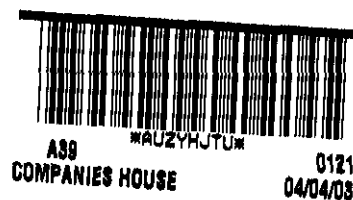


AFFINITY HEALTHCARE LIMITED

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

SECRETARY

R Morris

REGISTERED OFFICE

100 Wilmslow Road
Heald Green
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

Affinity Healthcare Limited is the holding company for a group of companies engaged in the provision of private healthcare services.

RESULTS AND TRANSFER TO RESERVES

The group made a profit before taxation of £1,524,401 (2001: £1,243,847) in the year to 30 June 2002. Dividends of £nil (2001: £200,015) have been paid. The retained profit after tax and dividends of £1,018,670 (2001: £687,300) has been transferred to reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

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

Subsequent to the year end, the decision was made to discontinue research activity within Affinity Healthcare Clinical Research Limited. The company has not been wound up but rather will remain dormant. In addition, on 22 January 2003, the decision was taken for Trees Park Healthcare Limited to change its name to Middleton St George Healthcare Limited.

DIRECTORS

The membership of the board is set out on page 1. The beneficial interests of the directors in the shares of the company at 30 June 2001 (or date of appointment) and 30 June 2002 were as follows:

	'A' Ordinary shares of £1 each	'B' Ordinary shares of £1 each
P F Batchelor	-	16
S F Hemsley	-	16
J P Ward	-	16
R Morris (appointed 21 January 2002)	-	-
R Russell	-	-
D G Chappell	-	-

P F Batchelor resigned as company secretary on 21 January 2002 and was replaced by R Morris on the same date.

R Russell and D G Chappell are also directors of the ultimate parent company, Healthcare Scotland Limited. Their interests in the share capital of this company are disclosed in its financial statements.

E D Burling and S P McKeown resigned as directors on 18 February 2002 and 11 March 2002 respectively.

EMPLOYEE INVOLVEMENT

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

DIRECTORS' REPORT

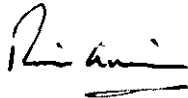
EMPLOYMENT OF DISABLED PERSONS

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. 6. 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 and the group as at the end of the financial year and of the profit or loss of the group 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 group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
AFFINITY HEALTHCARE LIMITED**

We have audited the financial statements of Affinity Healthcare Limited for the year ended 30 June 2002 which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the consolidated balance sheet, the company balance sheet, the consolidated cash flow statement, and the related notes 1 to 29. 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 group's and 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 affairs of the company and group as at 30 June 2002 and of its profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors

Aberdeen

Date: 1 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 June 2002

	Note	2002 £	2001 £
TURNOVER - continuing operations	2	16,867,018	14,649,000
- discontinued operations		147,127	-
		<u>17,014,145</u>	<u>14,649,000</u>
Cost of sales	3	(10,237,368)	(9,205,301)
Gross profit		<u>6,776,777</u>	<u>5,443,699</u>
Administrative expenses	3	(5,016,512)	(3,944,557)
OPERATING PROFIT / (LOSS)			
- continuing operations		1,761,957	1,499,142
- discontinued operations		(1,692)	-
		<u>1,760,265</u>	<u>1,499,142</u>
Interest receivable and similar income		20,738	18,639
Interest payable and similar charges	5	(256,602)	(273,934)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	<u>1,524,401</u>	<u>1,243,847</u>
Tax on profit on ordinary activities	7	(505,731)	(356,532)
PROFIT FOR THE FINANCIAL YEAR		<u>1,018,670</u>	<u>887,315</u>
Dividends	8	-	(200,015)
RETAINED PROFIT FOR THE FINANCIAL YEAR	21	<u><u>1,018,670</u></u>	<u><u>687,300</u></u>

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

	2002 £	2001 £
Profit for the financial year	1,018,670	887,315
Unrealised surplus on revaluation of fixed assets	<u>8,893,459</u>	<u>5,903,336</u>
Total recognised gains and losses relating to the year	<u><u>9,912,129</u></u>	<u><u>6,790,651</u></u>

CONSOLIDATED BALANCE SHEET
At 30 June 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Tangible assets	10	25,626,817	15,311,667
CURRENT ASSETS			
Stocks	12	41,066	36,395
Debtors	13	2,413,519	1,801,566
Cash at bank and in hand		1,070,066	645,934
		3,524,651	2,483,895
CREDITORS: amounts falling due within one year	14	(3,537,982)	(2,472,821)
NET CURRENT (LIABILITIES)/ASSETS		(13,331)	11,074
TOTAL ASSETS LESS CURRENT LIABILITIES		25,613,486	15,322,741
CREDITORS: amounts falling due after more than one year	17	(3,881,019)	(3,543,671)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(156,431)	(115,163)
TOTAL NET ASSETS		21,576,036	11,663,907
CAPITAL AND RESERVES			
Called up share capital	20	194	194
Merger reserve	21	1,120,003	1,120,003
Revaluation reserve	21	18,802,679	9,909,220
Profit and loss account	21	1,653,160	634,490
EQUITY SHAREHOLDERS' FUNDS	19	21,576,036	11,663,907

These financial statements were approved by the board of directors on:

1.6.03

Signed on behalf of the board of directors



Director

BALANCE SHEET
At 30 June 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Tangible assets	10	26,817	11,667
Investments	11	99	99
		<u>26,916</u>	<u>11,766</u>
CURRENT ASSETS			
Debtors	13	1,040,545	808,847
CREDITORS: amounts falling due within one year	14	<u>(1,627,302)</u>	<u>(820,015)</u>
NET CURRENT LIABILITIES		<u>(586,757)</u>	<u>(11,168)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(559,841)	598
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(1,637)</u>	<u>(404)</u>
TOTAL NET (LIABILITIES)/ASSETS		<u>(561,478)</u>	<u>194</u>
CAPITAL AND RESERVES			
Called up share capital	20	194	194
Profit and loss account	21	<u>(561,672)</u>	<u>-</u>
EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS		<u>(561,478)</u>	<u>194</u>

These financial statements were approved by the board of directors on

1.4.03

Signed on behalf of the board of directors



Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 June 2002

	Note	2002 £	2001 £
Net cash inflow from operating activities	27	<u>1,772,765</u>	<u>1,419,324</u>
Returns on investments and servicing of finance			
Interest received		20,738	18,639
Interest paid		<u>(58,621)</u>	<u>(273,934)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(37,883)</u>	<u>(255,295)</u>
Taxation			
UK corporation tax paid		<u>(429,367)</u>	<u>(411,178)</u>
Capital expenditure			
Purchase of tangible fixed assets		<u>(1,984,224)</u>	<u>(1,336,910)</u>
Equity dividends paid		<u>-</u>	<u>(200,015)</u>
Net cash outflow before financing		<u>(678,709)</u>	<u>(784,074)</u>
Financing			
Loan repayments		(1,170,815)	(487,941)
New borrowings		1,570,000	2,001,600
Redemption of preference share capital		-	(846,667)
Issue of ordinary share capital		-	97
Net cash inflow from financing		<u>399,185</u>	<u>667,089</u>
Decrease in cash in year	29	<u>(279,524)</u>	<u>(116,985)</u>

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 property.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiaries for the year ended 30 June 2002. Tress Park Healthcare Ltd and Cheadle Royal Healthcare Ltd have been consolidated on a merger accounting basis as a result of the group reconstruction undertaken last year. Other subsidiaries are consolidated on an acquisition accounting basis.

Tangible fixed assets

As permitted by FRS 15, no depreciation is provided on freehold buildings because any charge would be immaterial based on the estimated remaining useful lives of these assets. A 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

Investments

Investments held as fixed assets are stated at cost, less provision for any impairment in value.

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.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

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 hospital and consultant services. Turnover is stated exclusive of value added taxation and is fully derived from work done in the United Kingdom.

3. ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS

	2002 Continuing £	2002 Discontinuing £	2002 Total £	2001 Total £
Turnover	16,867,018	147,127	17,014,145	14,649,000
Cost of sales	<u>(10,119,122)</u>	<u>(118,246)</u>	<u>(10,237,368)</u>	<u>(9,205,301)</u>
Gross profit	<u>6,747,896</u>	<u>28,881</u>	<u>6,776,777</u>	<u>5,443,699</u>
Administrative expenses	<u>(4,985,939)</u>	<u>(30,573)</u>	<u>(5,016,512)</u>	<u>(3,944,557)</u>
Operating profit/(loss)	<u><u>1,761,957</u></u>	<u><u>(1,692)</u></u>	<u><u>1,760,265</u></u>	<u><u>1,499,142</u></u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 £	2001 £
Directors remuneration		
Directors' emoluments (excluding pension contributions)	<u>454,905</u>	<u>491,471</u>
	£	£
Directors' pension contributions	<u>19,519</u>	<u>-</u>
	No	No
Number of directors who are members of a defined benefit pension scheme	<u>1</u>	<u>1</u>
	£	£
Remuneration of the highest paid director (excluding pension contributions)	<u>63,522</u>	<u>160,644</u>
Pension contributions of the highest paid director	<u>5,318</u>	<u>-</u>
	£	£
Employee costs during the year:		
Wages and salaries	8,858,878	7,434,319
Social security costs	645,702	552,538
Other pension costs	<u>138,091</u>	<u>81,437</u>
	<u>9,642,671</u>	<u>8,068,294</u>
	No	No
Average number of persons employed:		
Administrative	80	70
Professional	333	475
Technical and support	<u>188</u>	<u>113</u>
	<u>601</u>	<u>658</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £	2001 £
Bank loans and overdraft	<u>256,602</u>	<u>273,934</u>

The interest payable on a number of the loans is accrued within the loan balance.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002 £	2001 £
Profit on ordinary activities before taxation is after charging:		
Depreciation	562,533	325,810
Operating leases – other	16,252	11,955
Auditors' remuneration – audit fees	13,850	11,350
– non audit fees	15,000	13,650
Goodwill amortisation	<u>-</u>	<u>7,982</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 £	2001 £
Current taxation		
UK corporation tax at standard rate	483,896	353,649
Adjustments in respect of prior periods	(19,434)	(32,632)
Total current tax	464,462	321,017
Deferred taxation		
Origination and reversal of timing differences	(4,119)	35,515
Adjustments in respect of prior periods	45,388	-
Tax on profit on ordinary activities	505,731	356,532
Profit on ordinary activities before tax	1,524,401	1,243,847
Tax on profit on ordinary activities at standard rate	457,496	373,154
Factors affecting charge for the year:		
Capital allowances in excess of depreciation	(9,489)	(1,149)
Other timing differences	14,151	-
Expenses not deductible for tax purposes	22,681	35,652
Prior period adjustments	(19,434)	(32,632)
Other	(943)	(54,008)
Total actual amount of current tax	464,462	321,017

8. DIVIDENDS

	2002 £	2001 £
Equity Shares		
Ordinary shares – final proposed - £nil per ordinary share (2001: £1,031, per ordinary share)	-	200,015

9. (LOSS)/PROFIT OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the period amounts to £561,672 (2001: profit £200,015)

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

10. TANGIBLE FIXED ASSETS

	Heritable Operational Entity	Fixtures and Fittings and Motor Vehicles	Total
	£	£	£
The Group			
Cost or valuation			
At 1 July 2001	12,858,393	3,119,311	15,977,704
Additions	-	1,984,224	1,984,224
Adjustment arising upon revaluation	8,893,459	-	8,893,459
	<u>21,751,852</u>	<u>5,103,535</u>	<u>26,855,387</u>
At 30 June 2002			
Accumulated depreciation			
At 1 July 2001	11,694	654,343	666,037
Charge for the year	-	562,533	562,533
	<u>11,694</u>	<u>1,216,876</u>	<u>1,228,570</u>
At 30 June 2002			
Net book value			
At 30 June 2002	<u>21,740,158</u>	<u>3,886,659</u>	<u>25,626,817</u>
At 30 June 2001	<u>12,846,699</u>	<u>2,464,968</u>	<u>15,311,667</u>

Comparable amounts determined according to the historical cost convention:

	Heritable Operational Entity	Fixtures and Fittings and Motor Vehicles	Total
	£	£	£
Cost	2,960,216	5,103,535	8,063,751
Accumulated depreciation	(11,694)	(1,216,876)	(1,228,570)
	<u>2,948,522</u>	<u>3,886,659</u>	<u>6,835,181</u>
Net book value			
At 30 June 2002	<u>2,948,522</u>	<u>3,886,659</u>	<u>6,835,181</u>
At 30 June 2001	<u>2,948,522</u>	<u>2,464,968</u>	<u>5,413,490</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002**10. TANGIBLE FIXED ASSETS (continued)**

No depreciation is provided on heritable property as the charge is not material based on the estimated remaining useful lives of the assets.

Cheadle Royal Hospital and Trees Park Village were 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.

	Fixtures and Fittings £
The Company	
Cost	
At 1 July 2001	12,434
Additions	18,154
	<hr/>
At 30 June 2002	30,588
	<hr/>
Accumulated Depreciation	
At 1 July 2001	767
Charge for the year	3,004
	<hr/>
At 30 June 2002	3,771
	<hr/>
Net book value	
At 30 June 2002	26,817
	<hr/>
At 30 June 2001	11,667
	<hr/>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

11. INVESTMENTS

	Shares in subsidiary undertakings £
Cost and net book value at 1 July 2001 and 30 June 2002	99

Subsidiary undertakings	Shares owned	%
Cheadle Royal Healthcare Limited	Ordinary	100
Middleton St George Healthcare Limited (formerly Trees Park Healthcare Limited)	Ordinary	100
Affinity Healthcare Clinical Research Limited	Ordinary	100
Cheadle Royal Hospital Limited (Dormant)	Ordinary	100

The principal activities of the subsidiary undertakings are the provision of healthcare services. All subsidiary undertakings are incorporated in Great Britain unless otherwise stated.

12. STOCKS

	The Group 2002 £	The Group 2001 £
Raw materials and consumables	41,066	36,395

13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
Trade debtors	2,267,773	-	1,585,150	-
Amounts owed by subsidiary companies	-	402,916	-	173,704
Other debtors	85,401	-	168,375	-
Prepayments and accrued income	60,345	3,474	48,041	988
Dividends receivable	-	634,155	-	634,155
	<u>2,413,519</u>	<u>1,040,545</u>	<u>1,801,566</u>	<u>808,847</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
Bank overdraft (note 17)	929,271	-	225,615	-
Bank loans (note 17)	1,140,913	-	877,689	-
Amounts due to subsidiary companies	-	1,608,441	-	812,983
Trade creditors	606,267	-	565,607	-
Corporation tax	222,981	-	187,884	-
Other creditors including taxation and social security (note 15)	312,732	-	357,407	-
Accruals and deferred income	325,818	18,861	258,619	7,032
	<u>3,537,982</u>	<u>1,627,302</u>	<u>2,472,821</u>	<u>820,015</u>

15. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	The Group 2002 £	The Group 2001 £
This heading includes:		
Taxation and social security	<u>179,917</u>	<u>213,871</u>

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

	The Group 2002 £	The Group 2001 £
Bank loans (note 17)	<u>3,881,019</u>	<u>3,543,671</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

17. BORROWINGS

	The Group 2002 £	The Group 2001 £
Bank overdraft	929,271	225,615
Bank loans	5,021,932	4,421,360
	<u>5,951,203</u>	<u>4,646,975</u>
Due within one year	2,070,184	1,103,304
Due after more than one year	3,881,019	3,543,671
	<u>5,951,203</u>	<u>4,646,975</u>
Analysis of repayments:		
Bank overdraft		
Within one year or on demand	929,271	225,615
Bank loans		
Within one year	1,140,913	877,689
Between one and two years	1,065,186	1,155,832
Between two and five years	1,765,520	1,488,126
Over five years	1,050,313	899,713
	<u>5,021,932</u>	<u>4,421,360</u>

The bank loans and overdraft are secured by a bond and floating charge over the assets of the group. All loans bear interest at 1.25% above the bank's base rate and are repayable to HSBC Bank plc. The repayment terms on the loans are not uniform. They are repayable over the next 9 to 154 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 £4,627,413 (2001: £4,000,944).

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

18. PROVISION FOR LIABILITIES AND CHARGES

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
Deferred Tax				
At 1 July	115,163	404	79,648	-
Charge for the year	(4,119)	1,233	35,515	404
Prior year adjustment	45,387	-	-	-
	<u>156,431</u>	<u>1,637</u>	<u>115,163</u>	<u>404</u>
At 30 June				

Provision for deferred taxation consists of the following amounts:

	The Group 2002 £	The Company 2002 £	The Group 2001 £	The Company 2001 £
Capital allowances in excess of depreciation	144,471	1,637	94,776	404
Other	11,960	-	20,387	-
	<u>156,431</u>	<u>1,637</u>	<u>115,163</u>	<u>404</u>

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 £5,637,491.

19. RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS

	The Group 2002 £	The Group 2001 £
Profit for the financial year	1,018,670	687,300
Adjustment arising upon revaluation	8,893,459	5,903,336
Redemption of subsidiary company preference shares	-	(846,667)
Issue of ordinary shares	-	97
	<u>9,912,129</u>	<u>5,744,066</u>
Net addition to shareholders' funds	9,912,129	5,744,066
Opening shareholders' funds	11,663,907	5,919,841
	<u>21,576,036</u>	<u>11,663,907</u>
Closing shareholders' funds		

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

20. CALLED UP SHARE CAPITAL

	2002 £	2001 £
Authorised		
120 'A' ordinary shares of £1 each	120	120
80 'B' ordinary shares of £1 each	80	80
	<u>200</u>	<u>200</u>
	2002 £	2001 £
Called up, allotted and fully paid		
120 'A' ordinary shares of £1 each	120	120
74 'B' ordinary shares of £1 each	74	74
	<u>194</u>	<u>194</u>

With the exception of voting rights, the 'A' and 'B' ordinary shares rank pari passu in all aspects. The 'B' ordinary shareholders are permitted to vote only if certain conditions are met.

21. RESERVES

The Group

	Merger reserve £	Revaluation reserve £	Profit and loss account £
At 1 July 2001	1,120,003	9,909,220	634,490
Profit for the year	-	-	1,018,670
Adjustment arising upon revaluation in year	-	8,893,459	-
At 30 June 2002	<u>1,120,003</u>	<u>18,802,679</u>	<u>1,653,160</u>
			Profit and loss account £
The Company			
At 1 July 2001			-
Loss for the year			(561,672)
At 30 June 2002			<u>(561,672)</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

22. OPERATING LEASE COMMITMENTS

At 30 June 2002 the group 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	12,869	12,019

23. CAPITAL COMMITMENTS

	2002 £	2001 £
Contracted for but not provided	280,979	495,000

24. ULTIMATE PARENT COMPANY

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

The company has taken advantage of paragraph 3 (c) of FRS 8 (Related Party Disclosures) which allows exemption from disclosure of related party transactions with group companies.

25. 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.

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

25. PENSION SCHEMES (continued)

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

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)
Related deferred tax liabilities	£3.7m (£1.1m)	£5.1m (£1.5m)
Net pension asset	£2.6m	£3.6m

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

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

25. PENSION SCHEMES (continued)

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.

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)
	£2.4m
Adjustment due to surplus cap	(£3.8m)
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)
Surplus in scheme at end of year	£3.7m

NOTES TO THE ACCOUNTS

Year ended 30 June 2002

25. PENSION SCHEMES (continued)

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%

26. EVENTS OCCURRING AFTER THE YEAR END

Subsequent to the year end, the decision was made to discontinue research activity within Affinity Healthcare Clinical Research Limited. The company has not been wound up but rather will remain dormant. In addition, on 22 January 2003, the decision was made for Trees Park Healthcare Limited to change its name to Middleton St George Healthcare Limited.

27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £	2001 £
Operating profit	1,760,265	1,499,142
Depreciation	562,533	325,810
Goodwill amortisation	-	7,982
Increase in stocks	(4,671)	(1,464)
Increase in debtors	(611,953)	(589,201)
Increase in creditors	66,591	177,055
Net cash inflow from operating activities	<u>1,772,765</u>	<u>1,419,324</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2002

28. ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 2001 £	Cashflow £	Other non-cash changes £	At 30 June 2002 £
Cash at bank and in hand	645,934	424,132	-	1,070,066
Bank overdraft	(225,615)	(703,656)	-	(929,271)
		(279,524)		
Bank loans – due within year	(877,689)	(216,152)	(47,072)	(1,140,913)
Bank loans – due after one year	(3,543,671)	(183,033)	(154,315)	(3,881,019)
	<u>(4,001,041)</u>	<u>(678,709)</u>	<u>(201,387)</u>	<u>(4,881,137)</u>

The other non-cash changes relate to accrued interest costs.

29. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2002 £	2001 £
Decrease in cash in the year	(279,524)	(116,985)
Cash inflow from increase in debt	(1,570,000)	(2,001,600)
Loan repayments	<u>1,170,815</u>	<u>487,941</u>
Change in net debt resulting from cash flow and movement in net debt in the year	(678,709)	(1,630,644)
Other non-cash changes	<u>(201,387)</u>	<u>-</u>
	(880,096)	(1,630,644)
Net debt at 1 July	<u>(4,001,041)</u>	<u>(2,370,397)</u>
Net debt at 30 June	<u>(4,881,137)</u>	<u>(4,001,041)</u>

The other non-cash changes relate to accrued interest costs.

ADDITIONAL INFORMATION

The additional financial information on page 27 is prepared from the accounting records of the company. It should be read in conjunction with the statutory financial statements set out on pages 5 to 26 and the auditors' report thereon.

COMPANY TRADING PROFIT AND LOSS ACCOUNT
Year ended 30 June 2002

	2002 £	2001 £
TURNOVER - continuing operations		-
Cost of sales	-	-
	<hr/>	<hr/>
Gross profit	-	-
Administrative expenses	(789,746)	(607,344)
	<hr/>	<hr/>
OPERATING LOSS - continuing operations	(789,746)	(607,344)
Dividends received	-	634,156
	<hr/>	<hr/>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(789,746)	26,812
Tax on (loss)/profit on ordinary activities	228,074	173,203
	<hr/>	<hr/>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	(561,672)	200,015
Dividends paid	-	(200,015)
	<hr/>	<hr/>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	<u>(561,672)</u>	<u>-</u>