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HSF health plan LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE PERIOD ENDED 31 DECEMBER 2007

THURSDAY



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HSF health plan LIMITED

A Company Limited by Guarantee No. 30869

Founded in 1873 Incorporated 1890 Change of name 2007

Officers and Advisers 2007

Board of Directors

Executive

Mr K R Bradley MCMI - Chief Executive

Mr S R Duff - Sales and Marketing Director

Mr P W Jackson MSc BA (Hons) DChA - Finance Director

Non-Executive

Grp Capt T M Arnot OBE (until October 2007)

Mr M J Boyle FCA

Mrs J L Dalton LLB (Hons) (from October 2007)

Mr M Davies

Mr G R M Hind - Chairman

Mrs L Richards-Cole ACII

Mr D Thomas

Medical Adviser

Dr I J Sawtell MB BS MSc MFOM BA Dip CII

Bankers

HSBC

Unity Trust Bank Plc

UBS AG

Ulster Bank Limited

Bank of Ireland

Solicitors

Iliffes Booth Bennett

Campbell Riddell Breeze Patterson

Eugene P Kearns

Auditors

haysmacintyre, Chartered Accountants

Investment Managers

Rensburg Sheppards

Head Office

24 Upper Ground

LONDON SE1 9PD

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HSF health plan LIMITED

THE REPORT OF THE BOARD OF DIRECTORS

FOR THE PERIOD ENDED 31 DECEMBER 2007

INTRODUCTION

During the period the Directors decided to change the accounting reference date to 31 December to coincide with that of the parent company, The Hospital Saturday Fund. Accordingly the Board of Directors is pleased to present their 134th Report and the audited Financial Statements for the nine months ended 31 December 2007.

BACKGROUND AND PRINCIPAL ACTIVITIES

HSF health plan Limited, a Company Limited by Guarantee, is a health cash plan organisation. The trading activities of the Company are undertaken in support of The Hospital Saturday Fund. Founded in 1873 as The Hospital Saturday Fund, it has adapted to the needs of the times, particularly since the National Health Service came into being in 1948 and now provides a number of medical cash plan schemes both in the UK and Ireland.

THE ASSOCIATION OF THE HOSPITAL SATURDAY FUND

At the Association General Meeting in October 2007 Mr John Greenwood was re-elected to serve for a further year as Chairman of the Association and the Board of Directors of the charity company. By virtue of this office, he would also serve as a Director of HSF health plan Limited. Mr Graham Hind was re-elected as a Director / Trustee and Mr Keith Lawrey was elected for the first time, both for a three year term. The HSF Board decided that Mr Michael Boyle, Mrs Jane Dalton, Mr Graham Hind and Mr David Thomas should serve as Non-Executive Directors of HSF health plan Limited.

BOARD OF DIRECTORS

Following the decisions of the HSF Association outlined in the paragraph above, the Board elected Mr Graham Hind as Chairman and Mrs Lynn Richards-Cole to serve as Vice Chairman from November 2007. Mr Michael Boyle had served as Vice Chairman until November 2007. Members of the three Committees were also appointed as stated below, the previous members of those Committees also being indicated. The two Non-Executive Directors who would not be involved with the Hospital Saturday Fund and who would be able to act completely independently continued their service. These were Mr Mark Davies and Mrs Lynn Richards-Cole who began a three year term of office in January 2007.

The wide and varied expertise brought to Board meetings and Committee meetings by the Directors, both Executive and Non-Executive, continues to ensure that the organisation is managed efficiently. A further extensive annual review and updating of the risk register was undertaken with the conclusion being reached again that working practices and procedures were entirely satisfactory. Board and Committee business plans were updated to reflect current and future activities. The Board has a strong commitment to its regulatory responsibilities working through them and implementing procedures with the Compliance Manager.

COMMITTEE MEMBERSHIP

Finance

Mr M J Boyle – Chairman
Grp Capt T M Arnot (until Oct 2007)
Mr G R M Hind
Mrs L Richards-Cole (from Nov 2007)
Mr K R Bradley (in attendance)
Mr P W Jackson (in attendance)

Human Resources:

Mr J Greenwood – Chairman
Mr K R Bradley
Mrs J L Dalton (from Nov 2007)
Mr G R M Hind
Mrs L Richards-Cole (until Oct 2007)

Sales and Marketing:

Mr D Thomas – Chairman
Mr K R Bradley
Mr M Davies
Mr S R Duff

HSF health plan LIMITED

THE REPORT OF THE BOARD OF DIRECTORS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

REVIEW OF THE PERIOD

- CONTRIBUTION INCOME AND BENEFIT PAYMENTS

Total contributions (less Insurance Premium Tax) for the period were £16,559,653. Benefits payable (including Personal Injury premiums and helplines) for the period were £12,308,169. These benefits represented 74% of contribution income. These figures included the *Best Health* Schemes.

- CHARITABLE DONATIONS

The Company continued to support the Hospital Saturday Fund Charitable Trust by donating the sum of £568,000 (2006 £1,450,000) under Gift Aid.

- INVESTMENTS AND RESERVES

The market value of the Company's investments reduced from £12,217,832 to £11,777,236. This has arisen due to net disposals of £554,330 and an unrealised gain of £113,734. The profit of £42,927 after taxation has increased the Company's reserves to £15,907,415.

- FINANCIAL INSTRUMENTS

The Company holds a range of financial investments including both Sterling and Euro cash deposits and stock market investments. The Company's Directors are careful to manage the Company's exposure to any one counterparty and ensure the nature of the financial investments are appropriate to the Company's activities, objectives and the maintenance of the Company's FSA solvency requirement.

- PRINCIPAL RISKS

The Board carefully monitors the Company's risk exposure, specifically claim rates, investment risk and operational and management risk. The Board maintains and regularly reviews the Company's risk register.

- BEST HEALTH

The cash plan underwritten by HSF for the Benenden Healthcare Society being marketed under the title *Best Health* has two schemes *Classic* and *Advantage*. Price increases for both schemes were introduced in May 2007. Some 500 new contributors were enrolled which was a low figure due to marketing being suspended for almost the entire period covered by this report. This made a total of just over 17,300 at the end of December 2007 by which time active marketing had resumed. These figures are in addition to those referred to for HSF in the Sales and Marketing paragraph below.

- ANNUAL GENERAL MEETING 2007

The meeting was held on 11th October, 2007 and was attended by two Members of the Association of The Hospital Saturday Fund acting as 'The Member' attending and voting in accordance with the new structures and relationship between The Hospital Saturday Fund and HSF health plan Limited. The Annual Report and Accounts for the year ended 31st March, 2007 were adopted.

HSF health plan LIMITED

THE REPORT OF THE BOARD OF DIRECTORS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

- SALES AND MARKETING

The total number of new contributors enrolled in the nine months was just over 9,700 across the UK and Ireland. This was slightly less than the same period in the previous year, due to sales staff vacancies, and brought the grand total at the year end to just over 103,500. 72 new companies were taken on which was almost twice the number in the comparable nine months of the previous year. The appointment of Mr Lee Andre to a new post of Marketing Manager in September 2007 and the launching of an updated website is expected to increase successes in 2008.

Ongoing staff training has continued to ensure that HSF is compliant with the Insurance Conduct of Business (ICOB) regulations. In addition to the e-learning process and driving assessments, sales staff are included in training opportunities which are part of the company maintaining the standards of *Investors in People* and *Excellence Through People*.

Whilst the contributors who left us during the year were mainly from the lower value schemes, the new ones joined at the higher rates. The percentage of contributors paying £3/£4.25 per week and over continued to increase and is now 72%. Contributors in the Extra Cover schemes in the UK and the *One* schemes in Ireland now represent nearly a third of the grand total. Company Group contributors represent 86% of the total and Personal contributors 14%.

- PERSONAL INJURY / ACCIDENT BENEFITS PROVIDER

The Board decided to change the underwriter of these benefits which are offered as part of most of the HSF schemes. In October 2007 Chubb Insurance Company of Europe SA took over from ACE European Group Limited.

- INVESTOR IN PEOPLE / EXCELLENCE THROUGH PEOPLE

The assessments for renewal of accreditation of both IiP and ETP took place in 2007. These resulted in very successful conclusions with complimentary comments about the company, its management and staff.

As mentioned above, under 'Sales and Marketing', training forms an important part of both the IiP and ETP standards and opportunities have been taken by members of staff to increase their knowledge and enhance their work performance. All have undertaken an e-learning process for medical insurance and health cash plan staff under the auspices of the Chartered Insurance Institute and the British Health Care Association.

- MOUTH CANCER AWARENESS WEEK

In November 2007, the health plan and the Charitable Trust became involved in this special awareness week, giving the encouragement for regular dental checks. Publicity also focussed on being able to claim for the cost of these examinations and dental treatment. The result of the publicity was an increase in new contributors being enrolled during that week and a donation of £2,000 being made by the Trust to the Mouth Cancer Foundation.

- APPRECIATION

The Directors are always pleased to have this opportunity to express their grateful thanks for the cooperation and assistance received during the year. Employers who operate payroll deduction facilities and allow recruitment on their premises provide invaluable help and ensure that HSF is able to operate simply and efficiently in a cost effective manner. The personal recommendation which existing contributors give to their work colleagues is also very much appreciated. Hospital staff continue to assist us by providing a vital service in validating our claim forms.

The Directors, both Executive and Non-Executive, continue to be proud of the efficient service provided to contributors by all members of staff throughout the year. The long service records continue with nearly a third of the workforce having been with HSF for 10 years or more. Everyone, both in our offices and 'out on the road', has made a valuable contribution to this year's achievements both in the UK and Ireland. This continues to give the Board confidence for the future of *HSF health plan*.

HSF health plan LIMITED

THE REPORT OF THE BOARD OF DIRECTORS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial period 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, and
- 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 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.

So far as each of the Directors is aware at the time the report is approved

- there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information (s 234ZA (2)).

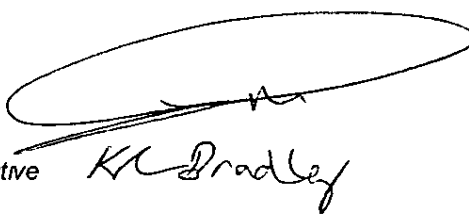
AUDITORS

haysmacintyre have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the next Annual General Meeting in accordance with section 384, Companies Act 1985.

On behalf of the Board of Directors

GRAHAM R M HIND, *Chairman*

KEITH R BRADLEY, *Chief Executive*



1 April 2008

HSF Mission Statement

Our Mission is To be recognised as the number one Health Cash Plan provider in the UK and Ireland by offering the best value range of schemes and ensuring a first class service for every contributor

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF

HSF health plan LIMITED

We have audited the financial statements of HSF health plan Limited for the period ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, Statement of Total Recognised Gains and Losses, Note of Historical Cost Profits and Losses and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the Company's Member, 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 Member 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 Member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions 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

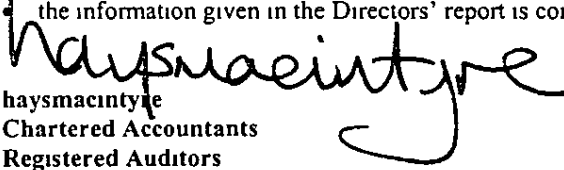
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 (applicable to insurance companies), and
- the information given in the Directors' report is consistent with the financial statements.


haysmacintyre
Chartered Accountants
Registered Auditors

Fairfax House
15 Fulwood Place
London WC1V 6AY

1 April 2008

HSF health plan LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 31 DECEMBER 2007

	Notes	Period ended 31 December 2007		Restated Year ended 31 March 2007	
		£	£	£	£
Technical account general business					
Earned premiums					
Gross premiums written		16,585,610		19,847,170	
Change in the gross provision for unearned premiums		(25,957)		(41,913)	
Gross premiums earned			16,559,653		19,805,257
Less reinsurance premiums			(747,082)		(1,134,108)
Net premiums earned			15,812,571		18,671,149
Claims incurred					
Gross claims paid	3	(11,448,291)		(14,135,962)	
Change in the gross provision for claims outstanding		(155,006)		(2,739)	
			(11,603,297)		(14,138,701)
Net operating expenses					
	5		(4,020,511)		(3,683,330)
Balance on the technical account for general business					
			188,763		849,118
Non-technical account					
Investment income					
Income from other financial investments		225,362		290,545	
Interest receivable		122,082		218,405	
Realised losses - Other financial investments		(36,062)		(22,160)	
Unrealised gains - Other financial investments		113,734		521,920	
Investment expenses and charges		(78,206)		(84,963)	
			346,910		923,747
Profit on ordinary activities before donations					
			535,673		1,772,865
Donations					
	6		(568,000)		(1,450,000)
(Loss)/profit on ordinary activities before tax					
	4		(32,327)		322,865
Taxation					
	8		75,254		130,343
Profit for the period after tax					
	13		42,927		453,208

The profit on ordinary activities before taxation is wholly attributable to continuing activities

HSF health plan LIMITED**FOR THE PERIOD ENDED 31 DECEMBER 2007****STATEMENT OF RECOGNISED GAINS AND LOSSES**

	Period ended 31 December 2007 £	Restated Year ended 31 March 2007 £
Profit for the financial period	42,927	453,208
Prior year adjustment (note 19)	(412,206)	-
Total recognised gains and losses relating to the period	<u>(369,279)</u>	<u>453,208</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	Period ended 31 December 2007 £	Restated Year ended 31 March 2007 £
Reported (loss)/profit before tax	(32,327)	322,865
Difference between historical cost depreciation and the actual depreciation charge of the period calculated on the revalued amount (note 13)	17,663	23,550
Historical cost (loss)/profit before taxation	<u>(14,664)</u>	<u>346,415</u>
Historical cost profit after taxation	<u>60,590</u>	<u>476,758</u>

HSF health plan LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2007

	Notes	Period ended 31 December 2007		Restated Year ended 31 March 2007	
		£	£	£	£
ASSETS					
Investments					
Land and buildings	9	1,890,000		1,920,000	
Other financial investments	10	11,777,236		12,217,832	
			13,667,236		14,137,832
Debtors					
Debtors arising out of direct insurance operations					
- policyholders		1,659,600		1,452,391	
Other debtors		550,844		497,938	
			2,210,444		1,950,329
Other Assets					
Tangible fixed assets	11	124,547		128,634	
Cash at bank and in hand		1,988,169		1,775,819	
			2,112,716		1,904,453
Prepayments and Accrued Income			126,306		128,839
TOTAL ASSETS			18,116,702		18,121,453
LIABILITIES					
Reserves					
General fund	13	14,794,678		14,734,088	
Revaluation reserve	13	1,112,737		1,130,400	
			15,907,415		15,864,488
Technical Provisions					
Provision for unearned premiums		383,548		357,591	
Provision for claims outstanding		1,056,203		901,197	
			1,439,751		1,258,788
Provisions for Other Risks and Charges					
Provision for deferred taxation	12		211,560		276,684
Creditors					
Other creditors including taxation and social security			557,976		721,493
TOTAL LIABILITIES			18,116,702		18,121,453

The financial statements were approved and authorised for issue by the Board of Directors on 1 April 2008 and were signed below on its behalf by


GRAHAM R M HIND, Chairman


KEITH R BRADLEY, Chief Executive

HSF health plan LIMITED

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2007

	Period ended 31 December 2007 £	Restated Year ended 31 March 2007 £
Reconciliation of (loss)/profit on ordinary activities before tax to net operating cash flows		
(Loss)/profit on ordinary activities before tax	(32,327)	322,865
Unrealised gains on other financial investments	(113,734)	(521,920)
Realised losses on other financial investments	36,062	22,160
Income from other financial investments and cash	(347,444)	(508,950)
	<u>(457,443)</u>	<u>(685,845)</u>
Depreciation	80,893	100,925
Increase in contributions due and other debtors	(257,582)	(441,412)
Increase in benefit claims and other creditors	147,845	166,474
	<u>(486,287)</u>	<u>(859,858)</u>
CASH FLOW STATEMENT		
Net cash outflow from operating activities	(486,287)	(859,858)
Returns on investments and servicing of finance (Note A)	347,444	508,950
Capital expenditure (Note A)	(46,806)	(68,977)
Taxation paid	(120,269)	(351,950)
	<u>(305,918)</u>	<u>(771,835)</u>
Cash flows were invested as follows		
Increase in cash holdings	212,350	(1,216,923)
Net investments (Note A)	(518,268)	445,088
	<u>(305,918)</u>	<u>(771,835)</u>
Net cash flow for the period (Note B)		
Cash flow	212,350	(1,216,923)
Net investments	(518,268)	445,088
	<u>(305,918)</u>	<u>(771,835)</u>
Movement arising from cash flows	(305,918)	(771,835)
Changes in market value	47,672	459,760
	<u>(258,246)</u>	<u>(312,075)</u>
Total movement in cash and investments	(258,246)	(312,075)
Investments and cash at 1 April 2007	15,913,651	16,225,726
	<u>15,655,405</u>	<u>15,913,651</u>
Investments and cash at 31 December 2007		

HSF health plan LIMITED

NOTES TO THE CASH FLOW STATEMENT

FOR THE PERIOD ENDED 31 DECEMBER 2007

A GROSS CASH FLOWS

	Period ended 31 December 2007 £	Year ended 31 March 2007 £
Returns on investments and servicing of finance		
Income received from other financial investments	225,362	290,545
Interest received	122,082	218,405
	<u>347,444</u>	<u>508,950</u>
Capital Expenditure		
Purchases of tangible fixed assets	<u>(46,806)</u>	<u>(68,977)</u>
Investments		
Purchases of other financial investments	(1,426,826)	(2,525,499)
Sales of other financial investments	1,945,094	2,080,411
	<u>518,268</u>	<u>(445,088)</u>

B MOVEMENT IN CASH AND INVESTMENTS

	At 1 April 2007 £	Cash flows £	Changes in Market Values £	At 31 December 2007 £
Cash in hand and at bank	1,775,819	212,350	-	1,988,169
Other financial investments	12,217,832	(518,268)	77,672	11,777,236
Land and buildings	1,920,000	-	(30,000)	1,890,000
	<u>15,913,651</u>	<u>(305,918)</u>	<u>47,672</u>	<u>15,655,405</u>

1 ACCOUNTING POLICIES

Except as detailed below, the financial statements have been prepared in accordance with the provisions of Section 255 and Schedule 9A to the Companies Act 1985, which cover disclosures applicable to insurance companies. The financial statements have been prepared in accordance with the Association of British Insurers' ("ABI") Statement of Recommended Practice on Accounting for Insurance Business ("SORP") issued in December 2005.

The financial statements have been prepared in accordance with applicable accounting standards.

(a) Accounting Convention

The financial statements have been prepared under the historical cost convention modified to incorporate the revaluation of freehold land and buildings and other financial investments.

(b) Premiums

Earned premiums represent contributions from policyholders for the period, excluding insurance premium tax and including an estimate of amounts due on 31 December and subsequently received.

Provision is made for premiums received, but not earned at the balance sheet date.

All premiums arise in the United Kingdom and Ireland.

(c) Claims Incurred

Claims incurred represent benefits payable to contributors for the period, and include provision for dental, optical, hospital, recuperation and birth grant claims in respect of the period to 31 December settled after that date. All other claims are recognised on a paid basis.

(d) Acquisition Costs

The costs of acquiring new business which are incurred during the financial period are recognised in the period to which they relate.

(e) Depreciation

Depreciation is calculated to write off the cost less estimated residual value of assets in equal instalments over their expected useful lives. The rates used are as follows:

Freehold and long leasehold properties	2%
Furniture and equipment	20%
Computer equipment	25%

(f) Translation of Foreign Currency

Transactions in foreign currencies are converted monthly at the relevant month end rates of exchange. At the period end assets and liabilities are converted at the exchange rates ruling at that date. Exchange differences are taken to the Profit and Loss Account.

HSF health plan LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

ACCOUNTING POLICIES (continued)

(g) Pension Costs

The Company operates makes contributions to employees' group personal pension plans. The pension cost charge represents contributions payable by the Company to the group personal pension plans in respect of the period.

(h) Investments

Land and buildings occupied by the Company for its own purposes are stated at valuation less depreciation.

Listed investments are included in the balance sheet at mid-market value. Unrealised gains and losses on the revaluation of listed investments are taken to the Profit and Loss Account.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and mid-market value at the previous financial period end or cost if the investment was acquired subsequently.

(i) Deferred Taxation

Full provision is made for deferred tax in respect of all non-permanent timing differences that have originated but not reversed at the balance sheet date.

(j) Operating leases

Rental costs payable under operating leases are charged to Profit and Loss Account over the period of each lease.

2 CONTRIBUTION INCOME

The Company is engaged in only one class of business all of which arises in the United Kingdom and Ireland.

3. GROSS CLAIMS PAID

	Period ended 31 December 2007 £	Year ended 31 March 2007 £
Hospital	1,922,499	2,342,913
Day case	229,507	230,465
Recuperation	186,384	232,713
Birth Grant	857,534	919,626
Specialists/investigations	874,114	899,206
Dental/optical	5,819,142	7,609,406
Home help	15,744	12,592
Practitioners	887,194	1,155,885
General Practitioners/Prescriptions/Emergency department	625,722	702,163
Surgical appliances/hearing aids	30,451	30,993
	<u>11,448,291</u>	<u>14,135,962</u>

HSF health plan LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

4	(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	Period ended 31 December 2007 £	Year ended 31 March 2007 £
	(Loss)/profit on ordinary activities before tax is stated after Charging/(crediting)		
	Depreciation - owned assets	80,893	100,925
	Auditors' remuneration - audit (including VAT)	18,758	18,037
	- other (including VAT)	6,251	9,929
	Operating leases - motor vehicles and office equipment	91,798	114,025
	Foreign exchange (gains)/losses	(77,185)	23,064
	Recharge of administrative expenses to Hospital Saturday Fund Charitable Trust	<u>(55,763)</u>	<u>(35,339)</u>
5	NET OPERATING EXPENSES	Period ended 31 December 2007 £	Year ended 31 March 2007 £
	Staff costs	2,553,512	2,238,880
	Other administrative expenses	311,167	592,836
	Sales/marketing expenses	470,372	541,077
	Acquisition costs	685,460	310,537
		<u>4,020,511</u>	<u>3,683,330</u>
6.	DONATIONS		
	£568,000 (31 March 2007 £1,450,000) was paid under Gift Aid to Hospital Saturday Fund Charitable Trust, a registered charity		
7	STAFF COSTS	Period ended 31 December 2007 £	Year ended 31 March 2007 £
	Wages and salaries	1,403,927	1,821,866
	Social security costs	146,435	199,614
	Other pension costs (see note 14)	1,003,150	217,400
		<u>2,553,512</u>	<u>2,238,880</u>
	Staff costs of Directors including emoluments for the period	<u>786,353</u>	<u>335,235</u>
	Highest paid Director Emoluments including benefits-in-kind	<u>455,113</u>	<u>120,772</u>
	Contributions totalling £525,721 (31 March 2007 £40,751) were made to group personal pension plans in respect of 3 Directors (31 March 2007 3 Directors)		

HSF health plan LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

7	STAFF COSTS (continued)	Period ended 31 December 2007	Year ended 31 March 2007
	The average number of persons employed during the period was		
	Sales	21	20
	Administration	36	36
		<u>57</u>	<u>56</u>

8. TAXATION

Gains and losses on the Company's investments are taxed under the HM Revenue and Customs rules for insurance companies. Gains and losses realised on disposals of investments during the period and the unrealised gains and losses on revaluation of the portfolio to market value at the period end are subject to corporation tax. Unrealised gains in the portfolio as at 31 March 2002 will be liable to corporation tax when realised.

The tax charge in the Profit and Loss Account is made up as follows

	Period ended 31 December 2007 £	Restated Year ended 31 March 2007 £
Corporation tax at current rates	-	130,350
Movement in deferred tax provision	(65,124)	(260,693)
Adjustments in respect of prior years	(10,130)	-
	<u>(75,254)</u>	<u>(130,343)</u>

The tax assessed for the period differs from the standard corporation tax rate in the UK of 30%.

The differences are explained below:

Profit on ordinary activities before tax	(32,327)	322,865
Profit on ordinary activities before tax at the standard tax rate of 30%	(9,698)	96,860
Effects of:		
Amounts not deductible for tax purposes	123,437	8,657
Depreciation in excess of capital allowances	21,218	18,397
Dividend and distribution income	(50,459)	(64,288)
Realised gains on investments	86,867	100,391
Decrease in deferred taxation provision (note 12)	(65,124)	(100,391)
Prior year adjustment	(160,302)	(160,302)
Marginal relief	(11,063)	(29,666)
Adjustment in respect of prior years	(10,130)	-
Tax on profit of ordinary activities	<u>(75,254)</u>	<u>(130,343)</u>

HSF health plan LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

9 LAND AND BUILDINGS

The Company owns a freehold property at 24 Upper Ground, London SE1 9PD which is used for the Company's own activities. On 6 April 2006, the property was valued on an open market basis by Keith Lumley, Chartered Surveyors at £2,000,000

	2007 £
At Valuation	
At 1 April 2007 and 31 December 2007	2,000,000
Depreciation	
At 1 April 2007	80,000
Charge for the period	30,000
At 31 December 2007	110,000
Net book value	
At 31 December 2007	1,890,000
At 31 March 2007	1,920,000

The historical cost of freehold property at 31 December 2007 is £822,500 (31 March 2007 £822,500)

10. OTHER FINANCIAL INVESTMENTS

	Period ended 31 December 2007 £	Year ended 31 March 2007 £
At market value		
United Kingdom equities	6,879,185	7,356,636
Overseas Unit Trusts and investment funds	1,567,405	1,492,286
Bonds	2,395,111	2,599,010
UK Unit Trusts and investment funds	935,535	769,900
	11,777,236	12,217,832

The cost of other financial investments as at 31 December 2007 was £8,920,981 (31 March 2007 £8,804,265)

Reconciliation of movement in the period

Market value at 1 April	12,217,832	11,272,984
Additions	1,426,826	2,525,499
Disposals	(1,981,156)	(2,102,571)
Unrealised gain on investments	113,734	521,920
Market value at 31 December/31 March	11,777,236	12,217,832

HSF health plan LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

11	TANGIBLE FIXED ASSETS		Furniture and Equipment £
	Cost		
	At 1 April 2007		647,220
	Additions		46,806
	Disposals		(63,005)
	At 31 December 2007		<u>631,021</u>
	Depreciation		
	At 1 April 2007		518,586
	Charge for period		50,893
	Eliminated on disposal		(63,005)
	At 31 December 2007		<u>506,474</u>
	Net book value		
	At 31 December 2007		<u>124,547</u>
	At 31 March 2007		<u>128,634</u>
12.	PROVISION FOR DEFERRED TAXATION		Restated 2007 £
	At 1 April 2007 (as previously stated)		436,986
	Prior year adjustment		(160,302)
	As restated		<u>276,684</u>
	Transfer to Profit and Loss Account (note 8)		
	- Release of deferred tax on investment gains	(110,210)	
	- Pension deferral	(115,216)	
	- Release of tax on prior year adjustment	<u>160,302</u>	
			<u>(65,124)</u>
	At 31 December 2007		<u>211,560</u>

As disclosed in note 8 the Company's investments are taxed on a mark to market basis under the transitional rules for insurance companies under which the unrealised gains that existed at 31 March 2002 are taxed on a realised basis. Therefore provision is made for deferred taxation in respect of unrealised gains on investments that existed at 31 March 2002, where those gains have not yet been realised. Deferred tax is provided in respect of this and other timing differences.

The balance as at 31 December 2007 comprises a deferred taxation asset of £115,216 relating to pension costs and a deferred taxation liability of £326,776 relating to investment gains.

If the Company's freehold property were sold for its revalued amount a tax liability of £214,000 would arise. As the Directors do not intend to sell the property in the foreseeable future no provision has been made for this liability in deferred taxation.

HSF health plan LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

13. RESERVES	Revaluation Reserve £	General Fund £	Total £
At 1 April 2007 (as previously stated)	1,130,400	15,146,294	16,276,694
Prior year adjustment (note 19)	-	(412,206)	(412,206)
At beginning of period as restated	1,130,400	14,734,088	15,864,488
Retained profit for the period	-	42,927	42,927
Transfer to general fund	(17,663)	17,663	-
At 31 December 2007	<u>1,112,737</u>	<u>14,794,678</u>	<u>15,907,415</u>

14 PENSION COSTS

The Company makes contributions to group personal pension plans. The assets of the schemes are held separately from those of the Company in independently administered funds. The pension cost charge represents contributions payable for the period by the Company to the personal pension plans and amounted to £1,003,510 (31 March 2007 £217,400).

All of the Company's UK employees have now left the Defined Benefit Scheme which operated previously. The Directors gave notice to leave the Scheme as at 31 December 2007 and as the Scheme is solvent the Directors consider it is unlikely that a liability will be crystallised under Section 75 of the Pensions Act. Included within the contributions for the period are additional contributions of £833,344 made by the company to top up employees' plans in order to compensate for the shortfall in the amounts accumulated for employees under the previous Scheme.

At the balance sheet date, there were no outstanding or prepaid contributions (31 March 2007 £Nil).

15. OPERATING LEASE COMMITMENTS

At 31 December 2007, the Company had annual commitments under operating leases which expire as follows

	31 December 2007		31 March 2007	
	Land and Buildings £	Other £	Land and Buildings £	Other £
Within one year	6,945	16,771	26,223	20,345
In the second to fifth years inclusive	7,043	92,438	7,043	84,261
	<u>13,988</u>	<u>109,210</u>	<u>33,266</u>	<u>104,606</u>

HSF health plan LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE PERIOD ENDED 31 DECEMBER 2007

16. CONTINGENT ASSETS AND LIABILITIES

No provision has been made for any levy which the Company may be called upon to pay under the provisions of the Policyholders Protection Act 1975. The maximum amount of any such levy in respect of the current financial period would be £165,900 (31 March 2007 £198,500)

17. RELATED PARTY TRANSACTIONS

During the period, the following transactions transpired with Hospital Saturday Fund Charitable Trust, a charity administered by the Company

- a donation of £568,000 was made (31 March 2007 £1,450,000)
- management fee of £55,763 receivable (31 March 2007 £35,339)
- a balance of £179,016 (31 March 2007 £Nil) was due to the company from the Charitable Trust as at 31 December 2007

18. THE FRIENDLY HEALTHCARE ORGANISATION LIMITED

The Company operates and underwrites "Best Health" health care cash plans for The Friendly Healthcare Organisation Limited, a subsidiary of The Benenden Healthcare Society Limited. Benenden Healthcare Society markets these schemes via The Friendly Healthcare Organisation Limited as an authorised agent to the Company and although the substance of the arrangement is one of an underwriting agreement, legally, the scheme is operated on an agency basis. The following amounts are included within the Company's accounts for the period ended 31 December 2007

	Period ended 31 December 2007 £	Year ended 31 March 2007 £
Contribution income	2,943,958	2,890,039
Claims incurred	2,240,173	2,434,399
Reinsurance premium	18,325	145,103
Other operating expenses	685,460	310,537

19. PRIOR YEAR ADJUSTMENT

A prior year adjustment of £572,508 less tax of £160,302 has been made in respect of a change in the company's claim provisioning policies. Provisions are now being made for claims incurred but not reported as at the year end in respect of dental and optical claims in addition to the hospital, recuperation and birth grants previously provided for

20. POST BALANCE SHEET EVENT

On the 20 March 2008 the HSF health plan completed a transaction to purchase a number of members from a cash plan provider for £1.28m, taking over the policies with effect as from 1 April 2008