively.

The adoption of FRS 20 has no impact on the profit and loss reserve as the charge to the profit and loss account for the year is offset by a credit to the profit and loss reserve

19 Reconciliation of movements in shareholders' funds

	2006	2005 (restated)
	£	£
Loss for the financial year	(2,383,826)	(1,609,880)
New equity share capital subscribed	831	-
Premium on new share capital subscribed	2,242,010	-
Recognition of equity settled share-based payments	-	378,843
Net addition to shareholders' deficit	(140,985)	(1,231,037)
Opening shareholders' (deficit)/funds (as previously reported)	(674,640)	18,397
Prior year adjustment (see note 18)	(741,744)	(203,744)
Closing shareholders' deficit	(1,557,369)	(1,416,384)

20 Ultimate parent company

The immediate parent undertaking is Dr Foster Intelligence Limited, a company registered in England and Wales.

The company is jointly owned by Dr Foster Holdings LLP and The Information Centre for health and social care (formerly The Health and Social Care Information Centre), by virtue of their 50% holding each, in Dr Foster Intelligence Limited.