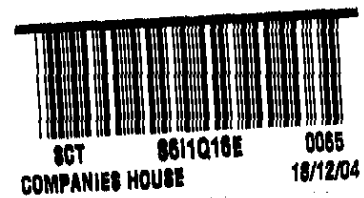


HEALTHCARE SCOTLAND LIMITED

Report and Financial Statements

30 June 2004



HEALTHCARE SCOTLAND LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

| CONTENTS | Page |
|---|-------------|
| Officers and professional advisers | 1 |
| Director's report | 2 |
| Statement of director's responsibilities | 3 |
| Independent auditors' report | 4 |
| Consolidated profit and loss account | 5 |
| <i>Consolidated statement of total recognised gains and losses</i> | 6 |
| Consolidated note of historical cost profit and losses | 6 |
| Consolidated balance sheet | 7 |
| Balance sheet | 8 |
| Consolidated cash flow statement | 9 |
| Notes to the consolidated cash flow statement | 10 |
| Notes to the accounts | 12 |

HEALTHCARE SCOTLAND LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTOR

R Russell

SECRETARY

S Russell

REGISTERED OFFICE

35 Albert Street
Aberdeen

SOLICITORS

Paull & Williamsons
Investment House
6 Union Row
Aberdeen

BANKERS

HSBC
5 Great Underbank
Stockport
Cheshire

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

AUDITORS

Deloitte & Touche LLP
Aberdeen

HEALTHCARE SCOTLAND LIMITED

DIRECTOR'S REPORT

The director presents his annual report and the audited financial statements for the year ended 30 June 2004.

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 £3,059,783 (2003: £2,278,917). The retained profit after tax, dividends and minority interests of £1,423,830 (2003: £1,470,076) has been transferred to reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

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

During the year, the group sold its investments in UK Private Healthcare Limited and Canadian Independent Healthcare Inc, giving rise to a loss of £56,697.

DIRECTORS

The membership of the board is set out on page 1. The beneficial interests of the directors in Healthcare Scotland Limited at 1 July 2003 and 30 June 2004 were as follows:

| | 30 June 2004 | Ordinary shares of £0.001 each 30 June 2003 |
|---------------------------------------|-----------------|--|
| D G Chappell (resigned 18 March 2004) | - | 75,001 |
| R Russell | 75,001 | 75,001 |

On 18 March 2004, R Russell resigned as secretary, and S Russell was appointed.

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.

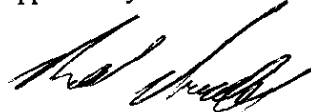
EMPLOYMENT OF DISABLED PERSONS

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 to reappoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the director on 16 December 2004.



Director

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

United Kingdom company law requires the director 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 director is 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 director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is 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 2004 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, the notes to the consolidated cash flow statement I to V, and the related notes 1 to 27. 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 director's responsibilities, the company's director is 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 director's 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 director's 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 director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the group and 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 2004 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 LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Aberdeen

Date: 16 December 2004

HEALTHCARE SCOTLAND LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2004

| | Note | 2004 £ | 2003 £ |
|---|------|-------------------------|-------------------------|
| TURNOVER - continuing operations | 2,3 | 22,807,801 | 19,015,301 |
| - discontinued operations | | <u>1,948,394</u> | <u>2,269,097</u> |
| TOTAL TURNOVER | | 24,756,195 | 21,284,398 |
| Cost of sales | | (14,993,822) | (14,003,498) |
| Gross profit | | 9,762,373 | 7,280,900 |
| Administrative expenses | | (6,606,661) | (6,569,735) |
| Exceptional item | 3 | <u>-</u> | <u>1,517,360</u> |
| OPERATING PROFIT | | | |
| - continuing operations | | 3,017,598 | 2,002,728 |
| - discontinued operations | | <u>138,114</u> | <u>225,797</u> |
| TOTAL OPERATING PROFIT | 3,7 | 3,155,712 | 2,228,525 |
| (Loss)/gain on sale of fixed assets | | (23,751) | 8,122 |
| Loss on sale of operations | | (56,697) | - |
| Investment income | | 3,601 | 54,755 |
| Interest receivable | 5 | 357,045 | 380,957 |
| Interest payable and similar charges | 6 | <u>(376,127)</u> | <u>(393,442)</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 3,059,783 | 2,278,917 |
| Tax on profit on ordinary activities | 8 | <u>(1,074,485)</u> | <u>(395,205)</u> |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 1,985,298 | 1,883,712 |
| Equity minority interests | 20 | <u>(461,468)</u> | <u>(413,636)</u> |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND MINORITY INTEREST | | 1,523,830 | 1,470,076 |
| Dividends paid and proposed | 9 | <u>(100,000)</u> | <u>-</u> |
| RETAINED PROFIT FOR THE FINANCIAL YEAR | 21 | <u><u>1,423,830</u></u> | <u><u>1,470,076</u></u> |

HEALTHCARE SCOTLAND LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 30 June 2004

| | 2004 £ | 2003 £ |
|---|------------------|------------------|
| Profit for financial year | 1,620,695 | 2,274,197 |
| Foreign exchange translation adjustment | - | 3,792 |
| Unrealised surplus/(deficit) on revaluation of property, net of minority interests | 1,069,633 | (629,162) |
| Total recognised gains and losses relating to the year | 2,690,328 | 1,648,827 |

CONSOLIDATED NOTE OF HISTORICAL PROFIT AND LOSSES Year ended 30 June 2004

| | 2004 £ | 2003 £ |
|--|------------------|------------------|
| Reported profit on ordinary activities before taxation | 3,059,783 | 2,278,917 |
| Realisation of property revaluation gains of previous years | 64,613 | - |
| Historical cost profit on ordinary activities before taxation | 3,124,396 | 2,298,917 |
| Historical cost profit on ordinary activities after taxation, minority interest and dividends | 1,488,443 | 1,470,076 |

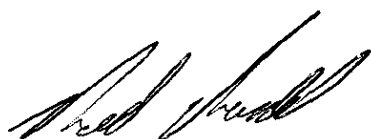
HEALTHCARE SCOTLAND LIMITED

CONSOLIDATED BALANCE SHEET

At 30 June 2004

| | Note | 2004 £ | 2003 £ |
|--|------|--------------------|--------------------|
| FIXED ASSETS | | | |
| Intangible assets - negative goodwill | 11 | (951,301) | (1,020,084) |
| - goodwill | 11 | 36,981 | 181,585 |
| | | <u>(914,320)</u> | <u>(838,499)</u> |
| Tangible assets | 12 | 28,698,588 | 26,527,665 |
| Investments | 13 | 130,747 | 130,023 |
| | | <u>27,915,015</u> | <u>25,819,189</u> |
| CURRENT ASSETS | | | |
| Stocks | 14 | 60,163 | 107,024 |
| Debtors | 15 | 3,716,617 | 2,689,275 |
| Cash at bank and in hand | | 10,278,710 | 8,821,670 |
| | | <u>14,055,490</u> | <u>11,617,969</u> |
| CREDITORS: amounts falling due within one year | 16 | <u>(4,894,097)</u> | <u>(4,292,182)</u> |
| NET CURRENT ASSETS | | <u>9,161,393</u> | <u>7,325,787</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 37,076,408 | 33,144,976 |
| CREDITORS: amounts falling due after more than one year | 18 | (4,765,448) | (4,126,096) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 19 | (339,166) | (338,825) |
| EQUITY MINORITY INTERESTS | 20 | <u>(5,533,994)</u> | <u>(4,735,718)</u> |
| NET ASSETS | | <u>26,437,800</u> | <u>23,944,337</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 22 | 150 | 150 |
| Profit and loss account | 23 | 16,370,054 | 14,849,359 |
| Revaluation reserve | 23 | 10,067,596 | 9,062,576 |
| Other reserve | 23 | - | 32,252 |
| EQUITY SHAREHOLDERS' FUNDS | 21 | <u>26,437,800</u> | <u>23,944,337</u> |

These financial statements were approved by the director on 16 December 2004.



Director

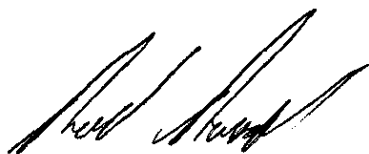
HEALTHCARE SCOTLAND LIMITED

BALANCE SHEET

At 30 June 2004

| | Note | 2004 £ | 2003 £ |
|---|------|--------------------------|--------------------------|
| FIXED ASSETS | | | |
| Tangible assets | 12 | 4,642 | 759,020 |
| Investments | 13 | 526,750 | 1,044,061 |
| | | <u>531,392</u> | <u>1,803,081</u> |
| CURRENT ASSETS | | | |
| Debtors | 15 | 2,634,844 | 2,719,223 |
| Cash | | 9,674,361 | 8,068,451 |
| | | <u>12,309,205</u> | <u>10,787,674</u> |
| CREDITORS: amounts falling due within one year | 16 | <u>(1,987,330)</u> | <u>(1,457,874)</u> |
| NET CURRENT ASSETS | | <u>10,321,875</u> | <u>9,329,800</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 10,853,267 | 11,132,881 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 19 | <u>-</u> | <u>(404)</u> |
| NET ASSETS | | <u><u>10,853,267</u></u> | <u><u>11,132,477</u></u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 22 | 150 | 150 |
| Profit and loss account | 23 | <u>10,853,117</u> | <u>11,132,327</u> |
| EQUITY SHAREHOLDERS' FUNDS | | <u><u>10,853,267</u></u> | <u><u>11,132,477</u></u> |

These financial statements were approved by the director on 16 December 2004



Director

HEALTHCARE SCOTLAND LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2004

| | Note | 2004 £ | 2003 £ |
|---|------|-------------|-------------|
| Net cash inflow from operating activities | I | 3,804,639 | 3,455,866 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 357,045 | 380,957 |
| Interest paid | | (376,127) | (393,442) |
| Investment income | | 3,601 | 54,755 |
| Net cash (outflow)/inflow from returns on investments and servicing of finance | | (15,481) | 42,270 |
| Taxation | | | |
| UK corporation tax paid | | (514,244) | (338,252) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (3,010,870) | (1,639,944) |
| Disposal of tangible fixed assets | | 730,000 | 90,622 |
| Purchase of investments | | (724) | (103,356) |
| Disposal of investments | | 921 | 15,568 |
| Net cash outflow from capital expenditure and financial investment | | (2,280,673) | (1,637,110) |
| Acquisitions and disposals | | | |
| Sale of subsidiary undertakings - | | | |
| Cash consideration | | 725,000 | - |
| Cash at bank | | (145,352) | - |
| Increase in shareholding in subsidiary from minority interests | | (50,250) | (2,738,424) |
| | | 529,398 | (2,738,424) |
| Equity dividends paid | | | |
| Dividends paid | | (100,000) | (804,121) |
| Net cash inflow/(outflow) before financing | | 1,423,639 | (2,019,771) |
| Financing | | | |
| Loan repayments | | (1,403,918) | (1,107,438) |
| New borrowings | | 2,271,000 | 1,570,000 |
| Net cash inflow from financing | | 867,082 | 462,562 |
| Increase/(decrease) in cash in the year | III | 2,290,721 | (1,557,209) |

NOTES TO THE CASH FLOW STATEMENT

Year ended 30 June 2004

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

| | 2004 | 2003 |
|---|------------------|------------------|
| | £ | £ |
| Operating profit | 3,155,712 | 2,228,525 |
| Depreciation | 881,679 | 796,313 |
| Write down on foreign exchange | 42,288 | (19,934) |
| Goodwill amortisation | (51,221) | (51,145) |
| Write down of investments | - | (13,917) |
| Increase/(decrease) in stocks | 10,817 | (54,985) |
| (Decrease)/increase in debtors | (636,402) | 169,397 |
| Decrease in creditors | 401,766 | 401,612 |
| | <u>3,804,639</u> | <u>3,455,866</u> |
| Net cash inflow from operating activities | <u>3,804,639</u> | <u>3,455,866</u> |

II. ANALYSIS OF CHANGES IN NET FUNDS

| | At 1 July 2003 £ | Cashflow £ | Non-Cash Movements £ | At 30 June 2004 £ |
|----------------------------------|-------------------------------------|-----------------------|-------------------------------------|--------------------------------------|
| Cash at bank and in hand | 8,821,670 | 1,457,040 | - | 10,278,710 |
| Bank overdraft | (833,681) | 833,681 | - | - |
| | | <u>2,290,721</u> | | |
| Bank loans – due within one year | (1,358,398) | (1,358,398) | 1,130,668 | (1,586,128) |
| Bank loans – due after one year | (4,126,096) | 491,316 | (1,130,668) | (4,765,448) |
| | <u>2,503,495</u> | <u>1,423,639</u> | <u>-</u> | <u>3,927,134</u> |

NOTES TO THE CASH FLOW STATEMENT

Year ended 30 June 2004

III. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

| | 2004 | 2003 |
|--|-------------------------|-------------------------|
| | £ | £ |
| Increase/(decrease) in cash in the year | 2,290,721 | (1,557,209) |
| Cash inflow from increase in debt | (2,271,000) | (1,570,000) |
| Loan repayments | 1,403,918 | 1,107,438 |
| | <u>1,423,639</u> | <u>(2,019,771)</u> |
| Change in net funds resulting from cash flow | | |
| | <u>1,423,639</u> | <u>(2,019,771)</u> |
| Net funds at 1 July | 2,503,495 | 4,523,266 |
| | <u>2,503,495</u> | <u>4,523,266</u> |
| Net funds at 30 June | 3,927,134 | 2,503,495 |
| | <u><u>3,927,134</u></u> | <u><u>2,503,495</u></u> |

IV. SALE OF SUBSIDIARY UNDERTAKINGS

| | 2004 | 2003 |
|-------------------------|-----------------------|-----------------|
| | £ | £ |
| Intangible fixed assets | 129,439 | - |
| Tangible fixed assets | 615,602 | - |
| Stocks | 36,044 | - |
| Debtors | 637,935 | - |
| Cash at bank | 145,352 | - |
| Creditors | (782,073) | - |
| Provisions | (602) | - |
| | <u>781,697</u> | <u>-</u> |
| Net assets | 781,697 | - |
| Loss on disposal | (56,697) | - |
| | <u>725,000</u> | <u>-</u> |
| Sale proceeds | 725,000 | - |
| | <u><u>725,000</u></u> | <u><u>-</u></u> |
| Satisfied by: | | |
| Cash | 725,000 | - |
| | <u><u>725,000</u></u> | <u><u>-</u></u> |

- V. Subsidiary undertakings disposed of in the year contributed £274,154 to the group's net operating cashflows, paid £1,486 in respect of net returns on investment and servicing of finance and utilised £94,457 for capital expenditure.

NOTES TO THE ACCOUNTS
Year ended 30 June 2004

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 certain tangible 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 2004.

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

Freehold and heritable property is revalued on an annual basis, inclusive of operational goodwill.

No depreciation is provided on freehold land. Also no depreciation is charged on freehold and heritable buildings because any charge would be immaterial based on the estimated remaining useful lives of these assets.

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 and fittings – over 7 years

Investment properties are valued on the basis of open market value. Surpluses and deficits on revaluation are taken to the revaluation reserve.

The Companies Act 1985 requires all fixed assets to be depreciated. However, in order to present a true and fair view, investment properties have not been depreciated as they are held for investment rather than consumption and the directors consider the systematic annual depreciation would be inappropriate. This treatment is in accordance with Statement of Standard Accounting Practice 19, as amended.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

1. ACCOUNTING POLICIES (continued)

Investments

Investments in subsidiary undertakings held as fixed assets are stated at cost less provision for any impairment. Other investments held as fixed assets are stated at market value.

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.

Taxation

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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

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.

Pension costs

The group operates both defined benefit and defined contribution schemes. Defined contribution pension costs are charged to the profit and loss account as they become payable by the group. The expected cost of providing defined benefit scheme pensions and other post retirement benefits, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account so as to spread the cost over the service lives of employees in the schemes operated within the group in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

Leases

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 substantially arises from work done in the United Kingdom.

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

3. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

| | 2004 Continuing £ | 2004 Dis- continued £ | 2004 Total £ | 2003 Continuing £ | 2003 Dis- continued £ | 2003 Total £ |
|---|-------------------------|--------------------------------|--------------------|-------------------------|--------------------------------|--------------------|
| Turnover | 22,807,801 | 1,948,394 | 24,756,195 | 19,015,301 | 2,269,097 | 21,284,398 |
| Cost of sales | (13,445,158) | (1,548,664) | (14,993,822) | (12,196,669) | (1,806,829) | (14,003,498) |
| Gross profit | 9,362,643 | 399,730 | 9,762,373 | 6,818,632 | 462,268 | 7,280,900 |
| Administrative expenses | (6,345,045) | (261,616) | (6,606,661) | (6,333,264) | (236,471) | (6,569,735) |
| Exceptional item – pension scheme refund | - | - | - | 1,517,360 | - | 1,517,360 |
| Operating profit | 3,017,598 | 138,114 | 3,155,712 | 2,002,728 | 225,797 | 2,228,525 |

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

| | 2004 £ | 2003 £ |
|---|-----------|-----------|
| Directors' emoluments (excluding pension contributions) | - | - |

| | 2004 £ | 2003 £ |
|---------------------------------|------------|------------|
| Employee costs during the year: | | |
| Wages and salaries | 13,921,670 | 12,358,327 |
| Social security costs | 1,226,283 | 946,294 |
| Other pension costs | 330,154 | 229,281 |
| | 15,478,107 | 13,533,902 |

| | No | No |
|-------------------------------------|-----|-----|
| Average number of persons employed: | | |
| Administrative | 88 | 100 |
| Professional | 393 | 387 |
| Technical and support | 192 | 204 |
| | 673 | 691 |

5. INTEREST RECEIVABLE

| | 2004 £ | 2003 £ |
|---------------|-----------|-----------|
| Bank interest | 357,045 | 380,957 |

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2004 £ | 2003 £ |
|---------------------------|----------------|----------------|
| Bank loans and overdrafts | <u>376,127</u> | <u>393,442</u> |

7. OPERATING PROFIT

| | 2004 £ | 2003 £ |
|--|-----------|---------------|
| Operating profit is after charging/(crediting): | | |
| Depreciation - owned assets | 881,679 | 796,313 |
| Auditors' remuneration: | | |
| - audit fees | 50,053 | 36,574 |
| - non-audit fees | 152,364 | 143,878 |
| Rentals under operating lease – hire of plant and machinery | 37,146 | - |
| Goodwill amortisation | 12,023 | 12,098 |
| Negative goodwill amortisation | (63,244) | (63,243) |
| Write down of investments | <u>-</u> | <u>13,929</u> |

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 2004 £ | 2003 £ |
|--|------------------|-----------------|
| Current taxation | | |
| UK corporation tax at standard rate | 1,124,419 | 311,649 |
| Adjustments in respect of prior periods | <u>(50,877)</u> | <u>(97,499)</u> |
| | 1,073,542 | 214,150 |
| Deferred taxation | | |
| Origination and reversal of timing differences | (30,216) | 93,698 |
| Adjustments to the estimated recoverable amounts of deferred tax assets arising in prior period | 8,370 | (91,465) |
| Adjustments in respect of prior periods | <u>22,789</u> | <u>178,822</u> |
| Tax on profit on ordinary activities | <u>1,074,485</u> | <u>395,205</u> |

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 and the previous year is lower than the standard rate for the reasons set out in the following reconciliation:

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

| | 2004 £ | 2003 £ |
|--|------------------|----------------|
| Profit on ordinary activities before tax | 3,059,783 | 2,278,917 |
| Tax on profit on ordinary activities at standard rate | 917,934 | 683,675 |
| Factors affecting charge for the year: | | |
| Capital allowances in excess of depreciation | (28,301) | (74,233) |
| Other timing differences | 39,630 | 7,071 |
| Expenses not deductible for tax purposes | 105,736 | 189,354 |
| Refunded surplus on pension scheme | - | (455,208) |
| Prior period adjustments | (50,877) | (97,499) |
| Chargeable (gains)/ losses exempted by substantial shareholdings relief | 43,885 | - |
| Rate differences | (3,300) | - |
| Utilisation of tax losses | 18,835 | (39,010) |
| Dividends paid | 30,000 | - |
| Total actual amount of current tax | <u>1,073,542</u> | <u>214,150</u> |

9. DIVIDENDS PAID AND PROPOSED

| | 2004 £ | 2003 £ |
|---|----------------|-----------|
| Equity dividends paid £0.67 per share (2003: £nil) | <u>100,000</u> | <u>-</u> |

10. PROFIT 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 £279,210 (2003: profit £251,232).

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

11. INTANGIBLE FIXED ASSETS

| The Group | Negative goodwill £ | Goodwill £ | Total £ |
|--|--------------------------------|-----------------------|--------------------|
| Cost | | | |
| At 1 July 2003 | (1,264,873) | 238,493 | (1,026,380) |
| On increasing shareholding in subsidiary | - | 2,397 | 2,397 |
| Disposal of subsidiary undertakings | 12,361 | (180,652) | (168,291) |
| | <u>(1,252,512)</u> | <u>60,238</u> | <u>(1,192,274)</u> |
| At 30 June 2004 | (1,252,512) | 60,238 | (1,192,274) |
| Accumulated amortisation | | | |
| At 1 July 2003 | (244,789) | 56,908 | (187,881) |
| Charge for year | (63,244) | 12,023 | (51,221) |
| Disposal of subsidiary undertakings | 6,822 | (45,674) | (38,852) |
| | <u>(301,211)</u> | <u>23,257</u> | <u>(277,954)</u> |
| At 30 June 2004 | (301,211) | 23,257 | (277,954) |
| Net book value | | | |
| At 30 June 2004 | <u>(951,301)</u> | <u>36,981</u> | <u>(914,320)</u> |
| At 30 June 2003 | <u>(1,020,084)</u> | <u>181,585</u> | <u>(838,499)</u> |

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

12. TANGIBLE FIXED ASSETS

| | Investment properties £ | Heritable properties £ | Fixtures & fittings £ | Total £ |
|--|-------------------------------|------------------------------|-----------------------------|-------------|
| The Group | | | | |
| Cost or valuation | | | | |
| At 1 July 2003 | 449,672 | 22,140,267 | 6,038,873 | 28,628,812 |
| Foreign exchange differences on opening costs | - | (25,528) | (36,305) | (61,833) |
| Additions | - | 2,175,586 | 835,284 | 3,010,870 |
| Foreign exchange differences on additions | - | - | (1,733) | (1,733) |
| Adjustments arising on revaluation during the year | - | 1,454,294 | - | 1,454,294 |
| Disposals | (449,672) | (607,283) | (463,930) | (1,520,885) |
| At 30 June 2004 | - | 25,137,336 | 6,372,189 | 31,509,525 |
| Accumulated depreciation | | | | |
| At 1 July 2003 | - | 11,694 | 2,089,453 | 2,101,147 |
| Foreign exchange differences on opening balance | - | - | (8,716) | (8,716) |
| Foreign exchange differences on depreciation charge | - | - | (1,657) | (1,657) |
| Charge for the year | - | - | 881,679 | 881,679 |
| Disposals | - | - | (161,516) | (161,516) |
| At 30 June 2004 | - | 11,694 | 2,799,243 | 2,810,937 |
| Net book value | | | | |
| At 30 June 2004 | - | 25,125,642 | 3,572,946 | 28,698,588 |
| At 30 June 2003 | 449,672 | 22,128,573 | 3,949,420 | 26,527,665 |
| Comparable amounts determined according to the historical cost convention: | | | | |
| | £ | £ | £ | £ |
| Cost | - | 9,151,213 | 6,372,189 | 15,523,402 |
| Accumulated depreciation | - | 11,694 | 2,799,243 | 2,810,937 |
| Net book value | | | | |
| At 30 June 2004 | - | 9,139,519 | 3,572,946 | 12,712,465 |
| At 30 June 2003 | 449,672 | 7,511,216 | 3,935,832 | 11,896,720 |

The directors consider that the cost of the investments property reflects the open market value at 30 June 2003, and at the date of disposal.

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

Cheadle Royal Hospital and Middleton St George Hospital were revalued having regard to their trading potential as operational entities inclusive of freehold land and business goodwill as at 30 June 2004 by Weatherall, Green and Smith (North) Limited t/a Sanderson Weatherall, Chartered Surveyors. The residual book value of goodwill has consequently been reclassified within the valuation of the operational entity in accordance with Financial Reporting Standard 15.

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

12. TANGIBLE FIXED ASSETS (Continued)

| | Investment Properties £ | Heritable properties £ | Fixtures & fittings £ | Total £ |
|---------------------------------|-------------------------------|------------------------------|-----------------------------|------------|
| The Company | | | | |
| Cost or valuation | | | | |
| At 1 July 2003 | 449,672 | 305,000 | 5,336 | 760,008 |
| Additions | - | - | 1,199 | 1,199 |
| Disposals | (449,672) | (305,000) | - | (754,672) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2004 | - | - | 6,535 | 6,535 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Accumulated depreciation | | | | |
| At 1 July 2003 | - | - | 988 | 988 |
| Charge for the year | - | - | 905 | 905 |
| On disposals | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2004 | - | - | 1,893 | 1,893 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 30 June 2004 | - | - | 4,642 | 4,642 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 June 2003 | 449,672 | 305,000 | 4,348 | 759,020 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS Year ended 30 June 2004

13. INVESTMENTS

The Group

| | Other investments £ |
|---------------------------------|------------------------|
| Cost | |
| At 1 July 2003 | 153,856 |
| Additions | 724 |
| | <hr/> |
| At 30 June 2004 | 154,580 |
| | <hr/> |
| Provisions | |
| At 1 July 2003 and 30 June 2004 | (23,833) |
| | <hr/> |
| Net book value | |
| At 30 June 2004 | 130,747 |
| | <hr/> |
| At 30 June 2003 | 130,023 |
| | <hr/> |

| The Company | Other investments £ | Shares in subsidiary undertakings £ | Total £ |
|---------------------------------|------------------------|--|------------|
| Cost | | | |
| At 1 July 2003 | 153,856 | 914,038 | 1,067,894 |
| Additions | 724 | 3,245 | 3,969 |
| Disposals | - | (521,280) | (521,280) |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2004 | 154,580 | 396,003 | 550,583 |
| | <hr/> | <hr/> | <hr/> |
| Provisions | | | |
| At 1 July 2003 and 30 June 2004 | (23,833) | - | (23,833) |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 30 June 2004 | 130,747 | 396,003 | 526,750 |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2003 | 130,023 | 914,038 | 1,044,061 |
| | <hr/> | <hr/> | <hr/> |

Other investments represent investments in quoted companies.

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

13. INVESTMENTS (Continued)

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

| Subsidiary undertakings | Country of incorporation | Shares owned | % |
|--|--------------------------|--------------|-------|
| Healthcare England Limited | Scotland | Ordinary | 100 |
| Healthcare England Limited has the following subsidiaries: | | | |
| Affinity Healthcare Limited | England | Ordinary | 73.55 |
| 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 |

14. STOCKS

| | The Group 2004 £ | The Company 2004 £ | The Group 2003 £ | The Company 2003 £ |
|-------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Raw materials and consumables | 60,163 | - | 107,024 | - |

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | The Group 2004 £ | The Company 2004 £ | The Group 2003 £ | The Company 2003 £ |
|---|------------------------|--------------------------|------------------------|--------------------------|
| Trade debtors | 2,846,015 | - | 2,317,843 | - |
| Amounts owed by subsidiary companies | - | 2,000,000 | - | 2,645,505 |
| Amounts owed by related parties (note 26) | 641,902 | 629,844 | - | - |
| Corporation tax | 20,351 | - | - | - |
| Other debtors | 63,609 | - | 255,941 | 70,614 |
| Prepayments and accrued income | 144,740 | 5,000 | 115,491 | 3,104 |
| | <u>3,716,617</u> | <u>2,634,844</u> | <u>2,689,275</u> | <u>2,719,223</u> |

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | The Group 2004 £ | The Company 2004 £ | The Group 2003 £ | The Company 2003 £ |
|---|---------------------------|-----------------------------|---------------------------|-----------------------------|
| Bank overdraft (note 18) | - | - | 833,681 | - |
| Bank loans (note 18) | 1,586,128 | - | 1,358,398 | - |
| Trade creditors | 847,855 | - | 727,349 | - |
| Amount owed to subsidiary companies | - | 1,537,649 | - | 1,297,898 |
| Amounts due to related parties (note 26) | 353,717 | 353,717 | - | - |
| Group relief | - | 1,076 | - | - |
| Corporation tax | 624,619 | 71,588 | 98,879 | 80,987 |
| Other creditors including taxation and social security (note 17) | 542,994 | 3,025 | 660,542 | 46,122 |
| Accruals and deferred income | 938,784 | 20,275 | 613,333 | 32,867 |
| | <u>4,894,097</u> | <u>1,987,330</u> | <u>4,292,182</u> | <u>1,457,874</u> |

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

| | The Group 2004 £ | The Company 2004 £ | The Group 2003 £ | The Company 2003 £ |
|------------------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
| This heading includes: | | | | |
| Taxation and social security | 427,237 | - | 418,773 | 5,463 |
| Directors' loan accounts (note 26) | <u>3,025</u> | <u>3,025</u> | <u>40,658</u> | <u>40,658</u> |

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

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

18. BORROWINGS

| | Loans 2004 £ | Total 2004 £ |
|------------------------|--|-----------------------------|
| The Group | | |
| Due within 1 year | 1,586,128 | 1,586,128 |
| Due within 1 - 2 years | 933,472 | 933,472 |
| Due within 2 - 5 years | 1,631,817 | 1,631,817 |
| Due after 5 years | 2,200,159 | 2,200,159 |
| | <u>4,765,448</u> | <u>4,765,448</u> |
| Total | <u>6,351,576</u> | <u>6,351,576</u> |
| | Bank overdraft 2003 £ | Loans 2003 £ |
| The Group | | Total 2003 £ |
| Due within 1 year | 833,681 | 1,358,398 |
| Due within 1 - 2 years | - | 1,296,731 |
| Due within 2 - 5 years | - | 1,891,301 |
| Due after 5 years | - | 938,064 |
| | <u>-</u> | <u>4,126,096</u> |
| Total | <u>833,681</u> | <u>5,484,494</u> |

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% per annum 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 1 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.

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

19. PROVISION FOR LIABILITIES AND CHARGES

| | Group £ | Company £ |
|----------------------|----------------|--------------|
| Deferred tax | | |
| At 1 July 2003 | 338,825 | 404 |
| Charge for the year | 943 | (404) |
| Sold with subsidiary | (602) | - |
| | <u>339,166</u> | <u>-</u> |
| At 30 June 2004 | <u>339,166</u> | <u>-</u> |

Provision for deferred taxation consists of the following amounts:

| | Group 2004 £ | Company 2004 £ | Group 2003 £ | Company 2003 £ |
|--|--------------------|----------------------|--------------------|----------------------|
| Capital allowances in excess of depreciation | 381,337 | 448 | 330,710 | 404 |
| Other | (42,171) | (448) | 8,115 | - |
| | <u>339,166</u> | <u>-</u> | <u>338,825</u> | <u>404</u> |

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 £5,575,381 (2003: £5,372,323).

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

20. EQUITY MINORITY INTEREST

| | £ |
|---|------------------|
| At 1 July 2003 | 4,735,718 |
| Profit on ordinary activities after taxation | 461,468 |
| Revaluation of subsidiary undertakings' tangible fixed assets | 384,661 |
| Additional acquisition in subsidiary undertaking | (47,853) |
| At 30 June 2004 | <u>5,533,994</u> |

21. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

| | 2004 £ | 2003 £ |
|--|-------------------|-------------------|
| Profit for the financial year | 1,620,695 | 1,470,076 |
| Dividends | (100,000) | - |
| Other recognised gains and losses relating to the year | <u>972,768</u> | <u>(625,370)</u> |
| Net addition to shareholders' funds | 2,493,463 | 844,706 |
| Opening shareholders' funds | <u>23,944,337</u> | <u>23,099,631</u> |
| Closing shareholders' funds | <u>26,437,800</u> | <u>23,944,337</u> |

22. CALLED UP SHARE CAPITAL

| | No. | 2004 £ | No. | 2003 £ |
|---|----------------|------------|----------------|------------|
| 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 2004

23. RESERVES

| The Group | Other reserve £ | Revaluation reserve £ | Profit and loss account £ |
|---|-----------------------|-----------------------------|------------------------------------|
| At 1 July 2003 | 32,252 | 9,062,576 | 14,849,359 |
| Profit for the year | - | - | 1,985,298 |
| Adjustment arising upon revaluation in year | - | 1,454,294 | - |
| Minority interest | - | (384,661) | (461,468) |
| Disposal of subsidiary | (32,252) | (64,613) | 96,865 |
| Dividends | - | - | (100,000) |
| | <hr/> | <hr/> | <hr/> |
| At 30 June 2004 | - | 10,067,596 | 16,370,054 |
| | <hr/> | <hr/> | <hr/> |
| The Company | | | Profit and loss account £ |
| Balance at 1 July 2003 | | | 11,132,327 |
| Loss for the year | | | (279,210) |
| | | | <hr/> |
| Balance at 30 June 2004 | | | 10,853,117 |
| | | | <hr/> |

24. OPERATING LEASE COMMITMENTS

At 30 June 2004 the group was committed to making the following payments during the next year in respect of operating leases:

| | 2004 Other £ | 2003 Other £ |
|-----------------------------|--------------------|--------------------|
| Leases which expire: | | |
| Within one year | 10,837 | - |
| Between one and two years | 12,943 | 6,010 |
| Between two and five years | 9,180 | - |
| | <hr/> | <hr/> |
| | 32,960 | 6,010 |
| | <hr/> | <hr/> |

25. CAPITAL COMMITMENTS

| | 2004 £ | 2003 £ |
|-------------------------------------|-----------|-----------|
| Contracted for but not provided for | 1,437,872 | - |
| | <hr/> | <hr/> |

HEALTHCARE SCOTLAND LIMITED

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

26. RELATED PARTY TRANSACTIONS

| | 2004 £ | 2003 £ |
|--|--------------|---------------|
| At the year end, the directors had the following outstanding loans to the group: | | |
| R Russell | 3,025 | 21,932 |
| D G Chappell (resigned 18 March 2004) | - | 18,726 |
| | <u>3,025</u> | <u>40,658</u> |

Interest is charged on amount due from the directors at the UK base rate plus 1%. The maximum balance due from the directors during the year was £4,286,975. During the year, the directors borrowed various amounts from the company. On 30 June 2004, the group sold its investments in UK Private Healthcare Limited and Canadian Independent Healthcare Inc to R Russell and D G Chappell for a total consideration of £725,000. The company sold a property to R Russell and D G Chappell for a consideration of £305,000. All borrowings are amounts due on the sale of UK Private Healthcare Limited and Canadian Independent Healthcare Inc were repaid by 30 June 2004.

| | Group £ | Company £ |
|---|----------------|----------------|
| Amounts due from Canadian Independent Healthcare Inc | 320,811 | 320,811 |
| Amounts due from Delbrook Surgical Centre Inc (subsidiary of Canadian Independent Healthcare Inc) | 309,033 | 309,033 |
| Amounts due from UK Private Healthcare Limited | 12,058 | - |
| | <u>641,902</u> | <u>629,844</u> |
| Amounts due to UK Private Healthcare Limited | <u>353,717</u> | <u>353,717</u> |

Amounts due from / to related parties arose from the provision of various services between the companies when they were part of the Healthcare Scotland group.

27. PENSION SCHEMES

Defined Contribution Schemes

The assets of these schemes are held separately from those of the group and 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 £330,154 (2003: £229,281). There were outstanding contributions payable of £52,130 (2003: £46,991) to the fund at the year end.

Defined Benefit Scheme

The group operates the Cheadle Royal Hospital Pension Fund, a funded defined benefit pension scheme. Owing to the existence of significant surplus in the scheme, there is no pension cost for the period (2003: £nil). As no contributions were paid and payable during the period, there is no provision or prepayment (2003: £nil).

The group 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 2004

27. 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. |
| Increases in salaries | 4.4% p.a. |
| Increases in present and future pensions | 1.95% 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 (122%).

The funding level allows for changes to the Fund which were implemented at 1 November 2002. These changes were:

- All benefits for all members were increased by 10%. The increase for members who were pensioners at 1 November was back dated to 1 September 2001.
- A refund of surplus paid to the employer of £2,411,900: the amount received net of tax was £1,517,360.
- A three year contribution holiday for members starting with effect from 1 November 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 2004 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 2004 | 30 June 2003 | 30 June 2002 | 30 June 2004 | 30 June 2003 | 30 June 2002 |
| Equities | n/a | n/a | n/a | Nil | Nil | Nil |
| Bonds | 4.8% | 4.5% | 4.9% | £29.4m | £29.7m | £28.1m |
| Other | 4.8% | 4.5% | 4.9% | Nil | Nil | £2.4m |

The liabilities of the scheme at 30 June 2004 were calculated on the following bases as required under FRS 17:

| Assumptions | 30 June 2004 | 30 June 2003 | 30 June 2002 |
|---|-----------------|-----------------|-----------------|
| Discount rate | 5.7% | 5.0% | 5.9% |
| Rate of increase in salaries | 4.9% | 4.6% | 4.6% |
| Rate of increase in pensions in payment | 2.9% | 2.6% | 2.6% |
| Inflation assumption | 2.9% | 2.6% | 2.6% |

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

27. PENSION SCHEMES (Continued)

The balance sheet position for the company's schemes as calculated under FRS 17 at 30 June 2004 was as follows:

| | 30 June 2004 £m | 30 June 2003 £m |
|-------------------------------------|-----------------------|-----------------------|
| Fair value of assets | 29.4 | 29.7 |
| Present value of scheme liabilities | (21.7) | (23.2) |
| | <u>7.7</u> | <u>6.5</u> |
| Surplus in the scheme | 7.7 | 6.5 |
| Unrecognised surplus in the scheme | (5.2) | (4.2) |
| | <u>2.5</u> | <u>2.3</u> |
| Related deferred tax liability | (0.7) | (0.7) |
| | <u>1.8</u> | <u>1.6</u> |
| Net pension asset | <u>1.8</u> | <u>1.6</u> |

Full implementation of FRS17 would increase net assets by £1.8m (2003: £1.6m).

Amount that would be charged to profit and loss account:

| | 2004 £m | 2003 £m |
|--|--------------|------------|
| Expected return on pension scheme assets | 1.3 | 1.0 |
| Interest on pension liabilities | (1.1) | (0.8) |
| Other finance income | - | 2.4 |
| | <u>0.2</u> | <u>2.6</u> |
| Net return | 0.2 | 2.6 |
| Current service cost | (0.3) | (0.2) |
| | <u>(0.1)</u> | <u>2.4</u> |
| Net pension cost | <u>(0.1)</u> | <u>2.4</u> |

The Scheme has been closed to new entrants since 1994.

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

| | 2004 £m | 2003 £m |
|---|------------|--------------|
| Actual return less expected return on pension scheme assets | (0.8) | 1.6 |
| Experience gains on liabilities | 0.8 | (0.3) |
| Changes in assumptions | 1.3 | (2.9) |
| | <u>1.3</u> | <u>(1.6)</u> |
| Adjustment due to surplus cap | (1.0) | 0.2 |
| | <u>0.3</u> | <u>(1.4)</u> |
| Net gain/(loss) recognised | <u>0.3</u> | <u>(1.4)</u> |

NOTES TO THE ACCOUNTS

Year ended 30 June 2004

27. PENSION SCHEMES (Continued)

Movements in pension scheme surpluses during the year:

| | 2004 £m | 2003 £m |
|---|------------|------------|
| Surplus in scheme at beginning of year | 2.3 | 3.7 |
| Movement in year: | | |
| Current scheme costs | (0.3) | (0.2) |
| Other finance income | 0.2 | 0.2 |
| Actuarial gain/(loss) including effect of surplus cap | 0.3 | (1.4) |
| Surplus in scheme at end of year | <u>2.5</u> | <u>2.3</u> |

History of experience gains and losses:

| | 2004 £m | 2003 £m | 2002 £m |
|--|------------|------------|------------|
| Difference between expected and actual return of scheme assets | (0.8) | 1.6 | 0.5 |
| Percentage of scheme assets | 3% | 6% | 1.6% |
| Experience gains and losses on scheme liabilities | 0.8 | (0.3) | 2.9 |
| Percentage of scheme liabilities | 4% | (1%) | 16.1% |
| Total amount recognised in statement of total recognised gains and losses | 0.3 | (1.4) | (4.4) |
| Percentage of scheme liabilities | 1% | (6%) | (7.7%) |