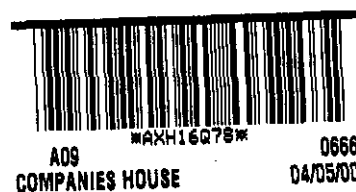


Company Registration No. 2141256 (England and Wales)

CYGNET HEALTH CARE LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 1999



CYGNET HEALTH CARE LIMITED

COMPANY INFORMATION

Directors	R W Oreschnick - Non Executive Chairman K A R Wilson - Executive Chairman J C Hughes - Chief Executive J B Randle - Non Executive R Holmes - Non Executive
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 Northampton Corporate Business Centre, Spencer House Cliftonville Road Northampton NN1 5BU
Solicitors	Rangeley & Co 117 Clonmell Road London N17 6JT

CYGNET HEALTH CARE LIMITED

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CYGNET HEALTH CARE LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1999

Corporate Goals

The purpose of Cygnet Health Care is to contribute positively to the lives of those who entrust themselves to our care. A goal is to remain a leading provider of quality psychiatric treatment and long term care and thus generate sustained enhancement of shareholder value.

Cygnet has achieved accelerated growth by leading market change through innovation and willingness to adapt quickly to the requirements of patients and purchasers. Investment in the development of our staff is a central element of our strategy for generating sustainable growth.

The company focuses on the acute psychiatric and elderly care markets. A continuing objective is to broaden the range of services, identifying niche high added value opportunities.

Trading performance

The 1998/99 financial year can be characterised as a year of consolidation and ongoing development.

Units opened in Ealing and Blackheath in 1998 came of age and delivered their expected potential. They have built strong links with a wide customer base through commitment to "partnership working". Customer feedback and strong occupancy has rewarded this strategy.

The key achievement of the year was the transfer of a seed team from the successful Blackheath unit to create a new facility in Beckton, East London. Like Blackheath, this unit offers a mix of specialist acute psychiatric services, which has enabled Cygnet to enhance the services offered to existing customers.

Following the opening of Beckton, Cygnet is now the largest supplier of acute psychiatric inpatient care to the NHS in London and the largest supplier of psychiatric intensive care beds nationwide.

The year has also seen the further development of Detox5, our five day, virtually pain free detoxification programme for heroin and methadone addicts. The programme's effectiveness has been confirmed by an extensive outcome study on 504 patients, now submitted for publication. During the 1998/99 financial year, revenues increased by 67% and over 600 treatments were safely completed. Detox5 is the largest opiate detox provider in the United Kingdom, public or private.

Despite a negligible contribution from the new facility in Beckton, the results for the year ended 31st October 1999 show a profit before taxation of £2,849,000 compared with a loss of £173,000 in the previous year. Excluding the impact of property write downs and property profits, 1998/99 showed a pretax profit of £2,701,000 compared with £673,000 in the previous year. Excluding property profits, underlying profitability increased by 301% during the year.

Net long term loans of £148,000 (1997/98: £688,000) were repaid during the year. Gearing reduced from 51% to 41% at 31st October 1999 in spite of a heavy capital expenditure programme. The company invested £3,149,000 (1997/98: £688,000) in fixed assets and secured a new £2 million bank borrowing facility provided by National Westminster Bank plc which has yet to be drawn down. The combination of the new debt facility and the rate of cash generation from earnings provides strong funding for further expansion.

CYGNET HEALTH CARE LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1999

Property Review

In May 1998, contracts were exchanged to acquire the freehold of a new-build facility in Beckton to add to the company's acute psychiatric capacity.

Commissioning alterations were completed and Cygnet Clinic Beckton commenced trading in October 1999. Beckton comprises a free-standing 68 bed facility.

Acute Psychiatric Care Review

The company's acute psychiatric business encompasses a wide range of niche sub-specialties including intensive care, mothers and babies, opiate detoxification, rehabilitation and eating disorders in addition to the mainstream open acute facilities. The company has continued to follow the strategy of a diversified risk profile with each hospital providing at least two specialities.

Overall, the number of psychiatric in-patient days increased by 27% and gross managed revenues increased by 49% as compared with the previous year.

Our customer base divides broadly, by funding, into two types; NHS funded patients and private pay/insured customers. The contribution of services provided by the independent sector to the NHS is now well accepted at grass roots level. There is no doubt that the use of the independent sector to provide overflow facilities promotes optimal utilisation of NHS bed capacity and allows the NHS to avoid the cost of carrying empty beds.

In keeping with the Government's "National Service Framework", the year has seen significant focus and investment in developing "partnership working" systems with the NHS. These promote seamless interface between the Company's facilities and those of the NHS. As a consequence, NHS psychiatric in-patient days increased by 35% compared with 1997/98.

Cygnet continues to demonstrate the cost effectiveness of the services provided to the NHS on a per episode basis. The high quality of our facilities with intensive treatment and restful atmosphere promotes reduced lengths of stay. Consequently, a complete episode of treatment in one of Cygnet's hospitals costs, on average, less to the NHS than treatment in most of its own hospitals. Our follow up surveys of every discharged patient shows that the NHS users of our facilities overwhelmingly commented favourably on the quality of our services.

Privately funded and insured patient days increased by 14% compared with 1997/98 with an increasing proportion of self pay rather than insured patients.

Elderly Care Review

Our two facilities have continued to focus on the affluent end of the private pay nursing home market. Vigorous marketing and a growing reputation led to a 26% increase in the number of admissions. The tendency for people to defer entry into nursing homes has again impacted adversely and is reflected in a 22% decline in the average length of stay. Overall, occupancy declined by 2% with a resulting 5% decline in operating profits. Further alterations are underway to increase the stock of luxury rooms for which there is the highest demand.

CYGNET HEALTH CARE LIMITED

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 OCTOBER 1999

Capital reconstruction, re-organisation and re-registration as a limited company

The company has successfully completed a capital reconstruction and re-organisation which cancelled the deficit in distributable reserves and substantially simplified the share structure by eliminating two classes of shares. The immediate effect of the reconstruction has been to enable redemption, since the year end, of the first tranche of £200,000 of preference shares. This is expected to be closely followed by the declaration of a dividend payable to all shareholders.

In October 1999, the company changed its registration from a Plc to a limited company. The effect of this re-registration together with the simplification of the share structure is to facilitate capital transactions to raise fresh equity and/or unlock existing equity value. In general, the change removes legal restrictions and red tape appropriate only to the management of a shareholder base much larger than that which the company has.

Employees

Our excellent results for the last year are a tribute to the skills and flexibility of our employees and their willingness to adapt and rise to meet new challenges. Undoubtedly, our employees are our greatest assets and we seek to provide innovative working opportunities. Accelerating investment in staff development has been well received and has assisted in recruitment in a difficult market.

I would like to thank each member of staff personally, and on behalf of each member of the company's Board, for their loyalty, dedication, perseverance and enthusiasm.

Prospects

Investment and diversification initiated in 1997/98 has entirely fulfilled expectations. Closer working relationships with the NHS, our largest customer, have provided confidence for investment in further expansion. The opening of Cygnet Clinic Beckton provides an expectation of accelerating earnings in 1999/2000 and a further increase in 2000/01.

The company is actively researching a number of new projects in a variety of specialist psychiatric areas with the intention of securing at least one new unit to contribute to earnings in 2000/01, if not before.

Strong cash generation during 1998/99 enabled expansion to be financed from cash flow and, at the year end, the company had £2.6 million of unutilised borrowing facilities after payment for Cygnet Clinic Beckton. The company is consequently well placed to capitalise on new development opportunities as well as providing returns to shareholders through preference share redemptions and dividends.

The combination of market opportunities, a highly motivated staff team and finance to develop opportunities provides an exciting outlook and expectation of significant potential to be delivered.

K A R Wilson

Executive Chairman

CYGNET HEALTH CARE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1999

The directors present their report and financial statements for the year ended 31 October 1999.

Conversion to Private Limited Company

The company converted from Public Limited Company to a Private Limited Company in October 1999.

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.

Acute psychiatric units

Bed capacity

Godden Green Clinic, Sevenoaks, Kent	54
Harrogate Clinic, Harrogate, North Yorkshire	34
Lindisfarne Suite, Nuffield Hospital, Newcastle upon Tyne	13
Cygnnet Hospital, Ealing	31
Cygnnet Wing, Blackheath	45
Cygnnet Clinic, Beckton	68
Bowden House, Harrow on the Hill (joint venture)	<u>49</u>
	<u>294</u>

Psychiatric nursed Hostel

Westlands, Harrow on the Hill (joint venture)	<u>12</u>
---	-----------

Elderly care

Tabley House, Knutsford, Cheshire	54
Tupwood Gate Nursing Home, Caterham, Surrey	<u>39</u>
	<u>93</u>

Results

The results for the year are set out on page 8.

Capital reconstruction and reorganisation

In October 1999 the company reorganised its share structure by cancelling the Deferred shares and converting the A Ordinary shares and New Ordinary shares into a single class of Ordinary shares in proportion to their existing voting, income and capital rights.

The deficit on revenue reserves from prior years has been written off against the nominal value of share capital and the balance of reserves at 31st October 1999 has been transferred to a non distributable capital reserve. Future profits may now be used to pay dividends and redeem the Preference shares.

CYGNET HEALTH CARE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1999

Directors

The following directors have held office since 1 November 1998:

R W Oreschnick - Non Executive Chairman (Appointed 2 November 1999)
K A R Wilson - Executive Chairman
J C Hughes - Chief Executive
J B Randle - Non Executive
R Holmes - Non Executive

Directors' interests

The directors' beneficial interests in the shares of the company were as stated below:

		31 October 1999	1 November 1998
K A R Wilson	Ordinary shares	122,999	15
	A Ordinary shares		187,500
	New deferred shares		67,500
J C Hughes	Ordinary Shares	30,665	1,020
	A Ordinary shares		53,325
	New Deferred shares		570,325
	New Preference shares	200,000	200,000

No shares were held by the non executive directors.

At 31 October 1999 immediate relatives and Trustees of Mr J C Hughes held 1,136,727 ordinary shares (1998: 1,052,500 comprising 893,300 A ordinary shares and 153,900 new deferred shares). Mr K A R Wilson exercised options over 85,000 ordinary shares during the year at an option price of 20p.

Employee involvement

The company's policy is to consult and discuss with employees matters likely to affect employees' interests.

Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

Disabled persons

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Creditor payment policy

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

CYGNET HEALTH CARE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 1999

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.

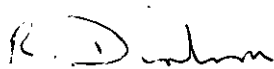
Directors' responsibilities

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

10 January 2000

CYGNET HEALTH CARE LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF CYGNET HEALTH CARE LIMITED

We have audited the financial statements on pages 8 to 23 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 13.

Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Noel & Co.

10 January 2000

**Chartered Accountants
Registered Auditor**

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

CYGNET HEALTH CARE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 1999

	Notes	1999 £	1998 £
Turnover	2	11,828,437	8,381,750
Operating costs		(9,432,324)	(7,604,838)
		<u>2,396,113</u>	<u>776,912</u>
Share of operating profit of joint venture	8	501,307	236,593
Operating profit	3	<u>2,897,420</u>	<u>1,013,505</u>
Provision on revaluation of property		-	(853,118)
Prior year property sale compensation		148,363	-
		<u></u>	<u></u>
Profit on ordinary activities before interest		3,045,783	160,387
Other interest receivable and similar income	4	38,962	14,022
Interest payable and similar charges	5	(235,679)	(347,266)
		<u></u>	<u></u>
Profit/(loss) on ordinary activities before taxation		2,849,066	(172,857)
Tax on profit/(loss) on ordinary activities	6	(307,945)	-
		<u></u>	<u></u>
Profit/(loss) on ordinary activities after taxation	16	<u><u>2,541,121</u></u>	<u><u>(172,857)</u></u>

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 1999

	1999 £	1998 £
Profit/(loss) for the financial year	2,541,121	(172,857)
Unrealised surplus on revaluation of properties	-	1,589,803
Total recognised gains and losses relating to the year	<u>2,541,121</u>	<u>1,416,946</u>

CYGNET HEALTH CARE LIMITED

BALANCE SHEET AS AT 31 OCTOBER 1999

	Notes	1999 £	1998 £
Fixed assets			
Tangible assets	7	12,001,139	9,032,126
Current assets			
Stocks	9	14,823	15,326
Debtors	10	1,689,153	1,096,124
Cash at bank and in hand		3,807	423,156
		<u>1,707,783</u>	<u>1,534,606</u>
Creditors: amounts falling due within one year	11	<u>(2,074,752)</u>	<u>(1,419,395)</u>
Net current (liabilities)/assets		(366,969)	115,211
Total assets less current liabilities		<u>11,634,170</u>	<u>9,147,337</u>
Creditors: amounts falling due after more than one year	12	(3,071,582)	(3,270,000)
Provisions for liabilities and charges	13	<u>(175,000)</u>	-
		<u>8,387,588</u>	<u>5,877,337</u>
Capital and reserves			
Called up share capital	15	897,400	6,202,611
Share premium account	16	35,749	153,933
Revaluation reserve	16	2,815,543	2,815,543
Other reserves	16	4,638,896	-
Profit and loss account	16	-	(3,294,750)
Shareholders' funds	17	<u>8,387,588</u>	<u>5,877,337</u>
Equity interests		7,587,588	3,751,075
Non-equity interests		800,000	2,126,262
		<u>8,387,588</u>	<u>5,877,337</u>

The financial statements were approved by the Board on 10 January 2000

J C Hughes
Director

K A R Wilson
Director

CYGNET HEALTH CARE LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1999

	1999 £	1998 £
Net cash inflow from operating activities	2,980,029	1,041,219
Returns on investments and servicing of finance		
Interest received	38,962	14,022
Interest paid	(235,679)	(347,266)
Net cash outflow for returns on investments and servicing of finance	(196,717)	(333,244)
Taxation	(2,945)	-
Capital expenditure		
Payments to acquire tangible assets	(3,148,777)	(687,713)
Receipts from sales of tangible assets	2,324	8,966
Net cash outflow for capital expenditure	(3,146,453)	(678,747)
Net cash outflow before management of liquid resources and financing	(366,086)	29,228
Financing		
Issue of ordinary share capital	22,475	-
New long term bank loan	-	2,820,000
Other new short term loans	50,000	180,000
Repayment of long term bank loan	(198,418)	(2,368,448)
Repayment of other short term loans	-	(1,265,000)
Capital reconstruction costs	(53,345)	-
Net cash outflow from financing	(179,288)	(633,448)
Decrease in cash in the year	(545,374)	(604,220)

CYGNET HEALTH CARE LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 1999

1	Reconciliation of operating profit to net cash inflow from operating activities	1999		1998	
		£		£	
	Operating profit	3,045,783		1,013,505	
	Depreciation of tangible assets	176,723		195,917	
	Loss on disposal of tangible assets	717		10,896	
	Decrease/(increase) in stocks	503		(2,520)	
	Increase in debtors	(593,029)		(384,705)	
	Increase in creditors within one year	349,332		208,126	
	Net cash inflow from operating activities	2,980,029		1,041,219	
2	Analysis of net debt	1 November 1998	Cash flow	Other non-cash changes	31 October 1999
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	423,156	(419,349)		3,807
	Bank overdrafts	-	(126,025)		(126,025)
		<u>423,156</u>	<u>(545,374)</u>		<u>(122,218)</u>
	Debt:				
	Debts falling due within one year	(180,000)	(50,000)	-	(230,000)
	Debts falling due after one year	(3,270,000)	198,418	-	(3,071,582)
		<u>(3,450,000)</u>	<u>148,418</u>	<u>-</u>	<u>(3,301,582)</u>
	Net debt	(3,026,844)	(396,956)	-	(3,423,800)
3	Reconciliation of net cash flow to movement in net debt	1999		1998	
		£		£	
	Decrease in cash in the year	(545,374)		(604,220)	
	Cash outflow from decrease in debt	148,418		633,448	
	Movement in net debt in the year	(396,956)		29,228	
	Opening net debt	(3,026,844)		(3,056,072)	
	Closing net debt	(3,423,800)		(3,026,844)	

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings

1.2 Compliance with accounting standards

The accounts have been prepared in accordance with applicable accounting standards.

1.3 Turnover

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

1.4 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost or valuation 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	No provision
Land and buildings Leasehold	Over the term of the lease for short leaseholds, no provision for long leaseholds
Fixtures, fittings & equipment	5 - 10 years
Motor vehicles	5 years

No depreciation is provided in respect of freehold or long leasehold land and buildings as it is the company's policy to maintain these so as to extend their useful lives.

1.5 Leasing

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

1.6 Stock

Stock is valued at the lower of cost and net realisable value.

1.7 Pensions

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

1.8 Deferred taxation

Deferred taxation is provided at appropriate rates 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.

1.9 Pre opening costs

Pre opening costs incurred prior to the opening of new health care facilities are amortised over a period of five years from the date of opening of the facility.

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 FOR THE YEAR ENDED 31 OCTOBER 1999

3	Operating profit	1999	1998
		£	£
	Operating profit is stated after charging:		
	Depreciation of tangible assets	176,723	195,917
	Operating lease rentals	524,020	364,381
	Auditors' remuneration	14,000	14,000
	Remuneration of auditors for non-audit work	6,075	2,445
		<hr/>	<hr/>
4	Other interest receivable and similar income	1999	1998
		£	£
	Bank interest	38,962	14,022
		<hr/>	<hr/>
5	Interest payable	1999	1998
		£	£
	On other loans wholly repayable within 5 years	17,818	347,266
	On loans repayable after 5 years	217,861	-
		<hr/>	<hr/>
		235,679	347,266
		<hr/>	<hr/>
6	Taxation	1999	1998
		£	£
	U.K. current year taxation		
	U.K. corporation tax at 30% (1998 - 31%)	130,000	-
	Deferred taxation	175,000	-
		<hr/>	<hr/>
		305,000	-
	Prior years		
	U.K. corporation tax	2,945	-
		<hr/>	<hr/>
		307,945	-
		<hr/>	<hr/>

The taxation charge for the year has been reduced by unrelieved tax losses brought forward of £1,900,000.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

7 Tangible fixed assets

	Land and buildings Freehold £	Land and buildings Leasehold £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost or valuation					
At 1 November 1998	7,318,324	1,113,042	1,618,098	75,192	10,124,656
Additions	2,838,220	25,829	270,733	13,995	3,148,777
Disposals	-	-	(21,283)	-	(21,283)
At 31 October 1999	10,156,544	1,138,871	1,867,548	89,187	13,252,150
Depreciation					
At 1 November 1998	-	21,660	1,027,944	42,926	1,092,530
On disposals	-	-	(18,242)	-	(18,242)
Charge for the year	-	10,828	154,409	11,486	176,723
At 31 October 1999	-	32,488	1,164,111	54,412	1,251,011
Net book value					
At 31 October 1999	10,156,544	1,106,383	703,437	34,775	12,001,139
At 31 October 1998	7,318,324	1,091,382	590,154	32,266	9,032,126

Freehold properties were revalued on 21st October 1998 on the basis of an open market valuation for existing use by GVA Grimley.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

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. The term of the joint venture agreement is to 2010 subject to three years notice by either party.

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

	1999 £	1998 £
Profit and loss account		
Turnover	4,261,496	3,290,636
Operating costs	(3,125,994)	(2,705,233)
Operating profit	<u>1,135,502</u>	<u>585,403</u>
Apportioned:		
St Andrew's Hospital	634,195	348,810
The company	<u>501,307</u>	<u>236,593</u>
Balance sheet		
Fixed assets	849,716	879,509
Current assets	693,917	519,675
Current liabilities	(272,583)	(227,003)
	<u>1,271,050</u>	<u>1,172,181</u>
Capital account - St Andrew's Northampton	930,000	1,010,000
Current accounts		
St Andrew's Northampton	218,651	104,705
The company	<u>122,399</u>	<u>57,476</u>
	<u>1,271,050</u>	<u>1,172,181</u>

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 facility since the inception of the agreement. In addition a freehold property owned by the company with costs of £468,324 is used by the joint venture. A loan of £200,000 from St Andrew's Northampton was utilised for this property acquisition. The Joint Venture's audited year end is 31st March and their results to 31st October 1999 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 FOR THE YEAR ENDED 31 OCTOBER 1999

9	Stocks	1999	1998
		£	£
	Finished goods and goods for resale	14,823	15,326
		<u> </u>	<u> </u>
10	Debtors	1999	1998
		£	£
	Trade debtors	1,233,379	973,417
	Other debtors	21,780	10,531
	Prepayments and accrued income	296,098	112,176
	Unamortised pre-opening costs	137,896	-
		<u> </u>	<u> </u>
		1,689,153	1,096,124
		<u> </u>	<u> </u>
11	Creditors: amounts falling due within one year	1999	1998
		£	£
	Bank loans and overdrafts	356,025	180,000
	Trade creditors	348,401	423,251
	Corporation tax	130,000	-
	Other taxes and social security costs	168,652	124,303
	Other creditors	214,410	188,529
	Accruals and deferred income	857,264	503,312
		<u> </u>	<u> </u>
		2,074,752	1,419,395
		<u> </u>	<u> </u>

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

12 Creditors: amounts falling due after more than one year	1999 £	1998 £
Bank loans	2,621,582	2,820,000
Other loans	450,000	450,000
	<u>3,071,582</u>	<u>3,270,000</u>
Analysis of loans		
Not wholly repayable within five years by instalments:		
Bank term loan	2,851,582	3,000,000
Loan from joint venture partner	200,000	200,000
Wholly repayable within five years	250,000	250,000
	<u>3,301,582</u>	<u>3,450,000</u>
Included in current liabilities	(230,000)	(180,000)
	<u>3,071,582</u>	<u>3,270,000</u>
Loan maturity analysis		
Between one and two years	210,000	195,000
Between two and five years	985,000	930,000
In five years or more	1,876,582	2,145,000

The bank term loan is secured by a fixed charge on the company's tangible fixed assets and by a floating charge on all assets of the company.

The bank term loan is repayable over 11 years by equal monthly instalments and bears interest at a rate of 7.522% fixed for 10 years.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

13 Provisions for liabilities and charges

	Deferred taxation £
Profit and loss account	175,000

Deferred tax is provided at 30% (1998 - 31%) analysed over the following timing differences:

	Fully provided	
	1999	1998
	£	£
Accelerated capital allowances	175,000	-

14 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company to the funds.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

15 Share capital	1999 £	1998 £
Authorised		
2,787,125,000 Ordinary shares of 1p each	27,871,250	90
- A Ordinary shares of 50p each	-	15,281,250
800,000 Redeemable preference shares of £1 each	800,000	800,000
- New Deferred shares of 50p each	-	12,500,000
	<u>28,671,250</u>	<u>28,581,340</u>
Allotted, called up and fully paid		
9,739,996 Ordinary shares of 1p each	97,400	86
- A Ordinary shares of 50p each	-	4,076,263
800,000 Redeemable preference shares of £1 each	800,000	800,000
- New Deferred shares of 50p each	-	1,326,262
	<u>897,400</u>	<u>6,202,611</u>

The company has authority to issue warrants and options over 260,000 ordinary shares. The options have been issued under an approved Inland Revenue Share Option Scheme. Warrants and options currently in issue are as follows:

	Number of shares	Warrant/ option price	Warrant/ option period ending
Warrants	150,000	20p	Nov 2001
Options	37,000	20p	Sept 2001
Options	19,000	25p	Jan 2006
Options	15,000	30p	Mar 2008
Options	39,000	37.5p	Jun 2008

20 ordinary shares were issued from the exercise of options. Subsequently 8,646,345 ordinary shares were issued as fully paid bonus shares at the rate of 999 shares for each ordinary share held.

The A ordinary shares were converted into ordinary shares at the rate of 1 ordinary share of 1p for 8.1526 A ordinary shares of 50p and the balance of A ordinary share capital cancelled.

The deferred shares in issue were all cancelled.

85,000 ordinary shares were then issued from the exercise of options.

The new preference shares are redeemable at par in equal tranches over four years from the balance sheet date.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

16 Statement of movements on reserves

	Share premium account	Revaluation reserve	Capital reserve	Profit and loss account
	£	£	£	£
Balance at 1 November 1998	153,933	2,815,543	-	(3,294,750)
Premium on the issue of shares	21,625			
Bonus issue of shares	(86,463)	-	-	-
Cancellation of A Ordinary shares	-	-	4,066,263	-
Cancellation of Deferred shares	-	-	1,326,262	-
Capital reconstruction costs	(53,346)	-	-	-
Retained profit for the year	-	-	-	2,541,121
Transfer to capital reserve	-	-	(753,629)	753,629
	<u>35,749</u>	<u>2,815,543</u>	<u>4,638,896</u>	<u>-</u>

The capital reserve is non distributable in accordance with conditions for capital reconstruction agreed by the Court.

17 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Profit/(Loss) for the financial year	2,541,121	(172,857)
Other recognised gains and losses	-	1,589,803
Proceeds from issue of shares	22,475	-
Capital reconstruction costs	(53,345)	-
	<u>2,510,251</u>	<u>1,416,946</u>
Net addition to shareholders' funds	2,510,251	1,416,946
Opening shareholders' funds	5,877,337	4,460,391
	<u>8,387,588</u>	<u>5,877,337</u>
Closing shareholders' funds	8,387,588	5,877,337

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

18 Financial commitments

At 31 October 1999 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1999	1998
	£	£
Expiry date:		
In over five years	5,000	5,000

At 31 October 1999 the company had annual commitments of £475,000 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 after January 2000.

19 Directors' emoluments

	1999	1998
	£	£
Emoluments for qualifying services	129,000	268,693
Company pension contributions to money purchase schemes	2,750	2,625
	<u>131,750</u>	<u>271,318</u>

The remuneration of the executive directors includes a basic remuneration which has remained unchanged since 1991 and for years to 31 October 1998 a balance that was related to realised profits. For 1999, 2000 and 2001 the performance related remuneration scheme has been replaced by a bonus share scheme under which K A R Wilson and J C Hughes will receive 342,440 and 685,689 fully paid ordinary shares respectively based on the audited pre tax profits of the company for the year ended 31 October 1999. These shares will be issued within 30 days from the date of these financial statements.

CYGNET HEALTH CARE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 1999

20 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	1999 Number	1998 Number
Full time	249	207
Part time	118	99
	<u>367</u>	<u>306</u>

Employment costs

	£	£
Wages and salaries	5,661,167	4,396,733
Social security costs	467,943	357,469
Other pension costs	47,552	34,716
	<u>6,176,662</u>	<u>4,788,918</u>