Cygnet Health Care Limited

Directors' report and financial statements

Registered number 2141256

31 October 2005

Contents

Directors and advisers

Directors	K A R Wilson J C Hughes
Secretary	R C Dinham
Company number	2141256
Registered office	Godden Green Clinic, Godden Green Sevenoaks Kent TN15 0JR
Registered auditors	KPMG LLP Plym House 3 Longbridge Road Marsh Mills Plymouth PL6 8LT
Bankers	Royal Bank of Scotland 280 Bishopsgate London EC2M 4RB
Solicitors	Lawrence Graham 190 Strand London WC2R 1JN Rangeley & Co 86 Tydeman Street, Gorse Hill Swindon Wiltshire SN2 8AU

Directors' report

The directors present their report and financial statements for the year ended 31 October 2005.

Principal activities and review of business

The principal activity of the company continued to be that of developing and operating psychiatric and elderly health care facilities. The company is a wholly owned subsidiary of Cygnet 2002 Limited.

Results and dividends

The results for the year are set out on page 6.

During the year the company declared and paid ordinary dividends of £3,700,000 *(2004: £3,250,000)* to its parent company.

Directors

The following directors have held office since 1 November 2004:

K A R Wilson
J C Hughes

Directors' interests

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. The directors' interests in Cygnet 2002 Limited, the ultimate parent company, are noted in the accounts of the company.

Employee involvement

The company's policy is to encourage active involvement of employees in the management of its facilities and in matters affecting employees' interests. Each facility has a staff relations committee. The elected chairperson of the staff relations committee attends the quarterly board meetings at their facility and serves as a conduit for interaction between the board and employees. The staff relations committee also takes an active role in quality assurance and the accreditation process which all the company's facilities embrace.

Cygnet 2002 Limited, the ultimate parent company, has established an Inland Revenue Approved Share Incentive Plan ("SIP") under which group employees can buy shares in the company out of pre-tax income and receive an equal number of free "matching" shares. In conjunction with the SIP, the executive directors have undertaken to produce and circulate to SIP subscribers semi-annual reports on the performance of the company.

A separate Inland Revenue approved share option scheme has been established for managers.

Disabled persons

The group continues to give full and fair consideration to applications from disabled persons. If an employee becomes disabled the company endeavours to continue their employment if this is practical and in appropriate cases training is given.

Creditor payment policy

It is the company's policy to pay approved liabilities to creditors promptly and within agreed terms.

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

R C Dinham
Secretary

19 January 2006

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 company and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP
Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom

Independent auditors' report to the members of Cygnet Health Care Limited

We have audited the financial statements on pages 6 to 19.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 October 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

19 January 2006

Profit and loss account
for the year ended 31 October 2005

	Note	2005 £	2004 £
Turnover	2	**32,870,858**	35,161,694
Operating costs		**(26,721,220)**	(26,093,446)
Abortive property development costs		**-**	(387,578)
Operating profit	3	**6,149,638**	8,680,670
Joint venture operating profit	8	**913,178**	487,026
Profit on ordinary activities before interest		**7,062,816**	9,167,696
Interest receivable and similar income	4	**86,114**	76,210
Profit on ordinary activities before taxation		**7,148,930**	9,243,906
Tax on profit on ordinary activities	5	**(2,765,400)**	(3,286,833)
Profit on ordinary activities after taxation		**4,383,530**	5,957,073
Dividends	6	**(3,700,000)**	(3,250,000)
Retained profit for the year	14	**683,530**	2,707,073

The profit and loss account has been prepared on the basis that all operations are continuing operations.

A statement of movements in reserves is given in note 14.

Statement of total recognised gains and losses
for the year ended 31 October 2005

	2005 £	2004 £
Profit for the financial year	**4,383,530**	5,957,073
Unrealised surplus on revaluation of properties	-	11,021,796
Total recognised gains and losses relating to year	**4,383,530**	16,978,869

Note of historical cost profits and losses
for the year ended 31 October 2005

	2005 £	2004 £
Reported profit on ordinary activities before taxation	**7,148,930**	9,243,906
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**1,316,932**	985,259
Historical cost profit on ordinary activities before taxation	**8,465,862**	10,229,165
Historical cost profit for the year retained after taxation and dividends	**2,000,462**	3,692,332

Balance sheet
at 31 October 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	*7*		**96,977,574**		75,107,967
Current assets					
Debtors	9	**4,612,689**		4,527,520	
Cash at bank and in hand		**26,713**		4,433,316	
		4,639,402		8,960,836	
Creditors: amounts falling due within one year	*10*	**(27,276,498)**		(10,616,855)	
Net current liabilities			**(22,637,096)**		(1,656,019)
Total assets less current liabilities			**74,340,478**		73,451,948
Provisions for liabilities and charges	*11*		**(830,000)**		(625,000)
Net assets			**73,510,478**		72,826,948
Capital and reserves					
Called up share capital	*13*		**714,993**		714,993
Share premium account	*14*		**177,532**		177,532
Revaluation reserve	*14*		**55,672,236**		56,989,168
Other reserves	*14*		**4,838,896**		4,838,896
Profit and loss account	*14*		**12,106,821**		10,106,359
Shareholders' funds	*15*		**73,510,478**		72,826,948
Equity interests			**72,910,478**		72,226,948
Non-equity interests	*13*		**600,000**		600,000
			73,510,478		72,826,948

These financial statements were approved by the board of directors on 19 January 2006 and were signed on its behalf by:

K A R Wilson
Director

J C Hughes
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Accounting convention

The financial statements are prepared in accordance with applicable accounting standards, and under the historical cost convention modified to include the revaluation of freehold and long leasehold land and buildings.

Under FRS 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The company has taken advantage of the exemption contained in FRS 8 and has not disclosed transactions or balances with entities which form part of the group.

Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. Revenue is recognised on a per patient day basis.

Tangible fixed assets and depreciation

Land and leasehold and freehold buildings are valued annually at the balance sheet date to their existing use value. Other tangible assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset in equal instalments over its expected useful life, as follows:

Freehold buildings	40 years
Short leasehold land and buildings	Over the term of the lease
Long leasehold land and buildings	40 years
Fixtures, fittings and equipment	5-10 years
Motor vehicles	5 years

No depreciation is charged on freehold land or assets in the course of construction.

The cost of assets in the course of construction includes interest on the capital employed in the nursing home developments and development costs associated with initiating and monitoring the construction of nursing homes. Such interest is capitalised only until the date of opening of the relevant home. The rate of interest used is the applicable cost of funds during the period.

Leasing

Assets acquired under finance leases are capitalised and the outstanding finance lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes *(continued)*

1 Accounting policies *(continued)*

Pensions

The company participates in a group wide defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value as the company does not intend to sell the revalued assets.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3 Operating profit

	2005	2004
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	**2,175,012**	1,666,942
Operating lease rentals		
- Other assets	**1,291**	9,729
- Land and buildings	**529,442**	559,394
Auditors' remuneration (including expenses)	**23,850**	23,850
Remuneration of auditors for non-audit work	**2,644**	-

4 Interest receivable

	2005	2004
	£	£
Bank interest receivable	**86,114**	76,210

Notes *(continued)*

5 Taxation

	2005 £	2004 £
UK Corporation tax		
Current tax on income for the year	**2,520,000**	3,300,000
Adjustment in respect of prior years	**40,400**	(58,167)
Total current tax	**2,560,400**	3,241,833
Deferred tax (see note 11)		
Origination of timing differences	**205,000**	45,000
Tax on profit on ordinary activities	**2,765,400**	3,286,833

Factors affecting the tax charge for the year

The current tax charge for the year differs from the standard rate of corporation tax in the UK (30%) (2004: 30%). The differences are explained below:

	2005 £	2004 £
Current tax reconciliation		
Profit on ordinary activities before taxation	**7,148,930**	9,243,906
Current tax at 30% *(2004: 30%)*	**2,144,679**	2,773,172
Effects of:		
Non deductible expenses	**15,000**	177,134
Depreciation on assets not eligible for capital allowances	**539,219**	392,630
Capital allowances and capitalised interest relief in excess of related depreciation	**(205,000)**	(45,000)
Adjustment in respect of prior years	**40,400**	(58,167)
Other adjustments	**26,102**	2,064
	415,721	468,661
Current tax charge (as above)	**2,560,400**	3,241,833

6 Dividends

	2005 £	2004 £
Ordinary paid	**3,700,000**	3,250,000

Notes *(continued)*

7 Tangible fixed assets

	Assets in the course of construction	Freehold land and buildings	Leasehold land and buildings	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£	£
Cost or valuation						
At 1 November 2004	3,869,394	66,731,198	3,332,503	2,439,304	137,616	76,510,015
Additions	21,305,670	1,243,264	598,378	836,849	72,981	24,057,142
Transfers	(5,926,234)	5,926,234	-	-	-	-
Disposals	-	-	-	(33,955)	-	(33,955)
At 31 October 2005	19,248,830	73,900,696	3,930,881	3,242,198	210,597	100,533,202
Depreciation						
At 1 November 2004	-	25,218	4,202	1,269,968	102,660	1,402,048
On disposals	-	-	-	(21,432)	-	(21,432)
Charge for the year	-	1,602,151	278,075	275,349	19,437	2,175,012
At 31 October 2005	-	1,627,369	282,277	1,523,885	122,097	3,555,628
Net book value						
At 31 October 2005	**19,248,830**	**72,273,327**	**3,648,604**	**1,718,313**	**88,500**	**96,977,574**
At 31 October 2004	3,869,394	66,705,980	3,328,301	1,169,336	34,956	75,107,967

The freehold and leasehold land and buildings were externally valued by GVA Grimley, International Property Advisers on 18 June 2004. In arriving at their valuation they have had regard to the provisions of the Appraisal and Valuation Standard 5th Edition (the Red Book) published by the Royal Institution of Chartered Surveyors. The properties consist entirely of independent private hospital and nursing care home facilities which, having due regard to the Red Book, are to be treated as i) Land and buildings fully equipped as an operational entity and valued having regard to trading potential and; ii) Land and buildings owner-occupied for the purposes of the undertaking. The valuation having regard to their trading potential exceeds that on a closed down existing planning use basis by £59,675,000.

If these properties were sold for their revalued amounts it would be necessary to replace them with similar property, and rollover relief against tax on the gain would be available. Accordingly no timing differences arise and no provision has been made for deferred tax in respect of the revaluation. The potential liability to tax, if the properties were sold at their revalued amounts and rollover relief were not available, amounts to £14,300,000 *(2004: £15,000,000)*

During the year, £432,880 *(2004:£nil)* of finance costs were capitalised within assets in the course of construction. The total interest capitalised within tangible fixed assets at 31 October 2005 is £432,880 *(2004: £nil)*.

The rate of interest capitalised equates to that of the related group borrowings and is 1.5% above Libor.

The net book value of leasehold land and buildings comprises long leasehold of £2,786,389 *(2004: £2,866,000)* and short leasehold of £862,215 *(2004: £462,301)*.

Notes *(continued)*

7 Tangible fixed assets *(continued)*

Comparable historical cost for the land and buildings included at valuation:

	£
Cost	
At 1 November 2004	18,775,126
Additions	23,147,312
At 31 October 2005	41,922,438
Depreciation based on cost	
At 1 November 2004	1,592,087
Charge for the year	563,294
At 31 October 2005	2,155,381
Net book value	
At 31 October 2005	39,767,057
At 31 October 2004	17,183,039

Notes *(continued)*

8 Joint venture

The company has a joint venture with St Andrew's Hospital, Northampton in the operation of St Andrew's at Harrow, Bowden House, Harrow on the Hill and Isham House, St Andrew's Hospital, Northampton. The term of the joint venture agreement is to 30 September 2015 subject to three years notice by either party after 1 October 2004.

The profit and loss account and balance sheet of the joint venture are summarised below.

	2005	2004
	£	£
Profit and loss account		
Turnover	**12,797,295**	10,357,857
Operating costs	**(10,341,920)**	(8,969,022)
Operating profits	**2,455,375**	1,388,835
Apportioned:		
St Andrew's Hospital	**1,542,197**	901,809
The company	**913,178**	487,026
Balance sheet		
Fixed assets	**1,561,597**	1,601,836
Current assets	**1,771,383**	1,557,525
Current liabilities	**(900,128)**	(916,529)
	2,432,852	2,242,832
Capital account – St Andrew's Hospital	**870,000**	880,000
Current accounts		
St Andrew's Hospital	**944,206**	892,125
The company	**618,646**	470,707
	2,432,852	2,242,832

The principal fixed assets of the joint venture are owned freehold by St Andrew's Hospital and those reflected in the joint venture accounts are additions to the facilities since the inception of the agreement. In addition, two other freehold properties are used by the joint venture. One is owned by the company and is valued at £1,000,000 and the other is owned by Stac Healthcare Limited, a company owned 60% by Cygnet 2002 Limited and 40% by St Andrew's Hospital. At 31 October 2005 the net book value of this latter property was £1,696,261 *(2004: £1,720,518)*. The joint venture's audited year end is 31 March and their results to 31 October 2005 include appropriate adjustments from their management accounts.

The company's direct costs are recovered from the joint venture with the exception of directors' costs.

Notes *(continued)*

9 Debtors

	2005	2004
	£	£
Trade debtors	**3,455,207**	3,312,441
Amounts owed by fellow subsidiary undertakings	**180,000**	180,000
Amounts owed by joint venture	**618,646**	470,707
Other debtors	**94,052**	206,494
Prepayments and accrued income	**264,784**	357,878
	4,612,689	4,527,520

The amount owed by a fellow subsidiary undertaking of £180,000 *(2004: £180,000)* represents an interest free long term loan.

10 Creditors: amounts falling due within one year

	2005	2004
	£	£
Trade creditors	**802,181**	910,745
Amounts owed to parent company	**20,054,018**	5,274,333
Corporation tax	**939,757**	1,244,668
Other taxes and social security costs	**461,067**	344,002
Other creditors	**499,687**	316,336
Accruals and deferred income	**4,519,788**	2,526,771
	27,276,498	10,616,855

The amount owed to the parent company is interest free and has no specific term.

11 Provisions for liabilities and charges

	Deferred tax liability
	£
Balance at 1 November 2004	625,000
Profit and loss account	205,000
Balance at 31 October 2005	**830,000**

If the properties were sold for their revalued amounts, it would be necessary to replace them with similar property, and rollover relief against tax on gain would be available. Accordingly no timing differences arise and no provision has been made for deferred taxation in respect of the revaluation. The potential liability to tax, if the properties were sold at their revalued amounts and rollover relief were not available, amounts to £14,300,000 *(2004: £15,000,000)*.

Notes *(continued)*

11 Provisions for liabilities and charges *(continued)*

The deferred tax liability is represented by:

	2005 £	2004 £
Accelerated capital allowances and capitalised interest	**700,000**	625,000

12 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the funds. There were no amounts payable to the scheme at the year end *(2004: nil)*.

Defined contribution scheme

	2005 £	2004 £
Contributions payable by the company for the year	**208,415**	191,167

13 Share capital

	2005 £	2004 £
Authorised		
2,787,125,000 Ordinary shares of 1p each	**27,871,250**	27,871,250
800,000 Redeemable preference shares of £1 each	**800,000**	800,000
	28,671,250	28,671,250
Allotted, called up and fully paid		
11,499,300 Ordinary shares of 1p each	**114,993**	114,993
600,000 Redeemable preference shares of £1 each	**600,000**	600,000
	714,993	714,993

The preference shares carry no rights to dividends and are redeemable at par at the option of the holder. The company is a wholly owned subsidiary of Cygnet 2002 Limited and the right to redemption has been waived.

On a winding up the preference shares have no voting rights but priority of repayment at par value.

Notes *(continued)*

14 Statement of movements on reserves

	Share premium account £	Revaluation reserve £	Other reserves (see below) £	Profit and loss account £
Balance at 1 November 2004	177,532	56,989,168	4,838,896	10,106,359
Retained profit for the year	-	-	-	683,530
Depreciation written back	-	(1,316,932)	-	1,316,932
Balance at 31 October 2005	**177,532**	**55,672,236**	**4,838,896**	**12,106,821**

Other reserves

Capital redemption reserve

Balance at 1 November 2004 and 31 October 2005	200,000

Non distributable capital reserve

Balance at 1 November 2004 and 31 October 2005	4,638,896

15 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
Profit for the financial year	**4,383,530**	5,957,073
Dividends	**(3,700,000)**	(3,250,000)
	683,530	2,707,073
Other recognised gains and losses	**-**	11,021,796
Net addition to shareholders' funds	**683,530**	13,728,869
Opening shareholders' funds	**72,826,948**	59,098,079
Closing shareholders' funds	**73,510,478**	72,826,948

16 Contingent liabilities

There are fixed and floating charges on the assets and undertakings of the company to secure borrowings of Cygnet 2002 Limited which amounted to £50,000,000 at 31 October 2005 *(2004: £38,500,000)*.

Notes *(continued)*

17 Financial commitments

At 31 October 2005 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2005	2004
	£	£
Expiry date:		
In over five years	**5,000**	5,000

At 31 October 2005 the company had annual commitments of £494,000 *(2004: £494,000)* under the leases for Cygnet Hospital Ealing and Cygnet Wing Blackheath. These leases may be cancelled with nine months' notice at the company's option.

18 Capital commitments

	2005	2004
	£	£
At 31 October 2005 the company had capital commitments as follows:		
Contracted for but not provided in the financial statements	**10,500,000**	5,200,000

19 Directors' emoluments

	2005	2004
	£	£
Emoluments for qualifying services	**429,142**	513,980
Company pension contributions to money purchase schemes for two directors *(2004- two directors)*	**13,750**	13,750
	442,892	527,730
Emoluments disclosed above include the following amounts paid to the highest paid director:		
Emoluments for qualifying services	**217,121**	267,471
Company pension contributions to money purchase schemes	**6,875**	6,875
	223,996	274,346

Notes *(continued)*

20 Employees

Number of employees

The average monthly number of employees (including directors but excluding employees of the joint venture) during the year was:

	2005 No	2004 No
Nursing care, support and administrative staff – full time	**492**	490
Nursing care, support and administrative staff – part time	**259**	254
	751	744

Employment costs

	£	£
Wage and salaries	**15,033,148**	14,564,147
Social security costs	**1,478,347**	1,371,466
Other pension costs	**208,415**	191,167
	16,719,910	16,126,780

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company's immediate and ultimate parent undertaking is Cygnet 2002 Limited, a company registered in England and Wales, which owns 100% of the ordinary and preference share capital of the company.

The consolidated accounts of Cygnet 2002 Limited are available to the public and may be obtained from:

Companies House
Crown Way
Cardiff
CF14 3UZ

22 Related party transactions

A director, K A R Wilson, was paid a commercial rent of £9,600 *(2004: £9,600)* during the year for the use of office premises.

There is a loan of £180,000 *(2004: £180,000)* due from Stac Healthcare Limited, a fellow 60% owned subsidiary company. This loan is interest free and long term with no fixed repayment terms.

The company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.