

HEALTHCARE SCOTLAND LIMITED

Report and Financial Statements

30 June 2001

**Deloitte & Touche
Chartered Accountants
2 Queen's Terrace
Aberdeen
AB10 1XL**



REPORT AND FINANCIAL STATEMENTS 2001

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REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D G Chappell
R Russell

SECRETARY

R Russell

REGISTERED OFFICE

35 Albert Street
Aberdeen
AB25 1XU

SOLICITORS

Paull & Williamsons
Investment House
6 Union Row
Aberdeen
AB10 1DQ

BANKERS

Bank of Scotland
Queen's Cross Branch
39 Albyn Place
Aberdeen
AB10 1YN

AUDITORS

Deloitte & Touche
Chartered Accountants
2 Queen's Terrace
Aberdeen
AB10 1XL

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2001.

ACTIVITIES

Healthcare Scotland Limited is the holding company for a group of companies engaged in the provision of private healthcare.

RESULTS AND TRANSFER TO RESERVES

The group made a profit before taxation of £1,547,417 (2000: £1,588,433). The retained profit after tax and minority interests of £748,119 (2000: £607,633) has been transferred to reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The group has traded successfully during the year and the directors are optimistic about the long-term prospects for continued growth.

POST BALANCE SHEET EVENTS

On 28 January 2002 the entire issued share capital of Healthcare Scotland Management Limited, Albyn Hospital Limited and Fernbrae Hospital Limited was acquired by BMI Healthcare Limited.

DIRECTORS

The membership of the Board is set out on page 1. The beneficial interests of the directors in Healthcare Scotland Limited at 30 June 2001 and 1 July 2000 were as follows:

	Ordinary shares of £0.001 each
D G Chappell	75,001
R Russell	75,001

EMPLOYEE INVOLVEMENT

The group provides information to employees covering various aspects of the group's current and future activities along with certain financial information. In addition, there are regular meetings of employee representatives with senior management, at which full discussion on relevant points of interest takes place.

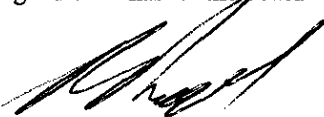
EMPLOYMENT OF DISABLED PERSONS

It is group policy to give full consideration to suitable applications for employment from disabled persons. Opportunities also exist for employees of the group who become disabled to continue in their employment or to be trained for other positions in the group.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming annual general meeting.

Approved by the board of directors on 25 April 2002
and signed on behalf of the board


Secretary

STATEMENT OF 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 group and company as at the end of the financial year and of the profit or loss of the group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEALTHCARE SCOTLAND LIMITED

We have audited the financial statements of Healthcare Scotland Limited for the year ended 30 June 2001 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

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 United Kingdom legal and regulatory requirements and 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 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 for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the group and company as at 30 June 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

25 April 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 June 2001

	Note	2001 £	Period from Incorpor- ation to 30 June 2000 £
TURNOVER: Continuing operations	3	25,214,590	19,162,978
Cost of sales		(16,801,018)	(11,579,482)
Gross profit		8,413,572	7,583,496
Administrative expenses		(5,869,663)	(5,086,229)
OPERATING PROFIT: Continuing operations		2,543,909	2,497,267
Interest receivable and similar income		264,414	141,075
Interest payable and similar charges	4	(1,260,906)	(1,049,909)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	1,547,417	1,588,433
Tax on profit on ordinary activities	6	(513,016)	(572,154)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,034,401	1,016,279
Equity minority interests		(286,282)	(408,646)
RETAINED PROFIT FOR THE FINANCIAL YEAR	19	748,119	607,633

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2001

	2001 £	Period from Incorpor- ation to 30 June 2000 £
Profit for financial year/ period	748,119	607,633
Foreign exchange translation adjustment	7,186	(21,941)
Unrealised surplus on revaluation of property	6,420,935	1,187,024
Minority interest in revaluation surplus	(2,255,074)	(332,439)
Total recognised gains and losses relating to the year	4,921,166	1,440,277

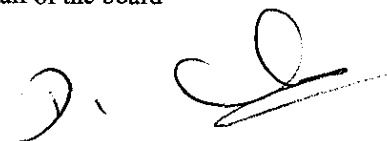
CONSOLIDATED BALANCE SHEET
At 30 June 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Intangible assets - negative goodwill	8	(1,814,027)	(1,915,307)
- goodwill	8	1,356,232	1,964,497
		(457,795)	49,190
Tangible assets	9	25,776,822	17,989,206
Investments	10	3,485	42,573
		25,322,512	18,080,969
CURRENT ASSETS			
Stocks	11	218,726	209,509
Debtors	12	4,075,233	3,498,522
Cash at bank and in hand		3,655,303	3,842,678
		7,949,262	7,550,709
CREDITORS: amounts falling due within one year	13	(9,435,667)	(9,370,024)
NET CURRENT LIABILITIES		(1,486,405)	(1,819,315)
TOTAL ASSETS LESS CURRENT LIABILITIES		23,836,107	16,261,654
CREDITORS: amounts falling due after more than one year			
Bank loans	15	(11,602,252)	(9,226,143)
Loan notes	15	-	(2,000,000)
Obligation under hire purchase contracts	15	(326,209)	(528,606)
		11,907,646	4,506,905
PROVISIONS FOR LIABILITIES AND CHARGES	16	(495,996)	(456,334)
MINORITY INTERESTS		(5,050,057)	(2,610,144)
TOTAL NET ASSETS		6,361,593	1,440,427
CAPITAL AND RESERVES			
Called up share capital	18	150	150
Profit and loss account	19	1,340,997	585,692
Revaluation reserve	19	5,020,446	854,585
EQUITY SHAREHOLDERS' FUNDS	17	6,361,593	1,440,427

These financial statements were approved by the board of directors on
Signed on behalf of the board

25 April 2002

Director

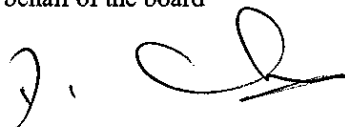


BALANCE SHEET
At 30 June 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Investments	10	<u>6,390,299</u>	<u>6,390,299</u>
CURRENT ASSETS			
Debtors	12	<u>188,304</u>	<u>636,934</u>
		188,304	636,934
CREDITORS: amounts falling due within one year	13	<u>(2,296,748)</u>	<u>(2,132,570)</u>
NET CURRENT LIABILITIES		<u>(2,108,444)</u>	<u>(1,495,636)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,281,855	4,894,663
CREDITORS: amounts falling due after more than one year			
Term loan	15	(5,210,151)	(3,342,587)
Loan notes	15	<u>-</u>	<u>(2,000,000)</u>
TOTAL NET LIABILITIES		<u>(928,296)</u>	<u>(447,924)</u>
CAPITAL AND RESERVES			
Called up share capital	18	150	150
Profit and loss account	19	<u>(928,446)</u>	<u>(448,074)</u>
EQUITY SHAREHOLDERS' DEFICIT	17	<u>(928,296)</u>	<u>(447,924)</u>

These financial statements were approved by the board of directors on 25 April 2002
Signed on behalf of the board

Director



CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 June 2001

	Note	2001 £	Period from incorpor- ation to 30 June 2000 £
Net cash inflow from operating activities	1	<u>2,670,729</u>	<u>3,134,518</u>
Returns on investments and servicing of finance			
Interest received		264,414	141,075
Interest paid		(1,214,069)	(1,009,439)
Interest element of finance lease and hire purchase repayments		<u>(46,837)</u>	<u>(40,470)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(996,492)</u>	<u>(908,834)</u>
Taxation			
UK corporation tax paid		<u>(585,178)</u>	<u>(691,804)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,764,594)	(2,888,614)
Disposal of tangible fixed assets		25,600	31,878
Purchase of investments		-	(42,573)
Disposal of investments		39,088	-
Purchase of goodwill		<u>(14,473)</u>	<u>(206,550)</u>
Net cash outflow from capital expenditure and financial investment		<u>(1,714,379)</u>	<u>(3,105,859)</u>
Acquisitions and disposals			
Purchase of subsidiary undertaking -			
Cash consideration		-	(3,800,000)
Bank overdraft acquired		-	(2,646,558)
Cash at bank acquired		-	2,581,069
		<u>-</u>	<u>(3,865,489)</u>
Net cash outflow before financing		<u>(625,320)</u>	<u>(5,437,468)</u>
Financing			
Loan repayments		(3,803,051)	(401,880)
New borrowings		4,078,580	6,025,014
Capital element of finance lease and hire purchase repayments		(241,080)	(220,565)
Issue of ordinary share capital		-	150
Net cash inflow from financing		<u>34,449</u>	<u>5,402,719</u>
Decrease in cash in the year	2	<u>(590,871)</u>	<u>(34,749)</u>

NOTES TO THE CASH FLOW STATEMENT

Year ended 30 June 2001

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 £	Period from incorpor- ation to 30 June 2000 £
Operating profit	2,543,909	2,497,267
Depreciation	990,249	733,582
(Gain)/loss on sale of fixed assets	(1,191)	10,101
Goodwill amortisation	22,228	(39,399)
Increase in stocks	(9,217)	(17,796)
Increase in debtors	(745,794)	(653,186)
(Decrease)/increase in creditors	(129,455)	603,949
Net cash inflow from operating activities	<u>2,670,729</u>	<u>3,134,518</u>

2. ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 2000 £	Cashflow £	Other non- cash changes £	At 30 June 2001 £
Cash at bank and in hand	3,842,678	(187,375)	-	3,655,303
Bank overdraft	<u>(3,877,427)</u>	<u>(403,496)</u>	-	<u>(4,280,923)</u>
	(34,749)	(590,871)	-	(625,620)
Bank loans	(9,777,522)	(3,275,529)	-	(13,053,051)
Loan notes	(3,000,000)	3,000,000	-	-
Finance leases	<u>(747,777)</u>	<u>241,080</u>	<u>(117,517)</u>	<u>(624,214)</u>
	<u>(13,560,048)</u>	<u>(625,320)</u>	<u>(117,517)</u>	<u>(14,302,885)</u>

NOTES TO THE CASH FLOW STATEMENT

Year ended 30 June 2001

3. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2001 £	Period from incorpor- ation to 30 June 2000 £
Decrease in cash in the year/period	(590,871)	(34,749)
Capital element of finance lease repayments	241,080	220,565
Cash inflow from increase in debt	(4,078,580)	(6,025,014)
Loan repayments	<u>3,803,051</u>	<u>401,880</u>
Change in net debt resulting from cash flow	(625,320)	(5,437,318)
Finance leases acquired:		
New finance leases	(117,517)	(602,375)
Acquired with subsidiaries	-	(365,967)
Loan Notes	-	(3,000,000)
Term Loans – acquired with subsidiaries	<u>-</u>	<u>(4,154,388)</u>
Movement in net debt in the year/period	<u>(742,837)</u>	<u>(13,560,048)</u>
Net debt at 1 July	<u>(13,560,048)</u>	<u>-</u>
Net debt at 30 June	<u>(14,302,885)</u>	<u>(13,560,048)</u>

4. MAJOR NON-CASH TRANSACTIONS

During the year the group entered into finance lease and hire purchase contracts in respect of assets with a total capital value at the inception of the leases of £117,517 (2000: £602,375).

NOTES TO THE ACCOUNTS**Year ended 30 June 2001****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of fixed assets.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiaries for the year ended 30 June 2001.

Positive goodwill arising on consolidation is amortised over 20 years, being the estimated useful economic life of that asset.

Negative goodwill arising on non-monetary assets is amortised in the periods during which those assets are consumed through depreciation or sale.

Acquisitions and disposals

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition. Prior to the implementation of FRS 10 (in the year ended 30 June 1999), purchased goodwill was written off directly to reserves and has not been reinstated.

The profit or loss on disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

Tangible fixed assets

No depreciation is provided on freehold land and buildings because any charge would be immaterial based on the estimated remaining lives of these assets. A professional valuation of these assets is also carried out at the end of the year to ensure there has been no impairment in values. This treatment is contrary to the Companies Act 1985 but the directors believe it is necessary to give a true and fair view. On other assets it is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Fixtures, fittings and motor vehicles - over 7 years

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the near future.

Pension costs

The group operates both defined benefit and contribution schemes. Pension costs charged to the profit and loss account represent amounts payable by the group to the defined contribution scheme.

Leases

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

1. ACCOUNTING POLICIES (continued)

Assets held under hire purchase contracts and the related lease obligations are recorded in the balance sheet at the fair value of the assets at the inception of the contracts. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

2. TURNOVER

Turnover and profit on ordinary activities before taxation are attributable to one activity, the provision of hospital and consultant services. Turnover is stated exclusive of value added tax and is fully derived from work done in the United Kingdom.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2001	Period from incorporation to 30 June 2000
	£	£
Directors' fees	17,000	30,966
Directors' emoluments (excluding pension contributions)	970,356	868,587
	<u>987,356</u>	<u>899,553</u>
	£	£
Directors' pension contributions	<u>33,354</u>	<u>33,192</u>
	No	No
Number of directors who are members of a defined contribution pension scheme	8	5

NOTES TO THE ACCOUNTS**Year ended 30 June 2001**

	<u>£</u>	<u>£</u>
Remuneration of the highest paid director (excluding pension contributions)	<u>164,586</u>	<u>135,000</u>
Pension contributions of the highest paid director	<u>13,720</u>	<u>13,500</u>
	<u>£</u>	<u>£</u>
Employee costs during the year:		
Wages and salaries	11,922,165	7,851,235
Social security costs	895,541	582,900
Other pension costs	265,946	172,149
	<u>13,083,652</u>	<u>8,606,284</u>
	<u>No</u>	<u>No</u>
Average number of persons employed:		
Administrative	134	115
Professional	658	577
Technical and support	178	117
	<u>970</u>	<u>809</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2001	Period from incorpor- ation to 30 June 2000
	£	£
Bank loan, overdrafts and other loans	1,214,069	1,009,439
Finance charges - hire purchase contracts	46,837	40,470
	<u>1,260,906</u>	<u>1,049,909</u>

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001	2000
	£	£
Profit on ordinary activities before taxation is after charging/ (crediting):		
Depreciation - own assets	834,880	606,195
- assets held under hire purchase contracts	155,369	127,387
Auditors' remuneration:		
- audit fees	31,200	24,594
- non-audit fees	13,650	7,500
Rentals under operating lease - other	16,089	3,894
(Gain)/ loss on sale of fixed assets	(1,191)	10,101
Goodwill amortisation	123,508	70,881
Negative goodwill amortisation	(101,280)	(110,280)

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001	2000
	£	£
Current year		
UK corporation tax at 30% (2000: 30%) based on profit for the year/period	511,253	534,909
Deferred taxation	39,662	41,214
	<u>550,915</u>	<u>576,123</u>
Prior year adjustments:		
Corporation tax	(37,899)	(2,698)
Deferred tax	-	(1,271)
	<u>513,016</u>	<u>572,154</u>

7. LOSS OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the year amounts to £480,372 (2000: £448,074).

NOTES TO THE ACCOUNTS
Year ended 30 June 2001

8. INTANGIBLE FIXED ASSETS

The Group	Negative Goodwill £	Goodwill £	Total £
Cost			
At 1 July 2000	(2,025,587)	2,035,378	9,791
Additions in year	-	14,473	14,473
Reclassification to heritable operational entity (note 9)	-	(651,661)	(651,661)
At 30 June 2001	(2,025,587)	1,398,190	(627,397)
Accumulated amortisation			
At 1 July 2000	(110,280)	70,881	(39,399)
Charge for year	(101,280)	123,508	22,228
Reclassification to heritable operational entity (note 9)	-	(152,431)	(152,431)
At 30 June 2001	(211,560)	41,958	(169,602)
Net book value			
At 30 June 2001	(1,814,027)	1,356,232	(457,795)
At 30 June 2000	(1,915,307)	1,964,497	49,190

9. TANGIBLE FIXED ASSETS

The Group	Heritable Operational Entity £	Fixtures and Fittings and Motor Vehicles £	Total £
Cost or valuation			
At 1 July 2000	14,020,583	4,688,373	18,708,956
Additions	19,470	1,862,639	1,882,109
Disposals	-	(61,198)	(61,198)
Reclassified from goodwill	651,661	-	651,661
Adjustment arising upon revaluation in year	6,420,935	-	6,420,935
At 30 June 2001	21,204,331	6,398,132	27,602,463
Accumulated Depreciation			
At 1 July 2000	-	719,750	719,750
Charge for the year	-	990,249	990,249
Disposals	-	(36,789)	(36,789)
Reclassification from goodwill	152,431	-	152,431
At 30 June 2001	152,431	1,673,210	1,825,641
Net book value			
At 30 June 2001	21,051,900	4,724,922	25,776,822
At 30 June 2000	14,020,583	3,968,623	17,989,206

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

9. TANGIBLE FIXED ASSETS (Continued)

Comparable amounts determined according to the historical cost convention:

	£	£	£
Cost	14,539,283	6,398,132	20,937,415
Accumulated depreciation	-	(1,673,210)	(1,673,210)
Net book value			
At 30 June 2001	14,539,283	4,724,922	19,264,205
At 30 June 2000	13,165,998	3,968,623	17,134,621

No depreciation is provided on heritable property as the charge is not material based on the estimated remaining useful lives of the assets.

Albyn Hospital and Fernbrae Hospital were revalued by F G Burnett, Chartered Surveyors. Cheadle Royal Hospital and Trees Park Village were revalued by Weatherall, Green and Smith, Chartered Surveyors. All of the above were revalued having regard to trading potential as operational entities inclusive of heritable property, all plant, machinery, fittings and equipment and business goodwill as at 30 June 2001. The residual book value of goodwill (note 8), where applicable, has consequently been reclassified within the valuation of the operational entity in accordance with Financial Reporting Standard 15.

This represents a change in accounting policy which the directors consider appropriate having regard to the specialised nature of the properties. The change in policy has no effect on the results of the year.

The net book value of the group's fixed assets includes £747,576 (2000: £781,682) in respect of assets held under hire purchase contracts. Depreciation charged on these assets amounted to £155,369 (2001: £127,387) for the year.

With regard to the tangible fixed assets held by Healthcare Scotland Management Limited and CIH Properties Inc., the historical cost balance has been retained due to the Surveyor's report providing a similar figure to the historical cost.

NOTES TO THE ACCOUNTS**Year ended 30 June 2001****10. INVESTMENTS**

	Other Investments £	Shares in subsidiary undertakings £
Cost		
At 1 July 2000	42,573	6,390,299
Disposals	(10,000)	-
	<u>32,573</u>	<u>6,390,299</u>
Provisions		
At 1 July 2000	-	-
Provided in year	(29,088)	-
	<u>(29,088)</u>	<u>-</u>
Net book value		
At 30 June 2001	<u>3,485</u>	<u>6,390,299</u>
At 30 June 2000	<u>42,573</u>	<u>6,390,299</u>

The principal activities of the subsidiary undertakings are the provision of hospital and consultancy services.

Subsidiary undertakings	Country of Incorporation & operation	Shares owned	%
Healthcare Scotland Management Limited	Scotland	Ordinary	100
Albyn Hospital Limited	Scotland	Ordinary	100
Fernbrae Hospital Limited	Scotland	Ordinary	100
UK Private Healthcare Limited	England	Ordinary	100
Affinity Healthcare Limited	England	Ordinary	61.8
Cheadle Royal Healthcare Limited	England	Ordinary	100
Trees Park Healthcare Limited	England	Ordinary	100
Canadian Independent Healthcare Inc.	Canada	Ordinary	100
CIH Properties Inc.	Canada	Ordinary	100
Delbrook Surgical Clinic Inc.	Canada	Common voting	90
		Common non-voting	81
		Preference	100

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

11. STOCKS

	The Group 2001 £	The Company 2001 £	The Group 2000 £	The Company 2000 £
Raw materials and consumables	218,726	-	209,509	-

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2001 £	The Company 2001 £	The Group 2000 £	The Company 2000 £
Trade debtors	3,639,685	-	2,797,339	-
Amounts owed by subsidiary companies	-	188,204	-	467,851
Other debtors	276,286	100	453,324	-
Corporation tax recoverable	-	-	169,083	169,083
Prepayments and accrued income	159,262	-	78,776	-
	4,075,233	188,304	3,498,522	636,934

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2001 £	The Company 2001 £	The Group 2000 £	The Company 2000 £
Bank overdraft (note 15)	4,280,923	1,772,324	3,877,427	525,456
Bank loans (note 15)	1,450,799	357,882	551,379	422,220
Loan notes	-	-	1,000,000	1,000,000
Obligations under finance leases and hire purchase contracts (note 15)	298,005	-	219,171	-
Trade creditors	1,255,247	-	1,042,670	-
Amount owed to subsidiary companies	-	25,986	-	42,200
Other creditors including taxation and social security (note 14)	1,454,143	91,397	1,812,236	-
Accruals and deferred income	696,550	49,159	867,141	142,694
	9,435,667	2,296,748	9,370,024	2,132,570

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

14. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	The Group 2001 £	The Company 2001 £	The Group 2000 £	The Company 2000 £
This heading includes:				
Taxation and social security	674,689	23,397	737,115	-
Directors' loan accounts	119,000	-	210,500	-

The directors' loan accounts are unsecured, interest free and repayable upon demand.

15. BORROWINGS

	Bank overdraft 2001 £	Loans 2001 £	Finance leases and hire purchase contracts 2001 £	Issue Costs 2001 £	Total 2001 £
The Group					
Due within 1 year	4,280,923	1,457,799	298,005	(7,000)	6,029,727
Due within 1 – 2 years	-	1,976,589	157,744	(14,000)	2,120,333
Due within 2-5 years	-	5,034,159	168,465	(21,000)	5,181,624
Due within 5 – 10 years	-	4,640,504	-	(14,000)	4,626,504
	-	11,651,252	326,209	(49,000)	11,928,461
Total	4,280,923	13,109,051	624,214	(56,000)	17,958,188

	Bank Overdraft 2001 £	Loans 2001 £	Issue costs 2001 £	Total 2001 £
The Company				
Due within 1 year	1,772,324	364,882	(7,000)	2,130,206
Due within 1-2 years	-	802,333	(14,000)	788,333
Due within 2 – 3 years	-	2,683,614	(21,000)	2,662,614
Due within 5 - 10 years	-	1,773,204	(14,000)	1,759,204
	-	5,259,151	(49,000)	5,210,151
Total	1,772,324	5,624,033	(56,000)	7,340,357

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

15 BORROWINGS (Continued)

	Bank overdraft 2000 £	Loans 2000 £	Finance Leases And hire purchase Contracts 2000 £	Loan notes 2000 £	Total 2000 £
The Group					
Due within 1 year	3,877,427	551,379	219,171	1,000,000	5,647,977
Due within 1 – 2 years	-	1,068,723	265,409	1,000,000	2,334,132
Due within 2-5 years	-	3,130,420	263,197	1,000,000	4,393,617
Due within 5 – 10 years	-	5,027,000	-	-	5,027,000
	-	9,226,143	528,606	2,000,000	11,754,749
Total	3,877,427	9,777,522	747,777	3,000,000	17,402,726

	Bank overdraft 2000 £	Loans 2000 £	Loan notes 2000 £	Total 2000 £
The Company				
Due within 1 year	525,456	422,220	1,000,000	1,947,676
Due within 1-2 years	-	422,220	1,000,000	1,422,220
Due within 2 – 3 years	-	844,440	1,000,000	1,844,440
Due within 5 - 10 years	-	2,075,927	-	2,075,927
	-	3,342,587	2,000,000	5,342,587
Total	525,456	3,764,807	3,000,000	7,290,263

The bank loans and overdraft are secured by a standard security over the freehold land and buildings, and a bond and floating charge over the assets of the group. Obligations under hire purchase contracts are secured by the related leased assets.

Loans comprises eleven individual loans. Three of these loans are repayable to Bank of Scotland plc.

Loan 1 is repayable in 103 monthly instalments of £35,185. Only four repayments were made during the current financial year as a one year moratorium was received. Repayments are due to re-commence in December 2001.

Loan 2 was drawn down in the year. Forty eight monthly repayments of £31,667 are due to commence in May 2002.

Loan 3 is repayable in 130 monthly instalments of £22,222. This loan is secured by a bond and floating charge over the assets of Albyn Hospital Limited with interest being charged at 2% above the banks' base rate.

NOTES TO THE ACCOUNTS**Year ended 30 June 2001****15. BORROWINGS (Continued)**

Interest is charged on loans 1 and 2 at 2.5% above the bank's base rate and are secured by all securities already held by the bank in respect of the group plus a letter of pledge over the Healthcare Scotland Limited interest in the shareholding of Cheadle Royal Healthcare Limited, a floating charge over the undertaking and assets of Healthcare Scotland Limited, and Cross Letters of Guarantee covering Healthcare Scotland Limited, Healthcare Scotland Management Limited, Albyn Hospital Limited, Fernbrae Hospital Limited, and UK Private Healthcare Limited.

Seven of the loans are repayable to HSBC plc, bear interest at 1.25% above the banks' base rate and are all secured over the assets of Affinity Healthcare Limited, Cheadle Royal Healthcare Limited and Trees Park Healthcare Limited.

Loan 1 is repayable in 70 monthly instalments of £5,057.

Loan 2 is repayable in 7 quarterly instalments of £13,000.

Loan 3 is repayable in annual tranches of no less than £100,000.

Loan 4 has 3 repayment deadlines. £164,000 is to be repaid by 31 December 2001, a further £273,333 is to be repaid by 31 December 2002 and the final £300,000 is to be repaid by 30 June 2004.

Loan 5 is repayable in 57 monthly instalments of £3,333.

Loan 6 is repayable in 165 monthly instalments of £11,012.

Loan 7 is repayable in 52 monthly instalments of £15,917.

The final loan is repayable in 60 monthly instalments of £1,750 to Hong Kong and Shanghai Bank. This loan is secured by a bond and floating charge over the assets of Delbrook Surgical Centre Inc.

NOTES TO THE ACCOUNTS**Year ended 30 June 2001****16. PROVISION FOR LIABILITIES AND CHARGES**

	Group 2001 £	Group 2000 £
Deferred Tax		
At 1 July	456,334	416,391
Charge for the year	39,662	39,943
At 30 June	<u>495,996</u>	<u>456,334</u>

The amounts of the deferred taxation liability provided and the total potential liability are as follows:

	Group 2001 £	Group 2000 £
Capital allowances in excess of depreciation	512,853	479,668
Other	(16,857)	(23,334)
	<u>495,996</u>	<u>456,334</u>

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £	2000 £
Profit for the financial year/ period	748,119	607,633
Foreign exchange translation adjustment	7,186	(21,941)
Adjustment arising upon revaluation in year/ period	4,165,861	854,585
Issue of shares	-	150
Net addition to shareholders' funds	<u>4,921,166</u>	<u>1,440,427</u>
Opening shareholders' funds	1,440,427	-
Closing shareholders' funds	<u>6,361,593</u>	<u>1,440,427</u>

18. CALLED UP SHARE CAPITAL

	No	2001 £	No	2000 £
Authorised				
Ordinary Shares of £0.001 each	<u>150,002</u>	<u>150</u>	<u>150,002</u>	<u>150</u>
Called up, allotted and fully paid				
Ordinary Shares of £0.001 each	<u>150,002</u>	<u>150</u>	<u>150,002</u>	<u>150</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

19. RESERVES

	The Group Revaluation Reserve £	Profit and Loss Account £
Balance at 1 July 2000	854,585	585,692
Profit for the year	-	748,119
Foreign exchange translation adjustment	-	7,186
Adjustment arising upon revaluation in year	6,420,935	-
Minority interest	(2,255,074)	-
Balance at 30 June 2001	<u>5,020,446</u>	<u>1,340,997</u>

	The Company Profit and Loss Account £
Balance at 1 July 2000	(448,074)
Loss for the year	(480,372)
Balance at 30 June 2001	<u>(928,446)</u>

20. OPERATING LEASE COMMITMENTS

At 30 June 2001 the group was committed to making the following payments during the next year in respect of operating leases:

	2001 Other £	2000 Other £
Leases which expire:		
Within one year	-	7,164
Within two to five years	12,991	968
	<u>12,991</u>	<u>8,132</u>

21. RELATED PARTY TRANSACTIONS

At the year-end, the directors had loans to Healthcare Scotland Management Limited totalling £119,000 (2000: £210,500) outstanding. The loan is repayable to R Russell. During the year, £91,500 of the loan was repaid to R Russell.

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

22. PENSION SCHEMES

Defined Benefit Scheme

The group operates the Cheadle Royal Hospital Pension Fund, a funded defined benefit pension scheme. The total pension cost for the period was £nil (2000: £nil). There is no provision for pension costs (2000: £nil) in the balance sheet as at 30 June 2001 due to the existence of a contributions holiday since the last formal valuation report.

The company currently accounts for pensions under SSAP 24 *Accounting for Pension Costs*. Under the transitional arrangements for FRS 17 *Retirement Benefits*, the company is required to provide additional disclosures relating to its pension scheme. These are provided below.

SSAP 24

A valuation was carried out by a qualified independent actuary at 31 March 1998 using the aggregate method. Following the valuation it was agreed that the employer would continue its contribution holiday.

The assumptions which have the most significant effect on the results of the valuation are set out below:

Investment returns	5.9% p.a.
Increase in:	
Salaries	4.7 p.a.
Present and future pensions	2.7% p.a.

The total market value of Cheadle Royal Hospital Pension Fund's assets at the last valuation date, together with the funding level as a percentage of accrued benefits after allowing for future increases in earnings, was £27.43m (154%).

FRS 17

The figures below have been based on the annual report of Cheadle Royal Hospital Pension Fund as at 31 March 2001, the most recent year-end of the scheme. The assets in the scheme and the expected rate of return were:

Asset	Long term rate of return expected at 30 June 2001	Value at 30 June 2001
Equities	N/A	Nil
Bonds	5%	£27.0m
Other	5%	£2.4m

The liabilities of the scheme at 30 June 2001 were calculated on the following bases as required under FRS 17:

Assumptions at 30 June 2001	
Discount rate	6.2%
Rate of increase in salaries	4.6%
Rate of increase in pensions in payment	2.6%
Rate of increase in pensions in deferment	2.6%
Inflation assumption	2.6%

NOTES TO THE ACCOUNTS

Year ended 30 June 2001

22. PENSION SCHEMES (continued)

The balance sheet position for the Group's schemes as calculated under FRS 17 at 30 June 2001 was as follows:

Fair value of assets	£29.4m
Present value of scheme liabilities	(£19.3m)
Surplus in the scheme	£10.1m
Unrecognised surplus in the scheme	£5.0m
Net pension asset	£5.1m

Defined Contribution Schemes

The assets of these schemes are held separately from those of the group in independently administered funds. The pension costs charged to the profit and loss account in the period in respect of private pension schemes amounted to £265,946 (2000: £185,649). There were no outstanding balances at either the current or previous year end.

23. POST BALANCE SHEET EVENTS

On 28 January 2002, the entire issued share capital of Healthcare Scotland Management Limited, Albyn Hospital Limited and Fernbrae Hospital Limited was acquired by BMI Healthcare Limited.

NOTES TO THE ACCOUNTS
Year ended 30 June 2001

ADDITIONAL INFORMATION

The additional financial information on page 26 is prepared from the accounting records of the company. It should be read in conjunction with the statutory financial statements set out on pages 5 to 24 and the auditors' report thereon.

NOTES TO THE ACCOUNTS
Year ended 30 June 2001

	2001 £
TURNOVER: Continuing Operations	-
Cost of sales	-
	<hr/>
Gross profit	-
Administrative expenses	(62,379)
	<hr/>
OPERATING LOSS: Continuing Operations	(62,379)
Interest payable and similar charges	(604,913)
	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(667,292)
Tax on loss on ordinary activities	186,920
	<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(480,372)
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