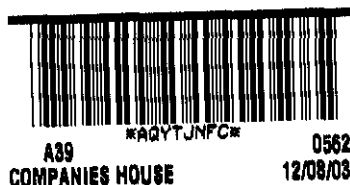


Company Registration No. 2141256 (England and Wales)

CYGNET HEALTH CARE LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2002



CYGNET HEALTH CARE LIMITED

COMPANY INFORMATION

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
Auditors	Noel & Co Chartered Accountants 4, Parliament Close, Prestwood Great Missenden Buckinghamshire HP16 9DT
Bankers	National Westminster Bank plc St Albans Corporate Office, 10 St Peters Street St Albans Hertfordshire AL1 3LY
Solicitors	Lawrence Graham 190 Strand London WC2R 1JN Rangeley & Co 117 Clonmell Road London N17 6JT

CYGNET HEALTH CARE LIMITED

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CYGNET HEALTH CARE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 OCTOBER 2002

The directors present their report and financial statements for the year ended 31 October 2002.

Principal activities and review of the 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 2000 Limited. In November 2002 Cygnet 2000 Limited was acquired in its entirety by Cygnet 2002 Limited for a mixture of cash and share for share exchange.

Results and dividends

The results for the year are set out on page 4.

During the year the company declared and paid interim ordinary dividends of £4,000,000 (2001 - £4,000,000) to its parent company.

Directors

The following directors have held office since 1 November 2001:

K A R Wilson

J C Hughes

Directors' interests

The directors' interests in Cygnet 2000 Limited, the ultimate parent company, are noted in the accounts of that 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 2000 Limited, the ultimate parent company, has established an Inland Revenue Approved All Employee Share Ownership Plan ("AESOP") 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 AESOP, the executive directors have undertaken to produce and circulate to AESOP 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 company's policy is to consider the recruitment of disabled persons for those vacancies that they are able to fill. As with all employees, the group optimises opportunities for personal development. All of the company's health care facilities incorporate appropriate physical arrangements for disabled persons.

Creditor payment policy

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

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Noel & Co Chartered Accountants be reappointed as auditors of the company will be put to the Annual General Meeting.

CYGNET HEALTH CARE LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

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 of the company 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



R C Dinham

Secretary

14 March 2003

CYGNET HEALTH CARE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF CYGNET HEALTH CARE LIMITED

We have audited the financial statements of Cygnet Health Care Limited on pages 4 to 16 for the year ended 31 October 2002. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out therein.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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

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

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

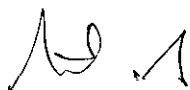
Basis of audit opinion

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

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

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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Noel & Co

14 March 2003

**Chartered Accountants
Registered Auditors**

4, Parliament Close, Prestwood
Great Missenden
Buckinghamshire
HP16 9DT

CYGNET HEALTH CARE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 2002

	Notes	2002 £	2001 £
Turnover	2	26,436,798	24,200,630
Cost of sales		(9,881)	(12,306)
Gross profit		26,426,917	24,188,324
Operating costs		(21,208,004)	(17,702,032)
Operating profit	3	5,218,913	6,486,292
Joint venture operating profit		971,868	852,382
Profit on ordinary activities before interest		6,190,781	7,338,674
Other interest receivable and similar income		-	5,993
Interest payable and similar charges	4	(25,420)	(25,445)
Profit on ordinary activities before taxation		6,165,361	7,319,222
Tax on profit on ordinary activities	5	(2,416,977)	(2,455,000)
Profit on ordinary activities after taxation		3,748,384	4,864,222
Dividends	6	(4,000,000)	(4,000,000)
Retained (loss)/profit for the year	14	(251,616)	864,222

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

CYGNET HEALTH CARE LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 OCTOBER 2002

	2002 £	2001 £
Profit for the financial year	3,748,384	4,864,222
Unrealised (deficit)/surplus on revaluation of properties	7,209,382	24,736,856
Total recognised gains and losses relating to the year	<u>10,957,766</u>	<u>29,601,078</u>

Note of historical cost profits and losses

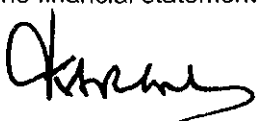
	2002 £	2001 £
Reported profit on ordinary activities before taxation	6,165,361	7,319,222
Difference between an historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	1,259,201	474,798
Historical cost profit on ordinary activities before taxation	<u>7,424,562</u>	<u>7,794,020</u>
Historical cost profit for the year retained after taxation, extraordinary items and dividends	<u>1,007,585</u>	<u>1,339,020</u>

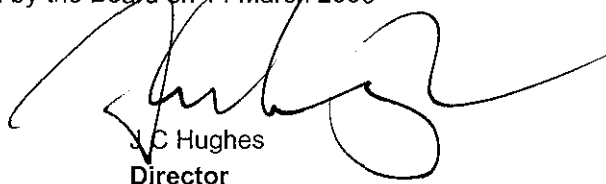
CYGNET HEALTH CARE LIMITED

BALANCE SHEET AS AT 31 OCTOBER 2002

	Notes	2002 £	£	2001 £	£
Fixed assets					
Tangible assets	7	61,811,446		53,574,133	
Current assets					
Debtors	9	4,247,064		3,281,556	
Cash at bank and in hand		8,341		7,516	
		<u>4,255,405</u>		<u>3,289,072</u>	
Creditors: amounts falling due within one year	10	<u>(7,513,077)</u>		<u>(5,472,197)</u>	
Net current liabilities		<u>(3,257,672)</u>		<u>(2,183,125)</u>	
Total assets less current liabilities		<u>58,553,774</u>		<u>51,391,008</u>	
Provisions for liabilities and charges	11	<u>(515,000)</u>		<u>(310,000)</u>	
		<u>58,038,774</u>		<u>51,081,008</u>	
Capital and reserves					
Called up share capital	13	714,993		714,993	
Share premium account	14	177,532		177,532	
Revaluation reserve	14	48,137,912		42,187,731	
Other reserves	14	4,838,896		4,838,896	
Profit and loss account	14	4,169,441		3,161,856	
Shareholders' funds	15	<u>58,038,774</u>		<u>51,081,008</u>	
Equity interests		57,438,774		50,481,008	
Non-equity interests		600,000		600,000	
		<u>58,038,774</u>		<u>51,081,008</u>	

The financial statements were approved by the Board on 14 March 2003


K A R Wilson
Director


J C Hughes
Director

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2002

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold and long leasehold land and buildings. The company has adopted FRS 19 "Deferred Taxation" in these financial statements and there has been no requirement to restate comparative figures.

1.2 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.3 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 over its expected useful life, as follows:

Land and buildings Freehold	40 years on buildings
Land and buildings Leasehold	Over the term of the lease for short leaseholds, 40 years for long leaseholds
Fixtures, fittings & equipment	5 - 10 years
Motor vehicles	5 years

1.4 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.5 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with SSAP 24.

1.6 Deferred taxation

Deferred taxation is provided at appropriate rates without discounting on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

1.7 Pre opening costs

Operating costs relating to the opening of new health care facilities are expensed as incurred.

1.8 Joint venture

Joint ventures are accounted for in accordance with the equity method of accounting. A summary of the terms and the profit and loss accounts and balance sheets of material joint ventures are set out in the notes to these accounts.

2 Turnover

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

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

3	Operating profit	2002	2001
		£	£
	Operating profit is stated after charging:		
	Depreciation of tangible assets	1,798,458	916,775
	Operating lease rentals		
	- Other assets	9,881	12,306
	- Land and buildings	554,804	559,276
	Auditors' remuneration (including expenses)	17,000	14,500
	Remuneration of auditors for non-audit work	5,300	6,400
		<u> </u>	<u> </u>
4	Interest payable	2002	2001
		£	£
	On bank loans and overdrafts	25,420	25,445
		<u> </u>	<u> </u>

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

5	Taxation	2002 £	2001 £
	Domestic current year tax		
	U.K. corporation tax	2,225,000	2,350,000
	Adjustment for prior years	(13,023)	65,000
		<u>2,211,977</u>	<u>2,415,000</u>
	Current tax charge		
		<u>2,211,977</u>	<u>2,415,000</u>
	Deferred tax		
	Deferred tax charge/credit current year	155,000	40,000
	Deferred tax adjust re previous year	50,000	-
		<u>205,000</u>	<u>40,000</u>
		<u>2,416,977</u>	<u>2,455,000</u>
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	6,165,361	7,319,222
		<u>6,165,361</u>	<u>7,319,222</u>
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2001 : 30.00%)	1,849,608	2,195,767
		<u>1,849,608</u>	<u>2,195,767</u>
	Effects of:		
	Non deductible expenses	17,100	14,100
	Depreciation on assets not eligible for capital allowances	453,773	203,527
	Capital allowances in excess of related depreciation	(155,000)	(40,000)
	Adjustments to previous periods	(13,023)	65,000
	Other tax adjustments	59,519	(23,394)
		<u>362,369</u>	<u>219,233</u>
	Current tax charge	<u>2,211,977</u>	<u>2,415,000</u>
6	Dividends	2002 £	2001 £
	Ordinary interim paid	4,000,000	4,000,000
		<u>4,000,000</u>	<u>4,000,000</u>

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

7 Tangible fixed assets

	Land and buildings Freehold £	Land and buildings Leasehold £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost or valuation					
At 1 November 2001	40,390,351	12,275,614	2,401,115	104,453	55,171,533
Additions	2,438,574	17,410	343,445	28,595	2,828,024
Revaluation	14,906,604	(9,287,411)	-	-	5,619,193
Disposals	-	-	(2,044)	(9,500)	(11,544)
At 31 October 2002	57,735,529	3,005,613	2,742,516	123,548	63,607,206
Depreciation					
At 1 November 2001	-	15,062	1,499,710	82,628	1,597,400
Revaluation	(1,053,202)	(536,987)	-	-	(1,590,189)
On disposals	-	-	(409)	(9,500)	(9,909)
Charge for the year	1,053,202	537,314	194,160	13,782	1,798,458
At 31 October 2002	-	15,389	1,693,461	86,910	1,795,760
Net book value					
At 31 October 2002	57,735,529	2,990,224	1,049,055	36,638	61,811,446
At 31 October 2001	40,390,351	12,260,552	901,405	21,825	53,574,133

The freehold and leasehold land and buildings were externally valued on the basis of existing use value by GVA Grimley, International Property Advisors on 25 October 2002.

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.

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

	£
Cost	
At 1 November 2001	11,241,962
Additions	2,455,984
At 31 October 2002	13,697,946
Depreciation based on cost	
At 1 November 2001	495,010
Charge for the year	331,315
At 31 October 2002	826,325

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

7 Tangible fixed assets (continued)

Net book value

At 31 October 2002	12,871,621
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At 31 October 2001	10,746,952
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The net book value of leasehold land and buildings comprises long leasehold of £2,300,000 and short leasehold of £690,224.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

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.

	2002 £	2001 £
Profit and loss account		
Turnover	9,802,705	9,232,604
Interest	-	1,701
Operating costs	(7,714,120)	(7,402,168)
Operating profits	2,088,585	1,832,137
Apportioned:		
St Andrew's Hospital	1,116,717	979,755
The company	971,868	852,382
Balance Sheet		
Fixed assets	945,949	837,897
Current assets	1,467,122	1,545,543
Current liabilities	(800,093)	(909,167)
	1,612,978	1,474,273
Capital account - St Andrew's Northampton	900,000	910,000
Current accounts		
St Andrew's Northampton	423,187	266,662
The company	289,791	297,611
	1,612,978	1,474,273

The principal fixed assets of the joint venture are owned freehold by St Andrew's Northampton and those reflected in the joint venture accounts are additions to the facilities since the inception of the agreement. In addition a freehold property owned by the company valued at £1,000,000 is used by the joint venture. The joint venture's audited year end is 31 March and their results to 31 October 2002 include appropriate adjustments from their management accounts.

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

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

9 Debtors	2002 £	2001 £
Trade debtors	3,524,511	2,728,841
Corporation tax	43,966	-
Amounts owed by joint venture	289,791	297,611
Other debtors	117,757	59,251
Prepayments and accrued income	271,039	195,853
	<u>4,247,064</u>	<u>3,281,556</u>

10 Creditors: amounts falling due within one year	2002 £	2001 £
Bank loans and overdrafts	317,034	63,694
Trade creditors	932,150	1,044,237
Amounts owed to parent company	4,357,027	1,316,328
Corporation tax	-	1,131,756
Other taxes and social security costs	267,597	214,608
Other creditors	213,253	77,174
Accruals and deferred income	1,426,016	1,624,400
	<u>7,513,077</u>	<u>5,472,197</u>

11 Provisions for liabilities and charges

	Deferred taxation £
Balance at 1 November 2001	310,000
Profit and loss account	205,000
	<u>515,000</u>
Balance at 31 October 2002	

Deferred taxation provided in the financial statements is as follows:

	2002 £	2001 £
Accelerated capital allowances	<u>515,000</u>	<u>310,000</u>

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

12 Pension costs

Defined contribution

	2002 £	2001 £
Contributions payable by the company for the year	135,899	106,652

13 Share capital

Authorised

	2002 £	2001 £
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
	<u>28,671,250</u>	<u>28,671,250</u>

Allotted, called up and fully paid

	2002 £	2001 £
11,499,300 Ordinary shares of 1p each	114,993	114,993
600,000 Redeemable preference shares of £ 1 each	600,000	600,000
	<u>714,993</u>	<u>714,993</u>

The preference shares carry no rights to dividends and are redeemable at par at the option of the holder.

14 Statement of movements on reserves

	Share premium account £	Revaluation reserve £	Other reserves (see below) £	Profit and loss account £
Balance at 1 November 2001	177,532	42,187,731	4,838,896	3,161,856
Retained loss for the year	-	-	-	(251,616)
Revaluation during the year	-	7,209,382	-	-
Depreciation written back	-	(1,259,201)	-	1,259,201
Balance at 31 October 2002	<u>177,532</u>	<u>48,137,912</u>	<u>4,838,896</u>	<u>4,169,441</u>

Other reserves

Capital redemption reserve

Balance at 1 November 2001 & at 31 October 2002	200,000
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Non distributable capital reserve

Balance at 1 November 2001 & at 31 October 2002	4,638,896
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CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

15 Reconciliation of movements in shareholders' funds	2002 £	2001 £
Profit for the financial year	3,748,384	4,864,222
Dividends	(4,000,000)	(4,000,000)
	(251,616)	864,222
Other recognised gains and losses	7,209,382	24,736,856
Net addition to shareholders' funds	6,957,766	25,601,078
Opening shareholders' funds	51,081,008	25,479,930
Closing shareholders' funds	58,038,774	51,081,008

16 Financial commitments

At 31 October 2002 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2002 £	2001 £
Expiry date:		
In over five years	5,000	5,000

At 31 October 2002 the company had annual commitments of £494,000 (2001 - £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.

17 Directors' emoluments	2002 £	2001 £
Emoluments for qualifying services	360,393	372,144
Company pension contributions to money purchase schemes for two directors (2001 - two directors)	10,885	11,733
	371,278	383,877

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	181,035	186,772
Company pension contributions to money purchase schemes	6,875	6,875

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2002

18 Employees

Number of employees

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

	2002 Number	2001 Number
Nursing care, support and administrative staff	501	393

Employment costs

	£	£
Wages and salaries	10,444,196	9,488,832
Social security costs	935,749	819,654
Other pension costs	135,899	106,652
	11,515,844	10,415,138

19 Control

The immediate and ultimate parent company is Cygnet 2000 Limited, a company registered in England and Wales, which owns the entire ordinary and preference share capital of the company. The statutory accounts of Cygnet 2000 Limited are available from Companies House, Crown Way, Cardiff CF14 3UZ. There are fixed and floating charges on the assets and undertakings of the company to secure borrowings of Cygnet 2000 Limited which amounted to £18,400,000 (2001 - £17,970,494) at 31 October 2002.