

Company Registration No. 196089

**Deloitte
& Touche**

HEALTHCARE SCOTLAND LIMITED

Report and Financial Statements

30 June 2002



**Deloitte & Touche
Aberdeen**

REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Auditors' report	4
Consolidated profit and loss account	5
Consolidated statement of total recognised gains and losses	6
Consolidated balance sheet	7
Balance sheet	8
Consolidated cash flow statement	9
Notes to the cash flow statement	10
Notes to the accounts	12

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D G Chappell
R Russell

SECRETARY

R Russell

REGISTERED OFFICE

35 Albert Street
Aberdeen

SOLICITORS

Paul & Williamsons
Investment House
6 Union Row
Aberdeen

BANKERS

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

AUDITORS

Deloitte & Touche
Aberdeen

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

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 £11,721,996 (2001: £1,547,417). The retained profit after tax and minority interests of £10,607,531 (2001: £748,119) has been transferred to reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

On 28 January 2002, the group disposed of Healthcare Scotland Management Limited, Albyn Hospital Limited and Fernbrae Hospital Limited.

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

Subsequent to the year end, the decision was made to discontinue research activity within Affinity Healthcare Clinical Research Limited. The company has not been wound up but will remain dormant.

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 2002 and 1 July 2001 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.

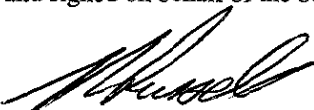
AUDITORS

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:

30.3.03

and signed on behalf of the board



Director

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 2002 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 26. 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 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, which are required to be prepared 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 and other members of the group 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.

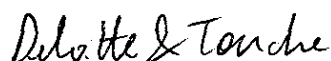
Basis of audit opinion

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 circumstances of the company, 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 company and the group at 30 June 2002 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

Aberdeen

Date: 11 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 June 2002

	Note	2002 £	2001 £
TURNOVER - continuing operations	2,3	18,950,361	15,887,330
- discontinued operations		<u>5,702,655</u>	<u>9,327,260</u>
		24,653,016	25,214,590
Cost of sales		<u>(15,914,816)</u>	<u>(16,801,018)</u>
Gross profit		8,738,200	8,413,572
Administrative expenses		<u>(6,562,030)</u>	<u>(5,869,663)</u>
OPERATING PROFIT	3,7		
- continuing operations		1,438,176	1,523,008
- discontinued operations		<u>737,994</u>	<u>1,020,901</u>
		2,176,170	2,543,909
Profit on sale of operations	26	10,084,189	-
Interest receivable	5	205,540	264,414
Interest payable and similar charges	6	<u>(743,903)</u>	<u>(1,260,906)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		11,721,996	1,547,417
Tax on profit on ordinary activities	8	<u>(725,900)</u>	<u>(513,016)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		10,996,096	1,034,401
Equity minority interests		<u>(388,565)</u>	<u>(286,282)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	21	<u>10,607,531</u>	<u>748,119</u>

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2002

	2002 £	2001 £
Profit for financial year	10,607,531	748,119
Foreign exchange translation adjustment	28,460	7,186
Unrealised surplus on revaluation of property, net of minority interests	<u>6,102,047</u>	<u>4,165,861</u>
Total recognised gains and losses relating to the year	<u><u>16,738,038</u></u>	<u><u>4,921,166</u></u>

CONSOLIDATED BALANCE SHEET **At 30 June 2002**

	Note	2002 £	2001 £
FIXED ASSETS			
Intangible assets - negative goodwill	10	(1,028,763)	(1,814,027)
- goodwill	10	193,683	1,356,232
		(835,080)	(457,795)
Tangible assets	11	26,628,733	25,776,822
Investments	12	28,318	3,485
		25,821,971	25,322,512
CURRENT ASSETS			
Stocks	13	52,039	218,726
Debtors	14	2,858,672	4,075,233
Cash at bank and in hand		10,947,494	3,655,303
		13,858,205	7,949,262
CREDITORS: amounts falling due within one year	15	(4,311,722)	(9,435,667)
NET CURRENT ASSETS/(LIABILITIES)		9,546,483	(1,486,405)
TOTAL ASSETS LESS CURRENT LIABILITIES		35,368,454	23,836,107
CREDITORS: amounts falling due after more than one year	17	(3,881,019)	(11,928,461)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(157,770)	(495,996)
MINORITY INTERESTS		(8,230,034)	(5,050,057)
NET ASSETS		23,099,631	6,361,593
CAPITAL AND RESERVES			
Called up share capital	20	150	150
Profit and loss account	21	13,379,283	1,340,997
Revaluation reserve	21	9,691,738	5,020,446
Other reserve	21	28,460	-
EQUITY SHAREHOLDERS' FUNDS	19	23,099,631	6,361,593

These financial statements were approved by the board of directors on:

31.3.03

Signed on behalf of the board

Director



BALANCE SHEET
At 30 June 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Tangible assets		394,690	-
Investments	12	883,055	6,390,299
		<u>1,277,745</u>	<u>6,390,299</u>
CURRENT ASSETS			
Debtors	14	659,971	188,304
Cash		9,248,102	-
		<u>9,908,073</u>	<u>188,304</u>
CREDITORS: amounts falling due within one year	15	<u>(304,573)</u>	<u>(2,296,748)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>9,603,500</u>	<u>(2,108,444)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		10,881,245	4,281,855
CREDITORS: amounts falling due after more than one year	17	<u>-</u>	<u>(5,210,151)</u>
NET ASSETS/(LIABILITIES)		<u>10,881,245</u>	<u>(928,296)</u>
CAPITAL AND RESERVES			
Called up share capital	20	150	150
Profit and loss account	21	10,881,095	(928,446)
EQUITY SHAREHOLDERS' FUNDS/(DEFICIT)		<u>10,881,245</u>	<u>(928,296)</u>

These financial statements were approved by the board of directors on:

31.3.03

Signed on behalf of the board



Director

CONSOLIDATED CASH FLOW STATEMENT **Year ended 30 June 2002**

	Note	2002 £	2001 £
Net cash inflow from operating activities	1	<u>2,108,769</u>	<u>2,670,729</u>
Returns on investments and servicing of finance			
Interest received		205,540	264,414
Interest paid		(709,243)	(1,214,069)
Interest element of finance lease and hire purchase repayments		<u>(21,663)</u>	<u>(46,837)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(525,366)</u>	<u>(996,492)</u>
Taxation			
UK corporation tax paid		<u>(298,853)</u>	<u>(585,178)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(2,512,189)	(1,764,594)
Disposal of tangible fixed assets		-	25,600
Purchase of investments		(133,507)	-
Disposal of investments		-	39,088
Purchase of goodwill		<u>-</u>	<u>(14,473)</u>
Net cash outflow from capital expenditure and financial investment		<u>(2,645,696)</u>	<u>(1,714,379)</u>
Acquisitions and disposals			
Sale of subsidiary undertaking -			
Cash consideration	26	16,178,000	-
Bank overdraft		754,281	-
Cash at bank		<u>(1,303)</u>	<u>-</u>
Increase in shareholding in subsidiary		<u>(114,483)</u>	<u>-</u>
		<u>16,816,495</u>	<u>-</u>
Net cash inflow/(outflow) before financing		<u>15,455,349</u>	<u>(625,320)</u>
Financing			
Loan repayments		(6,913,617)	(3,803,051)
New borrowings		1,771,387	4,078,580
Capital element of finance lease and hire purchase repayments		<u>(142,301)</u>	<u>(241,080)</u>
Net cash (outflow)/inflow from financing		<u>(5,284,531)</u>	<u>34,449</u>
Increase/(decrease) in cash in the year	2	<u>10,170,818</u>	<u>(590,871)</u>

NOTES TO THE CASH FLOW STATEMENT

Year ended 30 June 2002

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

	2002 Con- tinuing £	2002 Dis- continuing £	2002 Total £	2001 Con- tinuing £	2001 Dis- continuing £	2001 Total £
Operating profit	1,438,176	737,994	2,176,170	1,523,008	1,020,901	2,543,909
Depreciation	608,031	214,039	822,070	359,081	631,168	990,249
Gain on sale of fixed assets	-	-	-	(1,191)	-	(1,191)
Goodwill amortisation	(23,455)	-	(23,455)	(1,899)	24,127	22,228
Write down of investments	8,674	-	8,674	-	-	-
Increase in stocks	(3,736)	(23,229)	(26,965)	(11,140)	1,923	(9,217)
(Increase)/decrease in debtors	(779,701)	966,036	186,335	(732,580)	(13,214)	(745,794)
Decrease/(increase) in creditors	(79,206)	(954,854)	(1,034,060)	(1,141,753)	1,012,298	(129,455)
Net cash inflow/(outflow) from operating activities	<u>1,168,783</u>	<u>939,986</u>	<u>2,108,769</u>	<u>(6,474)</u>	<u>2,677,203</u>	<u>2,670,729</u>

2. ANALYSIS OF CHANGES IN NET (DEBT)/FUNDS

	At 1 July 2001 £	Cashflow £	Acquisition s and disposals excluding cash and overdrafts £	At 30 June 2002 £
Cash at bank and in hand	3,655,303	7,292,191	-	10,947,494
Bank overdraft	(4,280,923)	<u>2,878,627</u>	-	<u>(1,402,296)</u>
		10,170,818		
Bank loans – due within one year	(1,450,799)	132,108	177,778	(1,140,913)
Bank loans – due after one year	(11,602,252)	5,010,122	2,711,111	(3,881,019)
Finance leases	<u>(624,214)</u>	<u>142,301</u>	<u>481,913</u>	<u>-</u>
	<u>(14,302,885)</u>	<u>15,455,349</u>	<u>3,370,802</u>	<u>4,523,266</u>

NOTES TO THE CASH FLOW STATEMENT
Year ended 30 June 2002

3. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	2002 £	2001 £
Increase/(decrease) in cash in the year	10,170,818	(590,871)
Capital element of finance lease repayments	142,301	241,080
Cash inflow from increase in debt	(1,771,387)	(4,078,580)
Loan repayments	<u>6,913,617</u>	<u>3,803,051</u>
Change in net debt resulting from cash flow	15,455,349	(625,320)
Finance leases:		
New finance leases	-	(117,517)
Disposed of with subsidiaries	481,913	-
Term Loans:		
Disposed of with subsidiaries	<u>2,888,889</u>	<u>-</u>
Movement in net debt in the year	<u>18,826,151</u>	<u>(742,837)</u>
Net debt at 1 July	<u>(14,302,885)</u>	<u>(13,560,048)</u>
Net debt at 30 June	<u><u>4,523,266</u></u>	<u><u>(14,302,885)</u></u>

NOTES TO THE ACCOUNTS**Year ended 30 June 2002****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 2002.

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 over 20 years.

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

As permitted by FRS 15, no depreciation is provided on freehold buildings because any charge would be immaterial based on the estimated remaining useful lives of these assets. A professional valuation of these assets is carried out at the end of the year. 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 depreciation is provided on cost in equal annual instalments over the estimated useful economic 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. Cost comprises materials only. Net realisable value is based on estimated selling price, less all relevant marketing, selling and distribution costs.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate and matched long-term foreign currency borrowings are taken direct to reserves.

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred tax is provided in full on timing differences which result in obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred tax has not been provided on timing differences arising from the revaluation of fixed assets, where there is no commitment to sell the asset.

Pension costs

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

Leases

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. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2002 Continuing £	2002 Dis- continuing £	2002 Total £	2001 Continuing £	2001 Dis- continuing £	2001 Total £
Turnover	18,950,361	5,702,655	24,653,016	15,887,330	9,327,260	25,214,590
Cost of sales	(11,921,165)	(3,993,651)	(15,914,816)	(10,141,635)	(6,659,383)	(16,801,018)
Gross profit	7,029,196	1,709,004	8,738,200	5,745,695	2,667,877	8,413,572
Administrative expenses	(5,591,020)	(971,010)	(6,562,030)	(4,222,687)	(1,646,976)	(5,869,663)
Operating profit	1,438,176	737,994	2,176,170	1,523,008	1,020,901	2,543,909

The discontinued operations relate to the disposal of Healthcare Scotland Management Limited, Albryn Hospital Limited and Fernbrae Hospital Limited, and to Affinity Healthcare Clinical Research Limited which ceased research activity subsequent to the year end. This company has not been wound up but will remain dormant.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 £	2001 £
Directors' emoluments (excluding pension contributions)	41,627	309,144
	£	£
Directors' pension contributions	-	22,537
	£	£
Highest paid director's emoluments	21,750	184,531
Highest paid director's pension contributions	-	13,720
	2002 £	2001 £
Employee costs during the year:		
Wages and salaries	12,514,004	11,922,165
Social security costs	993,702	895,541
Other pension costs	218,896	265,946
	13,726,602	13,083,652
	No	No
Average number of persons employed:		
Administrative	124	134
Professional	508	658
Technical and support	230	178
	862	970

5. INTEREST RECEIVABLE

	2002 £	2001 £
Bank interest	205,540	264,414

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Bank loan, overdrafts and other loans	722,240	1,214,069
Finance charges - hire purchase contracts	21,663	46,837
	743,903	1,260,906

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

7. OPERATING PROFIT

	2002 £	2001 £
Operating profit is after charging/(crediting):		
Depreciation - own assets	746,094	834,880
- assets held under hire purchase contracts	75,976	155,369
Auditors' remuneration:		
- audit fees	34,150	31,200
- non-audit fees	19,250	13,650
Rentals under operating lease - hire of plant and machinery	28,374	16,089
Gain on sale of fixed assets	-	(1,191)
Goodwill amortisation	60,737	123,508
Negative goodwill amortisation	(84,192)	(101,280)
Write down of investments	8,674	-

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £	2001 £
Current taxation		
UK corporation tax at standard rate	715,304	509,968
Adjustments in respect of prior periods	(31,218)	(37,366)
	684,086	472,602
Group relief adjustment in respect of prior periods	-	752
Total current tax	684,086	473,354
Deferred taxation		
Origination and reversal of timing differences	(3,574)	39,662
Adjustments in respect of prior periods	45,388	-
Tax on profit on ordinary activities	725,900	513,016

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the year is lower than the standard rate for the reasons set out in the following reconciliation:

Profit on ordinary activities before tax	11,721,996	1,547,417
Tax on profit on ordinary activities at standard rate	3,516,775	464,225
Factors affecting charge for the year:		
Capital allowances in excess of depreciation	(9,640)	(12,143)
Other timing differences	13,855	6,600
Expenses not deductible for tax purposes	85,360	71,193
Prior period adjustments	(31,218)	(36,614)
Non-taxable gain on sale of subsidiaries	(3,024,876)	-
Rate differences	-	(2,729)
Utilisation of tax losses	91,071	-
Other	42,759	(17,178)
Total actual amount of current tax	684,086	473,354

The gain on sale of operations had no effect on the tax charge for the year as the gain did not result in a tax charge.

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

9. PROFIT/(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 profit for the year amounts to £11,809,541 (2001: loss of £480,372).

10. INTANGIBLE FIXED ASSETS

	Negative Goodwill £	Goodwill £	Total £
The Group			
Cost			
At 1 July 2001	(2,025,587)	1,398,190	(627,397)
On increasing shareholding in subsidiary	-	114,483	114,483
On disposal of operations	815,278	(1,274,180)	(458,902)
	<u>(1,210,309)</u>	<u>238,493</u>	<u>(971,816)</u>
At 30 June 2002			
Accumulated amortisation			
At 1 July 2001	(211,560)	41,958	(169,602)
Charge for year	(84,192)	60,737	(23,455)
On disposal of operations	114,206	(57,885)	56,321
	<u>(181,546)</u>	<u>44,810</u>	<u>(136,736)</u>
At 30 June 2002			
Net book value			
At 30 June 2002	<u>(1,028,763)</u>	<u>193,683</u>	<u>(835,080)</u>
At 30 June 2001	<u>(1,814,027)</u>	<u>1,356,232</u>	<u>(457,795)</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

11. TANGIBLE FIXED ASSETS

	Heritable Operational Entity £	Fixtures and Fittings and Motor Vehicles £	Total £
The Group			
Cost or valuation			
At 1 July 2001	21,204,331	6,398,132	27,602,463
Additions	153,720	2,358,469	2,512,189
On disposal of operations	(7,940,106)	(3,127,971)	(11,068,077)
Adjustments arising on revaluation during the year	8,893,459	-	8,893,459
At 30 June 2002	22,311,404	5,628,630	27,940,034
Accumulated depreciation			
At 1 July 2001	152,431	1,673,210	1,825,641
Charge for the year	-	822,070	822,070
On disposal of operations	(140,737)	(1,195,673)	(1,336,410)
At 30 June 2002	11,694	1,299,607	1,311,301
Net book value			
At 30 June 2002	22,299,710	4,329,023	26,628,733
At 30 June 2001	21,051,900	4,724,922	25,776,822

Comparable amounts determined according to the historical cost convention:

	£	£	£
Cost	3,519,768	5,628,628	9,148,396
Accumulated depreciation	(11,694)	(1,299,605)	(1,311,299)
Net book value			
At 30 June 2002	3,508,074	4,329,023	7,837,097
At 30 June 2001	8,678,400	4,816,605	13,495,005

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

Cheadle Royal Hospital and Trees Park Village were revalued by Weatherall, Green and Smith, Chartered Surveyors having regard to the trading potential as operational entities inclusive of heritable property, all plant, machinery, fittings and equipment and business goodwill as at 30 June 2002.

The net book value of the group's fixed assets includes £nil (2001: £747,576) in respect of assets held under hire purchase contracts. Depreciation charged on these assets amounted to £75,976 (2001: £155,369) for the year.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

11. TANGIBLE FIXED ASSETS (Continued)

	Heritable Operational Entity £	Fixtures and Fittings and Motor Vehicles £	Total £
The Company			
Cost or valuation			
At 1 July 2001	-	-	-
Additions	305,000	95,336	400,336
At 30 June 2002	305,000	95,336	400,336
Accumulated depreciation			
At 1 July 2001	-	-	-
Charge for the year	-	5,646	5,646
At 30 June 2002	-	5,646	5,646
Net book value			
At 30 June 2002	305,000	89,690	394,690
At 30 June 2001	-	-	-

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

12. INVESTMENTS

The Group	Other investments £
Cost	
At 1 July 2001	32,573
Additions	133,507
On disposal of operations	(100,000)
At 30 June 2002	66,080
Provisions	
At 1 July 2001	(29,088)
Provided in year	(8,674)
At 30 June 2002	(37,762)
Net book value	
At 30 June 2002	28,318
At 30 June 2001	3,485

The Company	Other investments £	Shares in subsidiary undertakings £	Group total £
Cost			
At 1 July 2001	-	6,390,299	6,390,299
Additions	33,507	854,737	888,244
Transfer from subsidiary	32,573	-	32,573
Disposals	-	(6,390,299)	(6,390,299)
At 30 June 2002	66,080	854,737	920,817
Provisions			
At 1 July 2001	-	-	-
Transfer from subsidiary	(29,088)	-	(29,088)
Provided in year	(8,674)	-	(8,674)
At 30 June 2002	(37,762)	-	(37,762)
Net book value			
At 30 June 2002	28,318	854,737	883,055
At 30 June 2001	-	6,390,299	6,390,299

The shares in subsidiary undertakings addition of £854,737 relates to Healthcare England Limited and Canadian Independent Healthcare Inc and was a dividend in specie received from Healthcare Scotland Management Limited.

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

12. INVESTMENTS (Continued)

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

Subsidiary undertakings	Country of operations	Shares owned	%
Healthcare England Limited	Scotland	Ordinary	100
Canadian Independent Healthcare Inc. (incorporated in Canada)	Canada	Ordinary	100
Healthcare England Limited has the following subsidiaries:			
UK Private Healthcare Limited	Scotland	Ordinary	100
Affinity Healthcare Limited	England	Ordinary	61.9
Canadian Independent Healthcare Inc. has the following subsidiaries:			
CIH Properties Inc. (incorporated in Canada)	Canada	Ordinary	100
Delbrook Surgical Clinic Inc. (incorporated in Canada)	Canada	Common voting Common non-voting Preference	100 100 100 100
Affinity Healthcare Limited has the following subsidiaries:			
Cheadle Royal Healthcare Limited	England	Ordinary	100
Middleton St George Healthcare Limited (formerly Trees Park Healthcare Limited)	England	Ordinary	100
Affinity Healthcare Clinical Research Limited	England	Ordinary	100

On 28 January 2002, the group disposed of Healthcare Scotland Management Limited, Albyn Hospital Limited and Fernbrae Hospital Limited. Further details relating to these disposals are provided in note 26.

13. STOCKS

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
Raw materials and consumables	52,039	-	218,726	-

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

14. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
Trade debtors	2,520,158	-	3,639,685	-
Amounts owed by subsidiary companies	-	616,846	-	188,204
Other debtors	221,281	42,776	276,286	100
Prepayments and accrued income	117,233	349	159,262	-
	<u>2,858,672</u>	<u>659,971</u>	<u>4,075,233</u>	<u>188,304</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
Bank overdraft (note 17)	1,402,296	-	4,280,923	1,772,324
Bank loans (note 17)	1,140,913	-	1,450,799	357,882
Obligations under finance leases and hire purchase contracts (note 17)	-	-	298,005	-
Trade creditors	618,054	3,736	1,255,247	-
Amount owed to subsidiary companies	-	175,001	-	25,986
Corporation tax	222,981	-	-	-
Other creditors including taxation and social security (note 16)	522,982	57,892	1,454,143	91,397
Accruals and deferred income	404,496	67,944	696,550	49,159
	<u>4,311,722</u>	<u>304,573</u>	<u>9,435,667</u>	<u>2,296,748</u>

16. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
This heading includes:				
Taxation and social security	243,696	7,292	674,689	23,397
Directors' loan accounts (note 24)	50,600	50,600	119,000	-

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

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

17. BORROWINGS

			Bank Overdraft 2002 £	Loans 2002 £	Total 2002 £
The Group					
Due within 1 year			1,402,296	1,140,913	2,543,209
Due within 1 - 2 years			-	1,065,186	1,065,186
Due within 2 - 5 years			-	1,765,520	1,765,520
Due after 5 years			-	1,050,313	1,050,313
			-	3,881,019	3,881,019
Total			1,402,296	5,021,932	6,424,228

	Finance Leases And Hire Purchase Contracts 2001 £		Issue Costs 2001 £		Total 2001 £
Due within 1 year	298,005		(7,000)		291,005
Due within 1 - 2 years	157,744		(14,000)		143,744
Due within 2 - 5 years	168,465		(21,000)		147,465
Due after 5 years	-		(14,000)		(14,000)
	326,209		(49,000)		277,209
Total	624,214		(56,000)		568,214

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

17. BORROWINGS (Continued)

	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 - 5 years	-	2,683,614	(21,000)	2,662,614
Due after 5 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

The bank loans and overdraft are secured by a bond and floating charge over the assets of the Affinity Healthcare group. All loans bear interest at 1.25% above the bank's base rate and are repayable to HSBC Bank plc. The repayment terms on the loans are not uniform. They are repayable over the next 9 to 154 months.

In addition, there is a debenture, registered 27 February 2001, securing all monies due or to become due from the company to HSBC Bank plc on any account whatsoever.

18. PROVISION FOR LIABILITIES AND CHARGES

	Group 2002 £	Group 2001 £
Deferred Tax		
At 1 July	495,996	456,334
Charge for the year	(3,574)	39,662
Disposal on sale of operations	(380,040)	-
Prior year adjustment	45,388	-
At 30 June	157,770	495,996
Provision for deferred taxation consists of the following amounts:		
	Group 2002 £	Group 2001 £
Capital allowances in excess of depreciation	145,810	512,853
Other	11,960	(16,857)
	157,770	495,996

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £5,637,491 (2001: £2,969,453).

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

19. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit for the financial year	10,607,531	748,119
Other recognised gains and losses relating to the year	6,130,507	4,173,047
Net addition to shareholders' funds	16,738,038	4,921,166
Opening shareholders' funds	6,361,593	1,440,427
Closing shareholders' funds	23,099,631	6,361,593

20. CALLED UP SHARE CAPITAL

	No	2002 £	No	2001 £
Authorised				
Ordinary Shares of £0.001 each	150,002	150	150,002	150
Called up, allotted and fully paid				
Ordinary Shares of £0.001 each	150,002	150	150,002	150

21. RESERVES

	Foreign Exchange Translation £	The Group Revaluation Reserve £	Profit and Loss Account £
Balance at 1 July 2001	-	5,020,446	1,340,997
Profit for the year	-	-	10,607,531
Foreign exchange differences on the translation of net equity investments in foreign enterprises	28,460	-	-
Adjustment arising upon revaluation in year	-	8,893,459	-
Minority interest	-	(3,392,350)	600,938
Realised on disposal of operations	-	(829,817)	829,817
Balance at 30 June 2002	28,460	9,691,738	13,379,283
			The Company Profit and Loss Account £
Balance at 1 July 2001			(928,446)
Profit for the year			11,809,541
Balance at 30 June 2002			10,881,095

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

22. OPERATING LEASE COMMITMENTS

At 30 June 2002 the group was committed to making the following payments during the next year in respect of operating leases:

	2002 Other £	2001 Other £
Leases which expire:		
Between one and two years	12,122	-
Between two and five years	12,869	12,991
	<u>24,991</u>	<u>12,991</u>

23. CAPITAL COMMITMENTS

	2002 £	2001 £
Contracted for but not provided for	<u>280,979</u>	<u>495,000</u>

24. RELATED PARTY TRANSACTIONS

	2002 £	2001 £
At the year end, the directors had the following outstanding loans to the group:		
R Russell	-	119,000
D G Chappell	<u>50,600</u>	<u>-</u>
	<u>50,600</u>	<u>119,000</u>

25. PENSION SCHEMES

Defined Contribution Schemes

The assets of these schemes are held separately from those of the company 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 £218,896 (2001: £265,946). There were no outstanding contributions payable to or receivable from the fund at either the current or previous year end.

Defined Benefit Scheme

The company operates the Cheadle Royal Hospital Pension Fund, a funded defined benefit pension scheme. There is no charge for pension costs (2001: £nil) in the profit and loss account nor provision (2001: £nil) in the balance sheet as at 30 June 2002 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.

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

25. PENSION SCHEMES (Continued)

SSAP 24

A valuation was carried out by a qualified independent actuary at 31 March 2001 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	4.5% p.a.
Increase in:	
Salaries	4.4% p.a.
Present and future pensions	2.0% 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 £30.2m (152%).

The funding level does not allow for some changes to the Fund which had been proposed but not implemented at 30 June 2002.

FRS 17

The figures below have been based on the most recent revaluation of the Cheadle Royal Hospital Pension Fund as at 31 March 2001, the most recent year-end of the scheme, updated to 30 June 2002 by an independent qualified actuary. The assets in the scheme and the expected rate of return were:

Asset	Long term rate of return expected at		Value at	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
Equities	n/a	n/a	Nil	Nil
Bonds	4.9%	5.0%	£28.1m	£27.0m
Other	4.9%	5.9%	£2.4m	£2.4m

The liabilities of the scheme at 30 June 2002 were calculated on the following bases as required under FRS 17:

Assumptions	30 June 2002	30 June 2001
Discount rate	5.9%	6.2%
Rate of increase in salaries	4.6%	4.6%
Rate of increase in pensions in payment	2.6%	2.6%
Inflation assumption	2.6%	2.6%

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

25. PENSION SCHEMES (continued)

The balance sheet position for the company's schemes as calculated under FRS 17 at 30 June 2002 was as follows:

	30 June 2002	30 June 2001
Fair value of assets	£30.5m	£29.4m
Present value of scheme liabilities	(£18.0m)	(£19.3m)
Surplus in the scheme	£12.5m	£10.1m
Unrecognised surplus in the scheme	(£8.8m)	(£5.0m)
Related deferred tax liability	£3.7m (£1.1m)	£5.1m (£1.5m)
Net pension asset	<u>£2.6m</u>	<u>£3.6m</u>

Full implementation of FRS17 would increase net assets by £2.6m (2001: £3.6m).

Amount that would be charged to profit and loss account:

	2002 £
Expected return on pension scheme assets	£1.3m
Interest on pension liabilities	(£1.2m)
Net return	£0.1m
Current service cost	(£0.1m)
Net pension cost	<u>-</u>

The Scheme has been closed to new entrants since 1994. As a result, the service cost is expected to rise.

Amount that would be recognised in the statement of total recognised gains and losses:

	2002 £
Actual return less expected return on pension scheme assets	£0.5m
Experience gains on liabilities	£2.9m
Changes in assumptions	(£1.0m)
Adjustment due to surplus cap	£2.4m (£3.8m)
Net loss recognised	<u>(£1.4m)</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

25. PENSION SCHEMES (continued)

Movements in pension scheme surpluses during the year:

	2002 £
Surplus in scheme at beginning of year	£5.1m
Movement in year:	
Current scheme costs	(£0.1m)
Net return on assets	£0.1m
Actuarial loss	(£1.4m)
Surplus in scheme at end of year	<u>£3.7m</u>

History of experience gains and losses:

	2002 £
Difference between expected and actual return of scheme assets:	£0.5m
Percentage of scheme assets	1.6%
Experience gains and losses on scheme liabilities	£2.9m
Percentage of scheme liabilities	16.1%
Total amount recognised in statement of total recognised gains and losses	(£1.4m)
Percentage of scheme liabilities	7.7%

26. SALE OF SUBSIDIARY UNDERTAKINGS

On 28 January 2002, the group disposed of Healthcare Scotland Management Limited, Albyn Hospital Limited and Fernbrae Hospital Limited.

	£
Tangible fixed assets	9,731,667
Investments	100,000
Goodwill (net)	515,223
Cash	1,303
Stock	193,652
Debtors	1,030,226
Creditors	(810,885)
Overdraft	(754,281)
Corporation tax	(162,252)
Loans and hire purchase agreements	(3,370,802)
Deferred tax	(380,040)
	<u>6,093,811</u>
Gain on disposal	<u>10,084,189</u>
Satisfied by:	<u>16,178,000</u>
Cash	<u>16,178,000</u>

The businesses sold during the year contributed £939,986 to the group's net operating cash flows, paid £159,888 in respect of net returns on investments and servicing of finance, paid £13,073 in respect of taxation, received £216,893 in relation to capital disposals, paid £2,150,000 in equity dividends and paid £142,299 in relation to financing.