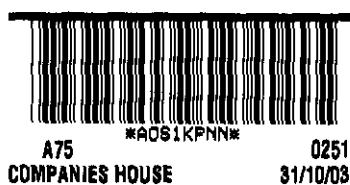


Craegmoor Healthcare Company Limited

Annual report

for the year ended 31 December 2002

Registered number: 3830455



Craegmoor Healthcare Company Limited

Annual report for the year ended 31 December 2002

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Craegmoor Healthcare Company Limited

Directors and advisors for the year ended 31 December 2002

Executive directors

M A Stratford
F Richardson

Secretary

BLG (Professional Services) Limited
Beaufort House
15 St. Botolph Street
London
EC3A 7NS

Registered office

"Hillcainie"
St Andrew's Road
Droitwich
Worcestershire
WR9 8DJ

Auditors

PricewaterhouseCoopers LLP
Temple Court
35 Bull Street
Birmingham
B4 6JT

Solicitors

Barlow Lyde & Gilbert
Beaufort House
15 St. Botolph Street
London
EC3A 7NS

Bankers

National Westminster Bank plc
Cheltenham & Gloucester Business Centre
68-70 Suffolk Road
Cheltenham
Gloucestershire
GL50 2ED

Barclays Bank plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

Craegmoor Healthcare Company Limited

Directors' report for the year ended 31 December 2002

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

Principal activity

The principal activity of the Company is that of an investment holding company.

Review of business and future developments

Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

Results and dividends

The profit and loss account shows a loss for the year of £3,152,000 (2001: £16,337,000 profit). The directors paid interim dividends of £nil (2001: £9,824,000 on 6th March 2001 and £3,024,000 on 6th April 2001). The directors do not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: £nil).

Directors and their interests

The directors of the company at 31 December 2002 are listed on page 1.

M A Stratford and F Richardson are directors of the ultimate parent company, Craegmoor Limited, and their share interests are shown in the Directors' report of that company. No director had any interests in the share capital of Craegmoor Healthcare Company Limited during the year ended 31 December 2002.

Changes in fixed assets

The movements in tangible and intangible fixed assets during the period are set out in notes 8 to 10 of the financial statements.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2002 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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.

Craegmoor Healthcare Company Limited

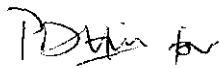
Directors' report for the year ended 31 December 2002 (continued)

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 3 March 2003 and the directors appointed its successors, PricewaterhouseCoopers LLP, as auditors.

On 3 March 2003 the company elected, in accordance with section 386 of the Companies Act UK 1985, to dispense with the obligation to appoint auditors annually.

By order of the board



BLG (Professional Services) Limited
Company secretary

27 October 2003

Independent auditors' report to the members of Craegmoor Healthcare Company Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
27 October 2003

Craegmoor Healthcare Company Limited

Profit and loss account for the year ended 31 December 2002

	Notes	2002 £'000	2001 As restated (note 1) £'000
Turnover		-	-
Cost of sales		(2,924)	(2,184)
Gross loss		(2,924)	(2,184)
Administrative expenses		(3,607)	(3,008)
Other operating income		2,283	1,781
Operating loss	5	(4,248)	(3,411)
Income from shares in group undertakings		-	18,899
Net interest payable	6	(52)	(26)
(Loss)/profit on ordinary activities before taxation		(4,300)	15,462
Tax on (loss)/profit on ordinary activities	7	1,148	875
(Loss)/profit on ordinary activities after taxation		(3,152)	16,337
Dividends paid		-	(12,848)
(Loss)/profit transferred (from)/to reserves	16	(3,152)	3,489

All activities relate to continuing operations.

There is no difference between the gains or losses on ordinary activities before taxation and the gains or losses for the year stated above, and their historical cost equivalent.

Craegmoor Healthcare Company Limited

Statement of total recognised gains and losses for the year ended 31 December 2002

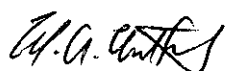
	Notes	2002 £'000	2001 As restated (note 1) £'000
(Loss)/profit for the financial year		(3,152)	3,489
Total recognised (losses)/ gains for the year		(3,152)	3,489
Prior year adjustment (notes 1 and 16)		(22)	
Total losses since last annual report		(3,174)	

Craegmoor Healthcare Company Limited

Balance sheet as at 31 December 2002

	Notes	2002 £'000	2001 As restated (Note 1) £'000
Fixed assets			
Intangible assets	8	6,641	7,016
Tangible assets	9	1,327	1,170
Investments	10	131,348	131,463
		139,316	139,649
Current assets			
Debtors	11	32,339	3,001
Cash at bank and in hand		1	1
		32,340	3,002
Creditors: amounts falling due within one year	12	(44,178)	(11,958)
Net current liabilities		(11,838)	(8,956)
Total assets less current liabilities		127,478	130,693
Creditors: amounts falling due after more than one year	13	(91,968)	(92,013)
Provisions for liabilities and charges	14	(4)	(22)
Net assets		35,506	38,680
Capital and reserves			
Called up share capital	15	-	-
Share premium account	16	35,206	35,206
Profit and loss account	16	300	3,452
Total equity shareholders' funds	17	35,506	38,658

The financial statements on pages 5 to 18 were approved by the board of directors on 27 October 2003 and were signed on its behalf by:



M A Stratford
Director

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002

1 Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with applicable Accounting Standards in the United Kingdom. In accordance with the requirements of Financial Reporting Standard ("FRS") 18, "Accounting Policies" the directors have reviewed the accounting policies of the company to ensure that they remain the most appropriate to its particular circumstances. This review has not resulted in any changes to the accounting policies of the company. A summary of the more important accounting policies, which have been consistently applied and the impact of adopting a new accounting standard is set out below:

Change in accounting policy

The company has adopted FRS 19, "Deferred Tax" in the financial statements. The adoption of this new standard represents a change in accounting policy and the comparative figures have been restated accordingly.

FRS 19 requires full provision to be made for deferred tax assets and liabilities arising from timing differences.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

The effect of the change in accounting policy to adopt FRS 19 was to increase tax on profit on ordinary activities by £18,000 (2001: £44,000 decrease) and to increase loss for the financial year by £18,000 (2001: £44,000 increase of profit). The adjustments to opening reserves are shown in note 16.

Goodwill

Goodwill arising on the transfer of the trade of Craegmoor Group Limited has been capitalised and amortised over its estimated useful economic life. Goodwill is being amortised over a 20 year period.

Tangible fixed assets

The cost of fixed assets is their purchase cost, and any costs directly attributable to bringing them into working condition for their intended use.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on the following bases:

Equipment, furniture and fittings	- 10% to 25% straight line
Motor vehicles	- 25% straight line
Computer equipment	- 25% straight line

The change in the basis for depreciating furniture and fittings did not have a material impact on the results for the year.

Provision is made for any impairment in the period in which it arises. The impairment is calculated by comparing the carrying value to the recoverable amount as required by FRS11, 'Impairment of fixed assets and goodwill'. Provisions for impairment in the carrying value of fixed assets to below historical cost are charged to the profit and loss account.

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

1 Accounting policies (continued)

Investments

The carrying value of fixed asset investments is based on cost less provision for impairment.

Pension costs

The group does not operate a pension scheme. Pension costs represent amounts paid to employees' private pension schemes.

Cash flow statement

The company is a wholly owned subsidiary of Craegmoor Limited, and its cash flows are included in the consolidated group cash flow statement of that parent company. Consequently, the company is exempt under the terms of Financial Reporting Standard No.1 (Revised) from publishing a cash flow statement.

Consolidated accounts

The Company has taken advantage of the exemption under section 228(i) of the Companies Act, not to prepare and file consolidated accounts. The results of the Company are included within the group accounts of Craegmoor Limited, an intermediate parent undertaking, which is incorporated in the United Kingdom. In accordance with section 228(ii), the Company will deliver to the registrar, copies of these group accounts.

Finance and operating leases

Costs in respect of operating leases are charged as incurred.

Leasing agreements that transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

2 Related party transactions

The company has taken advantage of the exemption granted under paragraph 3c of Financial Reporting Standard No. 8 and not disclosed any transaction with other group companies.

3 Directors' emoluments

No remuneration was paid to the directors in respect of their services to the Company (2001: £nil).

4 Employee information

The average monthly number of persons (including executive directors) employed by the Company during the period was:

	2002	2001
Administrative	Number	Number
Full time	59	44
Part time	2	1
	61	45

	2002	2001
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	1,937	1,729
Social security costs	215	159
	2,152	1,888

5 Operating loss

	2002	2001
Operating loss is stated after charging:	£'000	£'000
Depreciation charge for the period:		
Tangible owned fixed assets	122	91
Tangible fixed assets held under finance leases	314	191
Operating lease charges – land and buildings	66	47
Amortisation of goodwill	375	375
Loss on disposal of tangible fixed assets:	117	16
Waiver of loan due from group undertaking	-	100
Auditors' remuneration - audit	8	8
Legal and professional fees	1,199	1,219

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

6 Net interest payable

	2002	2001
	£'000	£'000
Interest payable on finance leases	47	26
Interest payable on bank overdraft	5	-
	52	26

7 Tax on loss on ordinary activities

	2002	2001 As restated (Note 1)
	£'000	£'000
Current taxation		
UK Corporation tax at 30% (2001: 30%)	1,130	919
Deferred taxation		
Current year charge/(credit)	18	(44)
Tax credit	1,148	875

The tax for the year differs from the standard rate of Corporation Tax in the UK (30%). The differences are explained below:

	2002	2001 As restated (Note 1)
	£'000	£'000
(Loss)/profit on ordinary activities	(4,300)	15,462
(Loss)/profit on ordinary activity multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(1,290)	4,639
Effects of:		
Expenses not deductible for tax purposes	142	156
Fixed asset timing differences	18	(44)
Income not subject to tax	-	(5,670)
Current tax charge	(1,130)	(919)

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

8 Intangible fixed assets

	Goodwill
	£'000
Cost	
At 1 January 2002 and 31 December 2002	7,500
Amortisation	
At 1 January 2002	484
Charge for the year	375
At 31 December 2002	859
Net book value	
At 31 December 2002	6,641
At 31 December 2001	7,016

Goodwill arose on the transfer of the trade and certain assets and liabilities of Craegmoor Group Limited to the Company. Goodwill is being amortised over a period of 20 years.

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

9 Tangible fixed assets

	Furniture, fittings, equipment and computers	Motor vehicles	Total
	£'000	£'000	£'000
Cost			
At 1 January 2002	1,252	790	2,042
Additions	250	535	785
Disposals	-	(402)	(402)
At 31 December 2002	1,502	923	2,425
Depreciation			
At 1 January 2002	502	370	872
Charge for the year	271	165	436
Disposals	-	(210)	(210)
At 31 December 2002	773	325	1,098
Net book value			
At 31 December 2002	729	598	1,327
At 1 January 2002	750	420	1,170

The net book value of furniture, fittings, equipment and computers includes £481,000 (2001: £475,000) in respect of assets held under finance leases. The net book value of motor vehicles includes an amount of £608,000 (2001: £402,000) in respect of assets held under finance leases.

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

10 Fixed asset investments

	Gilts	Shares	Loans	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2002	1	35,219	97,023	132,243
Additions	-	-	285	285
Disposals	-	-	(400)	(400)
At 31 December 2002	1	35,219	96,908	132,128
Impairment in value				
At 1 January 2002 and 31 December 2002	-	-	780	780
Net book value				
At 31 December 2002	1	35,219	96,128	131,348
At 31 December 2001	1	35,219	96,243	131,463
Interests in group undertakings				
Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held	
Craegmoor Holdings Limited	England & Wales	Ordinary £1 shares	100	

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

11 Debtors

	2002	2001
	£'000	£'000
Amounts falling due within one year		
Amounts owed by group undertakings	32,045	2,750
Prepayments and accrued income	219	162
Other debtors	75	89
	32,339	3,001

12 Creditors: amounts falling due within one year

	2002	2001
	£'000	£'000
Trade creditors	500	407
Bank overdrafts repayable on demand	83	198
Amounts owed to group undertakings	40,608	9,402
Obligations under finance leases (note 13)	504	289
Corporation tax payable	25	25
Other taxation and social security	1,295	905
Other creditors	1,163	732
	44,178	11,958

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

13 Creditors: amounts falling due after more than one year

	2002	2001
	£'000	£'000
Amounts owed to group undertakings	91,739	91,739
Obligations under finance leases	229	274
	91,968	92,013

	2002	2001
	£'000	£'000
Finance leases repayable as follows:		
In one year or less	504	289
Between one and two years	207	274
Between two and five years	22	-
	733	563

Obligations under finance leases are secured by charges over the assets to which they relate.

14 Provisions for liabilities and charges

	£'000
	Deferred tax
At 1 January 2001 as previously reported	-
Prior year adjustment – FRS 19 (Note 1)	22
At 1 January 2001 as restated	22
Credited in profit and loss account	(18)
At 31 December 2002	4

	2002	2001 As restated (Note 1)
	£'000	£'000
The amount provided for deferred taxation comprises:		
Timing differences relating to accelerated capital allowances	4	22

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

15 Called up share capital

	2002	2001
	£'000	£'000
Authorised		
100 ordinary shares of £1 each	-	-
Allotted, called up and fully paid		
100 ordinary shares of £1 each	-	-

16 Reserves

	Profit and loss	Share premium
	£'000	£'000
At 1 January 2002 as previously reported	3,474	35,206
Prior year adjustment – FRS 19 (Note 1)	(22)	
As at 1 January 2002 as restated	3,452	35,206
Loss for the financial year	(3,152)	-
At 31 December 2002	300	35,206

17 Reconciliation of movements in shareholders' funds

	2002	2001 As restated (Note 1)
	£'000	£'000
(Loss)/profit for the financial year	(3,152)	16,337
Equity dividends paid	-	(12,848)
Net (reduction in)/addition to shareholders' funds	(3,152)	3,489
Opening equity shareholders' funds as previously reported	38,680	35,147
Prior year adjustment – FRS 19 (Note 1)	(22)	22
Opening equity shareholders' funds as restated	38,658	35,169
Closing equity shareholders' funds	35,506	38,658

Craegmoor Healthcare Company Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

18 Capital and other financial commitments

The company had no capital commitments at 31 December 2002 (2001: £Nil).

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings	
	2002	2001
	£'000	£'000
Operating leases which expire:		
In two to five years	67	47

19 Contingent liabilities

There is a fixed and floating charge over the property, undertakings and assets of the company in respect of a loan from Craegmoor Funding PLC to the company under the Issuer/Borrowers Facility Agreement dated 23 November 2000. Craegmoor Funding PLC is a fellow subsidiary of Craegmoor Limited.

Subsequent to the year end the Craegmoor Group completed a refinancing project. As a result, the previous charging and guarantee arrangements ceased and have been replaced with a new charge and guarantee in respect of a loan with Craegmoor Funding (No. 2) Limited.

20 Immediate and ultimate parent undertaking

The directors regard Craegmoor Group Limited, a company registered in England and Wales, as the immediate parent company of Craegmoor Healthcare Company Limited and Craegmoor Limited, a company registered in England and Wales, as the ultimate parent company in the United Kingdom. Copies of Craegmoor Limited's consolidated financial statements may be obtained from its registered office, "Hillcairn", St Andrew's Road, Droitwich, Worcestershire, WR9 8DJ.