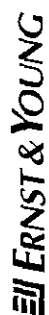


DR FOSTER LIMITED

Report and Accounts

31 December 2002

 ERNST & YOUNG



A41  
COMPANIES HOUSE

\*AK21APNJ\*

0385  
31/10/03

# Dr Foster Limited

---

Registered No: 3812015

## **DIRECTORS**

F Hollendoner	- Chairman
T Kelsey	- Chief Executive
R Taylor	- Managing Editor
J Brown	
S Bellamy	
J Arnold-Forster	

## **SECRETARY**

T Kelsey

## **AUDITORS**

Ernst & Young LLP  
Broadwalk House  
Southernhay West  
Exeter  
EX1 1LF

## **BANKERS**

HSBC plc  
Bedford Square  
Tavistock  
Devon  
PL19 0AH

## **SOLICITORS**

Osborne Clark  
Hillgate House  
26 Old Bailey  
London  
EC4M 7HW

## **REGISTERED OFFICE**

82 Saint John Street  
London  
EC1M 4JN

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2002.

### RESULTS AND DIVIDENDS

The trading loss for the year, after taxation, amounted to £1,008,752. The directors do not recommend the payment of a dividend.

### PRINCIPAL ACTIVITIES

Dr Foster Limited is an independent company created to produce the most comprehensive and authoritative measures of health service performance and make these accessible to health professionals and the general public.

### REVIEW OF THE BUSINESS

Dr Foster significantly increased its sales in the year, continuing to build on its unique reputation. We successfully produced a wide range of high quality research materials and analyses for a range of clients in the private and public sectors. High profile publications such as the Good Hospital Guide are increasingly regarded as the most definitive information resources of their kind. In 2002 the company expanded its operations and began delivering high quality research support to the NHS, in particular Acute Hospital Trusts, Primary Care Trusts and Strategic Health Authorities. The research products provided by Dr Foster are used to direct service improvement for patients.

### FUTURE DEVELOPMENTS

Dr Foster will continue to publish high quality research and expand its healthcare guides to target consumers, commercial organisations and healthcare professionals. 2003 will see the company expand its growing base of NHS customers.

### FIXED ASSETS

During the year £91,880 was spent on additions to fixed assets, details of which can be found in note 8 to the accounts.

### DIRECTORS AND THEIR INTERESTS

The directors as at 31 December 2002 and their interests in the company were as stated below:

		<i>Number of ordinary 1p shares</i>	
		<i>At 31 December</i>	<i>At 31 December</i>
		<i>2002</i>	<i>2001</i>
T Kelsey		26,600	26,600
R Killen	(resigned 23 September 2003)	26,600	26,600
R Taylor		26,600	26,600
F Hollendoner		1,296	556
J Brown		4,444	3,333
S Bellamy	(appointed 3 December 2002)	97*	-

H Hyman, Dr J Jarman, J Horner and Ms H Slaski were directors until their resignation on 3 December 2002. J Arnold-Forster was appointed as a director on 1 April 2003.

\*These shares are held by First Close Technology Fund for the beneficial interest of Mr Bellamy.

DIRECTORS' REPORT

**DIRECTORS' SHARE OPTIONS**

At 31 December 2002, the following directors held options to subscribe for the ordinary 1p shares of the company:

	2002 No.	2001 No.
F Hollendoner	667	363
J Brown	667	126
	<u>1,334</u>	<u>489</u>

There has been no change in the options held as at 23 September 2003.

**FINANCING**

During the year 14,752 shares were issued providing net proceeds, after share issue costs, of £65,454 to enhance the capital base of the company and enable it to continue to invest in its products and market position.

Following the end of the year the company secured additional financing of £1.4 million by way of convertible loan stock from existing and new investors.

**DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS**

Company law requires the directors to prepare accounts 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 year. In preparing those accounts, the directors are required to:

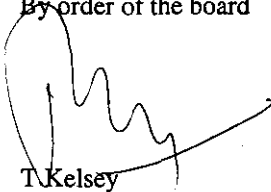
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 accounts 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.

**AUDITORS**

A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the board



T. Kelsey  
Secretary

23 October 2003

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DR FOSTER LIMITED**

We have audited the company's financial statements for the year ended 31 December 2002 which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 16. These financial statements have been prepared on the basis of 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

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

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DR FOSTER LIMITED**  
(continued)

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
Exeter

*30 October* 2003

# Dr Foster Limited

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2002

	Notes	2002 £	2001 £
<b>TURNOVER</b>	2	1,274,217	466,835
Cost of sales		(1,198,416)	(705,851)
<b>GROSS PROFIT/(LOSS)</b>		75,801	(239,016)
Administrative expenses		(1,130,040)	(881,233)
<b>OPERATING LOSS</b>	3	(1,054,239)	(1,120,249)
Interest receivable	5	9,021	12,048
Interest payable	6	(3,710)	(10,969)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(1,048,928)	(1,119,170)
Tax on loss on ordinary activities	7	40,176	-
<b>RETAINED LOSS FOR THE FINANCIAL YEAR</b>	13	(1,008,752)	(1,119,170)

### Recognised gains and losses

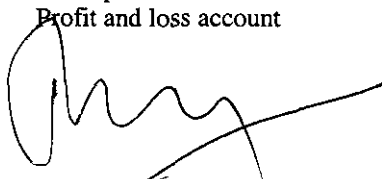
There are no recognised gains and losses other than the loss attributable to shareholders of the company of £1,008,752 in the year ended 31 December 2002 (2001 : £1,119,170).

# Dr Foster Limited

## BALANCE SHEET

at 31 December 2002

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Tangible assets	8	143,439	162,022
<b>CURRENT ASSETS</b>			
Debtors	9	446,803	405,285
Cash at bank and in hand		148,292	911,367
<b>CREDITORS: amounts falling due within one year</b>	10	595,095 (712,420)	1,316,652 (700,929)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		(117,325)	615,723
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		26,114	777,745
<b>CREDITORS: amounts falling due after more than one year</b>	11	(191,667)	-
		(165,553)	777,745
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	1,675	1,527
Share premium account	13	2,298,154	2,232,848
Profit and loss account	13	(2,465,382)	(1,456,630)
		(165,553)	777,745



T Kelsey -Director  
23 October 2003



## NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

### 1 ACCOUNTING POLICIES

#### *Fundamental accounting concept*

The accounts have been prepared on a going concern basis which assumes that the company will continue in operational existence for the foreseeable future. This is dependent on the continued support of its bankers and investment capital providers and the ability of the company to operate within the agreed banking facilities. Since the year end the company has raised additional finance from investors as explained in note 16. The accounts do not reflect any adjustments which would have to be made should continuing finance not be available.

#### *Accounting convention*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### *Depreciation*

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Website and database	- over 3 years
Office furniture and equipment	- over 10 years
Computer equipment	- over 3 years
Intellectual property	- over 3 years

#### *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, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- 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.

### 2 TURNOVER

Turnover, which is stated net of Value Added Tax, represents amounts receivable by the company for goods and services provided.

The turnover and pre-tax loss arises solely in the UK and is attributable to one continuing activity, namely the production of comprehensive and authoritative measures of health service performance.

## NOTES TO THE ACCOUNTS

for the year ended 31 December 2002

## 3 OPERATING LOSS

(a) This is stated after charging:

	2002	2001
	£	£
Depreciation of owned fixed assets	110,463	79,994
Auditors' remuneration – audit services	7,000	5,000
- non audit services	1,000	650
Operating lease rentals - land and buildings	103,800	88,332

(b) Directors' emoluments

2002	2001
£	£
242,880	264,539

The emoluments of the highest paid director were £81,690.

## 4 STAFF COSTS

	2002	2001
	£	£
Wages and salaries	756,696	303,452
Social Security costs	49,833	29,451
	806,529	332,903

The average number of employees during the trading year was as follows:

	2002	2001
	No.	No.
Administration (including directors)	8	6
Editorial and research (including directors)	13	9
	21	15

## 5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2002	2001
	£	£
Bank interest	9,021	12,048

NOTES TO THE ACCOUNTS  
for the year ended 31 December 2002

6 INTEREST PAYABLE

	2002	2001
	£	£
Bank interest	110	131
Loan interest	3,600	10,838
	<u>3,710</u>	<u>10,969</u>

7 TAXATION

(a) Tax on loss on ordinary activities

	2002	2001
	£	£
<i>Current tax:</i>		
UK corporation tax (note 7(b))	40,176	-
	<u>40,176</u>	<u>-</u>

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2001 – 30%). The differences are explained below:

	2002	2001
	£	£
Loss on ordinary activities before tax	1,048,928	1,119,170
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK as above	<u>314,678</u>	<u>335,751</u>
Effect of:		
Disallowed expenses and non taxable income	(9,680)	(9,945)
Depreciation in excess of capital allowances	(5,138)	17,374
R & D tax credit	40,176	-
Losses arising in the year	<u>(299,860)</u>	<u>(343,180)</u>
Tax credit	<u>40,176</u>	<u>-</u>

(c) Factors that may affect future tax charges

The company has tax losses available to offset future taxable profits. No deferred tax asset has been recognised in respect of these losses.

# Dr Foster Limited

## NOTES TO THE ACCOUNTS for the year ended 31 December 2002

### 8 TANGIBLE FIXED ASSETS

	Website and database £	Office furniture and equipment £	Computer equipment £	Intellectual property £	Total £
Cost or valuation:					
At 1 January 2002	178,037	11,266	55,864	2,700	247,867
Additions	71,767	675	19,438	-	91,880
At 31 December 2002	249,804	11,941	75,302	2,700	339,747
Depreciation:					
At 1 January 2002	59,346	1,194	23,805	1,500	85,845
Provided in the year	83,268	1,194	25,101	900	110,463
At 31 December 2002	142,614	2,388	48,906	2,400	196,308
Net book value:					
At 31 December 2002	107,190	9,553	26,396	300	143,439
Net book value:					
At 31 December 2001	118,691	10,072	32,059	1,200	162,022

### 9 DEBTORS

	2002 £	2001 £
Trade debtors	378,504	115,262
Prepayments and accrued income	37,545	209,077
Other debtors	14,674	80,889
Unpaid share capital (note 13)	16,080	57
	446,803	405,285

### 10 CREDITORS: amounts falling due within one year

	2002 £	2001 £
Bank loan (note 11)	50,000	-
Trade creditors	504,956	318,093
Other taxes and social security costs	45,562	23,892
Accruals and deferred income	111,902	358,944
	712,420	700,929

# Dr Foster Limited

## NOTES TO THE ACCOUNTS for the year ended 31 December 2002

### 11 CREDITORS: amounts falling due after more than one year

	2002	2001
	£	£
Wholly repayable within five years	241,667	-
Less: Included in creditors: amounts falling due within one year	(50,000)	-
	<u>191,667</u>	<u>-</u>

The loan is for a five year term and is secured by way of a debenture charge over the assets of the business. Interest is charged at 2.25% over Libor.

### 12 SHARE CAPITAL

	2002	2001	2002	Authorised 2001
	No.	No.	£	£
Ordinary 1p shares	1,000,000	1,000,000	10,000	10,000
	<u>1,000,000</u>	<u>1,000,000</u>	<u>10,000</u>	<u>10,000</u>
	2002	2001	2002	Allotted 2001
	No.	No.	£	£
Allotted, called up and fully paid	148,669	146,994	1,487	1,470
Allotted, called up and unpaid	18,777	5,700	188	57
	<u>167,446</u>	<u>152,694</u>	<u>1,675</u>	<u>1,527</u>

During the year, the company issued 2,146 ordinary 1p shares for a consideration of £72,429 resulting in a share premium of £72,406. The share capital was issued to finance the operations of the company. In addition it issued 12,606 ordinary shares at par to certain existing shareholders.

At 31 December 2002, 18,777 shares remained unpaid. 5,700 of these shares were issued at par to the employees of the company in 2000 and 12,606 were issued during the year. The other 471 shares were issued at a premium of £15,892 and were paid up just after the year end. Allotted, called up and unpaid share capital amounting to £16,080 is included in debtors (note 9).

NOTES TO THE ACCOUNTS  
for the year ended 31 December 2002

13 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share Capital £	Share Premium £	Profit and loss account £	Total shareholders' funds £
At 1 January 2001	1,070	250,208	(337,460)	(86,182)
Issue of shares	457	2,091,691	-	2,092,148
Share issue costs	-	(109,051)	-	(109,051)
Loss for the year	-	-	(1,119,170)	(1,119,170)
At 1 January 2002	1,527	2,232,848	(1,456,630)	777,745
Issue of shares	148	72,406	-	72,554
Share issue costs	-	(7,100)	-	(7,100)
Loss for the year	-	-	(1,008,752)	(1,008,752)
At 31 December 2002	1,675	2,298,154	(2,465,382)	(165,553)

14 CAPITAL COMMITMENTS

At 31 December 2002 the company had capital commitments of £Nil.

15 OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2002	2001
	£	£
Operating leases which expire:		
Within one year	-	8,667

16 POST BALANCE SHEET EVENTS

In April 2003 the company issued £400,000 of convertible unsecured loan notes.

In September 2003 an additional £1,000,000 was raised by the issue of convertible unsecured loan notes series B.