

**CHEADLE ROYAL HEALTHCARE
LIMITED**

Report and Financial Statements

30 June 2002



**Deloitte & Touche
Aberdeen**

REPORT AND FINANCIAL STATEMENTS 2002

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REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P F Batchelor
D G Chappell (Chairman)
S F Hemsley
R Russell
J P Ward
R Morris

SECRETARY

R Morris

REGISTERED OFFICE

100 Wilmslow Road
Cheadle
Cheshire
SK8 3DG

SOLICITORS

Hammond Suddards
Trinity Court
16 John Dalton Street
Manchester
M2 6HY

BANKERS

HSBC
5 Great Underbank
Stockport
Cheshire
SK1 1LH

AUDITORS

Deloitte & Touche
Aberdeen

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

ACTIVITIES

Cheadle Royal Healthcare Limited is engaged in the provision of private healthcare.

RESULTS, DIVIDENDS AND TRANSFER TO RESERVES

The company made a profit after taxation of £2,342,536 (2001: £2,062,639). No dividends have been declared in respect of the current year (2001: £634,156). The retained profit for the year of £2,342,536 (2001: £1,428,483) has been transferred to reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company has traded successfully during the year and the directors are optimistic about the long term prospects for continued growth.

DIRECTORS

The present membership of the board is set out on page 1. The directors had no beneficial interests in the shares of the company at the start or at the end of the year. P F Batchelor, S F Hemsley, J P Ward and R Morris are directors of the immediate parent company, Affinity Healthcare Limited. R Russell and D G Chapell are also directors of the ultimate parent company, Healthcare Scotland Limited. Their interests in the share capital of these companies are disclosed in their respective financial statements. E D Burling resigned as director on 18 February 2002. S P McKeown resigned as director on 11 March 2002. P F Batchelor resigned as company secretary on 21 January 2002. R Morris was appointed as a director and company secretary on 21 January 2002.

EMPLOYEE INVOLVEMENT

The company provides information to employees covering various aspects of the company's current and future activities along with certain financial information.

EMPLOYMENT OF DISABLED PERSONS

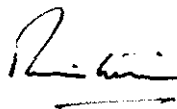
It is company policy to give full consideration to suitable applications for employment from disabled persons. Opportunities also exist for employees of the company who become disabled to continue in their employment or to be trained for other positions in the company.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming annual general meeting.

Approved by the board of directors
and signed by order of the board

Secretary



Date:

1. 4. 03

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year 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, 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 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
CHEADLE ROYAL HEALTHCARE LIMITED**

We have audited the financial statements of Cheadle Royal Healthcare Limited for the year ended 30 June 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors' are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the 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 for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the 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 30 June 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte and Touche

Chartered Accountants and Registered Auditors

Aberdeen

Date: 1 April 2003

PROFIT AND LOSS ACCOUNT
Year ended 30 June 2002

	Note	2002 £	2001 £
TURNOVER: continuing operations	2	12,344,236	10,934,453
Cost of sales		(6,181,197)	(5,784,038)
Gross profit		6,163,039	5,150,415
Administrative expenses		(2,694,812)	(2,115,185)
OPERATING PROFIT: continuing operations		3,468,227	3,035,230
Interest receivable and similar income		8,350	18,639
Interest payable and similar charges	4	(90,624)	(126,413)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	3,385,953	2,927,456
Tax on profit on ordinary activities	6	(1,043,417)	(864,817)
PROFIT FOR THE FINANCIAL YEAR		2,342,536	2,062,639
Dividends payable	7	-	(634,156)
RETAINED PROFIT FOR THE FINANCIAL YEAR	19	2,342,536	1,428,483

All nursing home activity ceased during the year. An analysis of continuing operations and discontinued operations has not been presented as it was not possible to identify the relevant components separately.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2002

	2002 £	2001 £
Profit for the financial year	2,342,536	2,062,639
Unrealised surplus on revaluation of fixed assets	8,444,391	5,830,523
Total recognised gains and losses relating to the year	10,786,927	7,893,162

BALANCE SHEET
At 30 June 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Tangible assets	8	21,600,000	12,800,000
Investments	9	2	2
		<u>21,600,002</u>	<u>12,800,002</u>
CURRENT ASSETS			
Stocks	10	29,788	20,278
Debtors	11	5,383,962	3,061,586
Cash at bank and in hand		1,019,874	291,473
		<u>6,433,624</u>	<u>3,373,337</u>
CREDITORS: amounts falling due within one year	12	<u>(3,512,096)</u>	<u>(2,545,071)</u>
NET CURRENT ASSETS		<u>2,921,528</u>	<u>828,266</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>24,521,530</u>	<u>13,628,268</u>
CREDITORS: amounts falling due after more than one year	14	<u>(1,302,716)</u>	<u>(1,159,992)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(49,650)</u>	<u>(86,039)</u>
TOTAL NET ASSETS		<u><u>23,169,164</u></u>	<u><u>12,382,237</u></u>
CAPITAL AND RESERVES			
Called up share capital	18	97	97
Revaluation reserve	19	18,280,798	9,836,407
Capital redemption reserve	19	907,203	907,203
Share premium	19	212,800	212,800
Profit and loss account	19	3,768,266	1,425,730
SHAREHOLDERS' FUNDS	17	<u><u>23,169,164</u></u>	<u><u>12,382,237</u></u>

These financial statements were approved by the board of directors on

1.4.03

Signed on behalf of the board of directors



Director

NOTES TO THE ACCOUNTS**Year ended 30 June 2002****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted by the directors are described below.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of freehold properties.

The company is exempt from preparing group accounts as the results of the company and its subsidiary are included in the accounts of the parent company, Affinity Healthcare Limited.

Cash flow statement

The company has taken advantage of exemptions within FRS1 and has not prepared a cash flow statement on the grounds that the company is a wholly owned subsidiary of a parent undertaking which produces consolidated financial statements including a consolidated cash flow statement dealing with the cash flows of the group.

Tangible fixed assets

No depreciation is provided on freehold buildings because any charge would be immaterial based on the estimated useful lives of these assets. An annual professional valuation of these assets is carried out at the end of the year. This treatment is contrary to the Companies Act 1985 but the directors believe it is necessary to give a true and fair view. On other assets, depreciation is provided on cost in equal annual instalments over the estimated useful economic lives of the assets. The rates of depreciation are as follows:

Fixtures, fittings and motor vehicles - 7 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises materials only. Net realisable value is based on estimated selling price, less all further costs to completion and all relevant marketing, selling and distribution costs.

Deferred taxation

Deferred tax is provided in full on timing differences which result in obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred tax has not been provided on revaluations of fixed assets. This would only become payable if the assets were sold.

Pension costs

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

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

2. TURNOVER

Turnover and profit on ordinary activities before taxation are attributable to one activity, the provision of healthcare services. Turnover is stated exclusive of value added taxation and is fully derived from work performed in the United Kingdom.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 £	2001 £
Directors' remuneration		
Directors' emoluments	<u>85,890</u>	<u>86,289</u>
	No	No
Number of directors who are members of a defined benefit scheme	<u>1</u>	<u>1</u>

There were no contributions to this scheme during the year as there is a contributions holiday.

R Russell and D Chappell are directors of the ultimate holding company, Healthcare Scotland Limited, and are also directors of Healthcare England Limited, Affinity Healthcare Limited and UK Private Healthcare Limited. R Russell is also a director of Cheadle Royal Hospital Limited. It is not practical to allocate their total remuneration for the year, between their services as directors of the above companies.

	2002 £	2001 £
Employee costs during the year:		
Wages and salaries	4,463,873	4,439,785
Social security costs	359,534	343,939
Other pension costs	<u>65,922</u>	<u>57,290</u>
	<u>4,889,329</u>	<u>4,841,014</u>
	No	No
Average number of persons employed:		
Administrative	54	49
Professional	251	255
Technical and support	<u>32</u>	<u>45</u>
	<u>337</u>	<u>349</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Bank loans	90,624	126,413

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002 £	2001 £
Profit on ordinary activities before taxation is after charging:		
Depreciation		
Owned assets	301,059	218,200
Operating leases - other	6,010	6,010
Auditors' remuneration - audit fees	5,500	5,400
- non audit fees	6,000	7,150
Goodwill amortisation	-	709

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £	2001 £
Current taxation		
UK corporation tax at 30% (2001: 30%)	482,237	353,649
Adjustments in respect of prior periods	(19,434)	(32,632)
	<u>462,803</u>	<u>321,017</u>
Group relief	584,440	518,139
Group relief adjustment in respect of prior years	<u>32,563</u>	<u>19,270</u>
Total current tax	1,079,806	858,426
Deferred taxation		
Origination and reversal of timing differences	(41,020)	6,391
Adjustments in respect of prior periods	<u>4,631</u>	<u>-</u>
Tax on profit on ordinary activities	<u>1,043,417</u>	<u>864,817</u>
Profit on ordinary activities before tax	3,385,954	2,927,456
Tax on profit on ordinary activities at standard rate	1,015,786	878,237
Factors affecting charge for the year:		
Capital allowances for period in excess of depreciation	41,020	22,915
Expenses not deductible for tax purposes	9,871	24,644
Other	-	(54,008)
Prior period adjustments	<u>13,129</u>	<u>(13,362)</u>
Total actual amount of current tax	<u>1,079,806</u>	<u>858,426</u>

7. DIVIDENDS

	2002 £	2001 £
Equity Shares:		
Ordinary shares – final proposed - £nil per ordinary share (2001: £6,538 per ordinary share)	-	634,155
Dividend in specie	-	<u>1</u>
	<u>-</u>	<u>634,156</u>

The dividend in specie in the prior year related to the transfer of ownership of Middleton St George Healthcare Limited (formerly Trees Park Healthcare Limited) from Cheadle Royal Healthcare Limited to Affinity Healthcare Limited.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

8. TANGIBLE FIXED ASSETS

	Heritable Operational Entity £	Fixtures & Fittings and Motor Vehicles £	Total £
Cost or valuation			
At 1 July 2001	11,510,626	1,834,140	13,344,766
Additions	-	656,668	656,668
Adjustment arising on revaluation	8,444,391	-	8,444,391
	<u>19,955,017</u>	<u>2,490,808</u>	<u>22,445,825</u>
At 30 June 2002			
Accumulated Depreciation			
At 1 July 2001	3,131	541,635	544,766
Charge for the year	-	301,059	301,059
	<u>3,131</u>	<u>842,694</u>	<u>845,825</u>
At 30 June 2002			
Net book value			
At 30 June 2002	<u>19,951,886</u>	<u>1,648,114</u>	<u>21,600,000</u>
At 30 June 2001	<u>11,507,495</u>	<u>1,292,505</u>	<u>12,800,000</u>

Comparable amounts determined according to the historical cost convention:

	Heritable Operational Entity £	Fixtures & Fittings and Motor Vehicles £	Total £
Cost	1,685,262	2,490,808	4,176,070
Accumulated depreciation	(3,131)	(842,694)	(845,825)
Net book value			
At 30 June 2002	<u>1,682,131</u>	<u>1,648,114</u>	<u>3,330,245</u>
At 30 June 2001	<u>1,674,219</u>	<u>1,292,505</u>	<u>2,966,724</u>

No depreciation is provided on freehold land and buildings as the charge is not material based on the estimated useful lives of the assets.

Cheadle Royal Hospital was revalued having regard to trading potential as an operational entity inclusive of heritable property, all plant, machinery, fittings and equipment and business goodwill as at 30 June 2002 by Weatherall, Green and Smith, Chartered Surveyors. The residual book value of goodwill has consequently been reclassified within the valuation of the operational entity in accordance with Financial Reporting Standard 15.

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

9. INVESTMENTS HELD AS FIXED ASSETS

	Shares in subsidiary under- Taking £
Cost and net book value At 1 July 2001 and 30 June 2002	2

	Shares owned	%
Subsidiary undertaking		
Cheadle Royal Hospital Limited (Dormant)	Ordinary	100

All subsidiary undertakings are incorporated in Great Britain unless otherwise stated.

10. STOCKS

	2002 £	2001 £
Consumables	29,788	20,278

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Trade debtors	1,617,273	1,157,496
Corporation tax recoverable	60,915	-
Prepayments and accrued income	13,873	29,497
Due from parent	1,608,441	812,982
Due from fellow subsidiary	2,043,672	991,093
Other debtors	39,788	70,517
	<u>5,383,962</u>	<u>3,061,586</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Bank loans (Note 15)	644,643	554,546
Trade creditors	417,365	327,279
Other creditors including taxation and social security (Note 13)	139,648	122,240
Corporation tax	282,237	725,293
Amounts due to fellow subsidiary	1,154,412	-
Accruals and deferred income	239,636	181,558
Dividends payable	634,155	634,155
	<u>3,512,096</u>	<u>2,545,071</u>

13. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2002 £	2001 £
This heading includes:		
Taxation and social security	<u>139,648</u>	<u>119,762</u>

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £	2001 £
Bank loans (note 15)	<u>1,302,716</u>	<u>1,159,992</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

15. BORROWINGS

	2002 £	2001 £
Bank loans	1,947,359	1,714,538
Due within one year	644,643	554,546
Due after more than one year	1,302,716	1,159,992
	<u>1,947,359</u>	<u>1,714,538</u>
Analysis of repayments:		
Within one year	644,643	554,546
Between one and two years	568,916	509,546
Between two and five years	733,800	598,325
Over five years	-	52,121
	<u>1,947,359</u>	<u>1,714,538</u>

The bank loans are secured by a fixed charge over the assets of the company. All loans bear interest at 1.25% above the banks base rate and are repayable to HSBC plc. The repayment terms of the loans are not uniform. They are repayable over the next 9 to 58 months.

The company is part of an arrangement with the group's bankers whereby cross-guarantees have been provided to group companies to enable balances in credit to be offset against overdrawn balances. The company's contingent liability at 30 June 2002 under this arrangement amounted to £3,849,944 (2001: £4,000,944).

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax £
At 1 July 2001	86,039
Charge for the year	(41,020)
Adjustments in respect of prior years	4,631
	<hr/>
At 30 June 2002	49,650
	<hr/>

Provision for deferred taxation consists of the following amounts:

	2002 £	2001 £
Capital allowances in excess of depreciation	29,263	65,652
Other timing differences	20,387	20,387
	<hr/>	<hr/>
	49,650	86,039
	<hr/>	<hr/>

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £5,480,926.

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	2001 £
Profit for the financial year	2,342,536	2,062,639
Dividends	-	(634,156)
Redemption of preference shares	-	(846,667)
Adjustment arising upon revaluation	8,444,391	5,830,523
	<hr/>	<hr/>
Net addition to shareholders' funds	10,786,927	6,412,339
Opening shareholders' funds	12,382,237	5,969,898
	<hr/>	<hr/>
Closing shareholders' funds	23,169,164	12,382,237
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

18. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
100 ordinary shares of £1 each	100	100
Called up, allotted and fully paid		
97 ordinary shares of £1 each	97	97

19. RESERVES

	Revaluation reserve £	Capital redemption reserve £	Share premium account £	Profit and Loss Account £
At 1 July 2001	9,836,407	907,203	212,800	1,425,730
Adjustment arising upon revaluation in year	8,444,391	-	-	-
Retained profit for the year	-	-	-	2,342,536
At 30 June 2002	18,280,798	907,203	212,800	3,768,266

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

20. PENSION SCHEMES

Defined Contribution Schemes

The assets of these schemes are held separately from those of the company in independently administered funds. The pension costs charged to the profit and loss account in the period in respect of private pension schemes amounted to £65,922 (2001: £57,290). There were no outstanding contributions payable to or receivable from the fund at either the current or previous year end.

Defined Benefit Scheme

The company operates the Cheadle Royal Hospital Pension Fund, a funded defined benefit pension scheme. There is no charge for pension costs (2001: £nil) in the profit and loss account nor provision (2001: £nil) in the balance sheet as at 30 June 2002 due to the existence of a contributions holiday since the last formal valuation report.

The company currently accounts for pensions under SSAP 24 *Accounting for Pension Costs*. Under the transitional arrangements for FRS 17 *Retirement Benefits*, the company is required to provide additional disclosures relating to its pension scheme. These are provided below.

SSAP 24

A valuation was carried out by a qualified independent actuary at 31 March 2001 using the aggregate method. Following the valuation it was agreed that the employer would continue its contribution holiday.

The assumptions which have the most significant effect on the results of the valuation are set out below:

Investment returns	4.5% p.a.
Increase in:	
Salaries	4.4% p.a.
Present and future pensions	2.0% p.a.

The total market value of Cheadle Royal Hospital Pension Fund's assets at the last valuation date, together with the funding level as a percentage of accrued benefits after allowing for future increases in earnings, was £30.2m (152%).

The funding level does not allow for some changes to the Fund which had been proposed but not implemented at 30 June 2002.

FRS 17

The figures below have been based on the most recent revaluation of the Cheadle Royal Hospital Pension Fund as at 31 March 2001, the most recent year-end of the scheme, updated to 30 June 2002 by an independent qualified actuary. The assets in the scheme and the expected rate of return were:

Asset	Long term rate of return expected at		Value at	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
Equities	n/a	n/a	Nil	Nil
Bonds	4.9%	5.0%	£28.1m	£27.0m
Other	4.9%	5.9%	£2.4m	£2.4m

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

20. PENSION SCHEMES (continued)

The liabilities of the scheme at 30 June 2002 were calculated on the following bases as required under FRS 17:

Assumptions	30 June 2002	30 June 2001
Discount rate	5.9%	6.2%
Rate of increase in salaries	4.6%	4.6%
Rate of increase in pensions in payment	2.6%	2.6%
Inflation assumption	2.6%	2.6%

The balance sheet position for the Company's schemes as calculated under FRS 17 at 30 June 2002 was as follows:

	30 June 2002 £	30 June 2001 £
Fair value of assets	£30.5m	£29.4m
Present value of scheme liabilities	(£18.0m)	(£19.3m)
Surplus in the scheme	£12.5m	£10.1m
Unrecognised surplus in the scheme	(£8.8m)	(£5.0m)
	£3.7m	£5.1m
Related deferred tax liability	(£1.1m)	(£1.5m)
Net pension asset	£2.6m	£3.6m

Full implementation of FRS17 would increase net assets by £2.6m (2001: £3.6m).

Amount that would be charged to profit and loss account:

	2002 £
Expected return on pension scheme assets	£1.3m
Interest on pension liabilities	(£1.2m)
Net return	£0.1m
Current service cost	(£0.1m)
Net pension cost	-

The Scheme has been closed to new entrants since 1994. As a result, the service cost is expected to rise.

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

20. PENSION SCHEMES (continued)

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

	2002 £
Actual return less expected return on pension scheme assets	£0.5m
Experience gains on liabilities	£2.9m
Changes in assumptions	(£1.0m)
	<hr/> £2.4m
Adjustment due to surplus cap	(£3.8m)
	<hr/> Net loss recognised
	(£1.4m)

Movements in pension scheme surpluses during the year:

	2002 £
Surplus in scheme at beginning of year	£5.1m
Movement in year:	
Current scheme costs	(£0.1m)
Net return on assets	£0.1m
Actuarial loss	(£1.4m)
	<hr/> Surplus in scheme at end of year
	£3.7m

History of experience gains and losses:

	2002 £
Difference between expected and actual return of scheme assets:	£0.5m
Percentage of scheme assets	1.6%
Experience gains and losses on scheme liabilities:	£2.9m
Percentage of scheme liabilities	16.1%
Total amount recognised in statement of total recognised gains and losses	(£1.4m)
Percentage of scheme liabilities	7.7%

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

21. OPERATING LEASE COMMITMENTS

At 30 June 2002 the company was committed to making the following payments during the next year in respect of operating leases:

	Other 2002 £	Other 2001 £
Leases which expire:		
Within two to five years	12,019	12,019
	<u>12,019</u>	<u>12,019</u>

22. CAPITAL COMMITMENTS

	2002 £	2001 £
Contracted for but not provided	242,278	-
	<u>242,278</u>	<u>-</u>

23. ULTIMATE PARENT COMPANY

The ultimate parent company is Healthcare Scotland Limited. Copies of the financial statements of the ultimate parent company may be obtained from Healthcare Scotland Limited, 35 Albert Street, Aberdeen, AB25 1XU.

The immediate parent company is Affinity Healthcare Limited. Copies of the financial statements of the immediate parent company may be obtained from Affinity Healthcare Limited, 100 Wilmslow Road, Heald Green, Cheadle SK8 3DG.

The company has taken advantage of paragraph 3 (c) of FRS8 (Related Party Disclosures) which allows exemption from disclosure of related party transactions with group companies.