

AFFINITY HEALTHCARE LIMITED

Report and Financial Statements

30 June 2003

**Deloitte & Touche LLP
Aberdeen**



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REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

SECRETARY

J Shaw

REGISTERED OFFICE

100 Wilmslow Road
Heald Green
Cheadle
Cheshire

SOLICITORS

Hammond Suddards
Trinity Court
16 John Dalton Street
Manchester

BANKERS

HSBC
5 Great Underbank
Stockport
Cheshire

AUDITORS

Deloitte & Touche LLP
Aberdeen

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2003.

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 £1,763,042 (2002: £1,524,401) in the year to 30 June 2003. Dividends of £3,020,699 (2002: £nil) have been paid. The retained loss after tax and dividends of £1,559,301 (2002: profit of £1,018,670) has been transferred from/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.

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 1 July 2002 (or date of appointment) and 30 June 2003 were as follows:

	'A' Ordinary shares of £0.01 each	'B' Ordinary shares of £0.01 each
P F Batchelor	-	1,600
S F Hemsley	-	1,600
J P Ward	-	1,600
R Morris (resigned 11 July 2003)	-	25
R Russell	-	-
D G Chappell	-	-

R Morris resigned as company secretary on 11 July 2003 and was replaced by J Shaw on 1 October 2003.

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.

During the year Affinity Healthcare repurchased 1300 nominal shares for £1,396,494. This was performed as a result of two former directors who resigned in the prior year and therefore sought to sell their remaining shares.

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.

DIRECTORS' REPORT (Continued)**AUDITORS**

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors

and signed by order of the board:



Secretary

Date: 17 December 2003

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 2003 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 28. 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 and other members of the group 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 circumstances of the group and the company, 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 2003 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Aberdeen

Date: *18 December 2003*

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 June 2003

	Note	2003 £	2002 £
TURNOVER - continuing operations	2	19,015,301	16,867,018
- discontinued operations		-	147,127
		<u>19,015,301</u>	<u>17,014,145</u>
Cost of sales	3	(12,196,669)	(10,237,368)
Gross profit		6,818,632	6,776,777
Administrative expenses	3	(6,219,829)	(5,016,512)
Exceptional item - Refunded surplus on pension scheme	3	1,517,360	-
		<u>2,115,964</u>	<u>1,761,957</u>
OPERATING PROFIT/(LOSS)			
- continuing operations		2,115,964	1,761,957
- discontinued operations		199	(1,692)
		<u>2,116,163</u>	<u>1,760,265</u>
Interest receivable and similar income		20,985	20,738
Interest payable and similar charges	5	(374,106)	(256,602)
		<u>1,763,042</u>	<u>1,524,401</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	1,763,042	1,524,401
Tax on profit on ordinary activities	7	(301,644)	(505,731)
		<u>1,461,398</u>	<u>1,018,670</u>
PROFIT FOR THE FINANCIAL YEAR		1,461,398	1,018,670
Dividends	8	(3,020,699)	-
		<u>(1,559,301)</u>	<u>1,018,670</u>
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	21	<u>(1,559,301)</u>	<u>1,018,670</u>

Discontinued operations relate to Affinity Healthcare Clinical Research Project, which did not trade during the year.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 June 2003

	2003 £	2002 £
Profit for the financial year	1,461,398	1,018,670
Unrealised (deficit)/surplus on revaluation of fixed assets	(946,746)	8,893,459
Total recognised gains and losses relating to the year	<u>514,652</u>	<u>9,912,129</u>

CONSOLIDATED BALANCE SHEET
At 30 June 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible assets	10	25,117,581	25,626,817
CURRENT ASSETS			
Stocks	12	62,659	41,066
Debtors	13	2,275,055	2,413,519
Cash at bank and in hand		55,831	1,070,066
		2,393,545	3,524,651
CREDITORS: amounts falling due within one year	14	(3,323,113)	(3,537,982)
NET CURRENT (LIABILITIES)/ASSETS		(929,568)	(13,331)
TOTAL ASSETS LESS CURRENT LIABILITIES		24,188,013	25,613,486
CREDITORS: amounts falling due after more than one year	16	(6,126,096)	(3,881,019)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(338,421)	(156,431)
TOTAL NET ASSETS		17,723,496	21,576,036
CAPITAL AND RESERVES			
Called up share capital	20	182	194
Share premium	21	50,000	-
Merger reserve	21	1,120,003	1,120,003
Capital redemption reserve	21	13	-
Revaluation reserve	21	17,855,933	18,802,679
Profit and loss account	21	(1,302,635)	1,653,160
EQUITY SHAREHOLDERS' FUNDS	19	17,723,496	21,576,036

These financial statements were approved by the board of directors on: 17 December 2003

Signed on behalf of the board of directors




Director

BALANCE SHEET
At 30 June 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible assets	10	117,581	26,817
Investments	11	99	99
		<u>117,680</u>	<u>26,916</u>
CURRENT ASSETS			
Debtors	13	3,210,374	1,040,545
CREDITORS: amounts falling due within one year	14	<u>(978,228)</u>	<u>(1,627,302)</u>
NET CURRENT LIABILITIES		<u>2,232,146</u>	<u>(586,757)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,349,826	(559,841)
CREDITORS: amounts falling due after more than one year	16	(2,000,000)	-
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(7,069)</u>	<u>(1,637)</u>
TOTAL NET ASSETS/(LIABILITIES)		<u><u>342,757</u></u>	<u><u>(561,478)</u></u>
CAPITAL AND RESERVES			
Called up share capital	20	182	194
Profit and loss account	21	292,562	(561,672)
Share premium	21	50,000	-
Capital redemption reserve	21	13	-
EQUITY SHAREHOLDERS' SURPLUS/(DEFICIT)		<u><u>342,757</u></u>	<u><u>(561,478)</u></u>

These financial statements were approved by the board of directors on: 17 December 2003

Signed on behalf of the board of directors


Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 30 June 2003

	Note	2003 £	2002 £
Net cash inflow from operating activities	26	3,530,403	1,772,765
Returns on investments and servicing of finance			
Interest received		20,985	20,738
Interest paid		(374,106)	(260,008)
Net cash outflow from returns on investments and servicing of finance		<u>(353,121)</u>	<u>(239,270)</u>
Taxation			
UK corporation tax paid		<u>(376,397)</u>	<u>(429,367)</u>
Capital expenditure			
Purchase of tangible fixed assets		<u>(1,184,652)</u>	<u>(1,984,224)</u>
Equity dividends paid		<u>(3,020,699)</u>	<u>-</u>
Net cash inflow/(outflow) before financing		<u>(1,404,466)</u>	<u>(880,096)</u>
Financing			
Loan repayments		(1,087,438)	(969,428)
New borrowings		1,550,000	1,570,000
Loan from Ultimate Parent		2,000,000	-
Redemption of share capital		(1,396,494)	-
Issue of ordinary share capital		<u>50,000</u>	<u>-</u>
Net cash outflow from financing		<u>1,116,068</u>	<u>600,572</u>
Decrease in cash in year	27	<u>(288,398)</u>	<u>(279,524)</u>

NOTES TO THE ACCOUNTS
Year ended 30 June 2003**1. ACCOUNTING POLICIES****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 2003. Middleton St George Healthcare Ltd and Cheadle Royal Healthcare Ltd have been consolidated on a merger accounting basis as a result of the group reconstruction undertaken in 2001. 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. Cost comprises materials only.

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

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.

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 2003

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

	2003 Continuing £	2003 Discontinued £	2003 Total £
Turnover	19,015,301	-	19,015,301
Cost of sales	(12,196,669)	-	(12,196,669)
Gross profit	6,818,632	-	6,818,632
Administrative expenses	(6,220,028)	199	(6,219,829)
Exceptional item – refund on pension scheme	1,517,360	-	1,517,360
Operating profit	2,115,964	199	2,116,163

ANALYSIS OF CONTINUING AND DISCONTINUED OPERATIONS (CONTINUED)

	2002 Continuing £	2002 Discontinued £	2002 Total £
Turnover	16,867,018	147,127	17,014,145
Cost of sales	(10,119,122)	(118,246)	(10,237,368)
Gross profit	6,747,896	28,881	6,776,777
Administrative expenses	(4,985,939)	(30,573)	(5,016,512)
Operating profit/(loss)	1,761,957	(1,692)	1,760,265

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2003 £	2002 £
Directors remuneration		
Directors' emoluments (excluding pension contributions)	<u>389,090</u>	<u>454,905</u>
	£	£
Directors' pension contributions	<u>26,264</u>	<u>19,519</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>86,619</u>	<u>63,522</u>
Pension contributions of the highest paid director	<u>9,936</u>	<u>5,318</u>
	£	£
Employee costs during the year:		
Wages and salaries	10,879,646	8,858,878
Social security costs	851,836	645,702
Other pension costs	<u>228,279</u>	<u>138,091</u>
	<u>11,959,761</u>	<u>9,642,671</u>
	No	No
Average number of persons employed:		
Administrative	94	80
Professional	312	333
Technical and support	<u>204</u>	<u>188</u>
	<u>610</u>	<u>601</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Bank loans and overdraft	374,106	256,602

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

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £	2002 £
Profit on ordinary activities before taxation is after charging:		
Depreciation	747,142	562,533
Operating leases – other	12,019	16,252
Exceptional item – refund on pension scheme	(1,517,360)	-
Auditors' remuneration – audit fees	19,724	13,850
– non audit fees	126,178	15,000

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £	2002 £
Current taxation		
UK corporation tax at standard rate	161,071	483,895
Adjustments in respect of prior periods	(41,417)	(19,434)
Total current tax	119,654	464,461
Deferred taxation		
Origination and reversal of timing differences	54,209	(4,119)
Adjustments in respect of prior periods	127,781	45,389
Tax on profit on ordinary activities	301,644	505,731
Profit on ordinary activities before tax	1,763,042	1,524,401
Tax on profit on ordinary activities at standard rate	528,913	457,496
Factors affecting charge for the year:		
Capital allowances in excess of depreciation	(74,019)	(9,489)
Other timing differences	3,502	14,151
Expenses not deductible for tax purposes	157,921	22,680
Refunded surplus on pension scheme	(455,208)	
Income not taxable	(38)	-
Prior period adjustments	(41,417)	(19,434)
Other	-	(943)
Total actual amount of current tax	119,654	464,461

8. DIVIDENDS

	2003 £	2002 £
Equity shares		
Ordinary shares – final proposed - £16,643 per ordinary share (2002: £nil per ordinary share)	3,020,699	-

9. PROFIT/(LOSS) 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 profit for the period amounts to £2,250,728 (2002: loss £561,672)

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

10. TANGIBLE FIXED ASSETS

	Freehold Operational Entity £	Fixtures and Fittings and Motor Vehicles £	Total £
The Group			
Cost or valuation			
At 1 July 2002	21,751,852	5,103,535	26,855,387
Additions	702,350	482,302	1,184,652
Adjustment arising upon revaluation	(946,746)	-	(946,746)
	<hr/>	<hr/>	<hr/>
At 30 June 2003	21,507,456	5,585,837	27,093,293
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 1 July 2002	11,694	1,216,876	1,228,570
Charge for the year	-	747,142	747,142
	<hr/>	<hr/>	<hr/>
At 30 June 2003	11,694	1,964,018	1,975,712
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 June 2003	21,495,762	3,621,819	25,117,581
	<hr/>	<hr/>	<hr/>
At 30 June 2002	21,740,158	3,886,659	25,626,817
	<hr/>	<hr/>	<hr/>

Comparable amounts determined according to the historical cost convention:

	Freehold Operational Entity £	Fixtures and Fittings and Motor Vehicles £	Total £
Cost	3,651,523	5,585,837	9,237,360
Accumulated depreciation	11,694	1,964,018	1,975,712
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 June 2003	3,639,829	3,621,819	7,261,648
	<hr/>	<hr/>	<hr/>
At 30 June 2002	2,948,522	3,886,659	6,835,181
	<hr/>	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

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 2002	30,588
Additions	101,962
	<hr/>
At 30 June 2003	132,550
	<hr/>
Accumulated Depreciation	
At 1 July 2002	3,771
Charge for the year	11,198
	<hr/>
At 30 June 2003	14,969
	<hr/>
Net book value	
At 30 June 2003	117,581
	<hr/> <hr/>
At 30 June 2002	26,817
	<hr/> <hr/>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

11. INVESTMENTS

	Shares in subsidiary undertakings £
Cost and net book value at 1 July 2002 and 30 June 2003	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.

12. STOCKS

	The Group 2003 £	The Group 2002 £
Raw materials and consumables	62,659	41,066

13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2003 £	The Company 2003 £	The Group 2002 £	The Company 2002 £
Trade debtors	2,055,475	-	2,267,773	-
Amounts owed by subsidiary companies	-	2,041,904	-	634,155
Other debtors	93,542	-	85,401	-
Prepayments and accrued income	92,275	9,102	60,345	3,474
Group relief receivable	-	1,159,368	-	402,916
Corporation tax recoverable	33,763	-	-	-
	<u>2,275,055</u>	<u>3,210,374</u>	<u>2,413,519</u>	<u>1,040,545</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2003 £	The Company 2003 £	The Group 2002 £	The Company 2002 £
Bank overdraft (note 17)	203,434	81,281	929,271	-
Bank loans (note 17)	1,358,398	-	1,140,913	-
Amounts due to parent company	7,709	7,709	-	-
Amounts due to subsidiary companies	-	438,166	-	1,608,441
Trade creditors	718,677	138,581	606,267	-
Corporation tax	-	-	222,981	-
Other creditors including taxation and social security (note 15)	471,739	45,571	312,732	-
Accruals and deferred income	563,156	266,920	325,818	18,861
	<u>3,323,113</u>	<u>978,228</u>	<u>3,537,982</u>	<u>1,627,302</u>

15. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	The Group 2003 £	The Company 2003 £	The Group 2002 £	The Company 2002 £
This heading includes:				
Taxation and social security	<u>291,515</u>	<u>45,571</u>	<u>179,917</u>	<u>-</u>

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

	The Group 2003 £	The Company 2003 £	The Group 2002 £	The Company 2002 £
Bank loans (note 17)	4,126,096	-	3,881,019	-
Amounts due to parent company	<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>
	<u>6,126,096</u>	<u>2,000,000</u>	<u>3,881,019</u>	<u>-</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

17. BORROWINGS

	The Group 2003 £	The Group 2002 £
Bank overdraft	203,434	929,271
Bank loans	5,484,494	5,021,932
Amounts due to ultimate parent company	2,000,000	-
	<u>7,687,928</u>	<u>5,951,203</u>
Due within one year	1,561,832	2,070,184
Due after more than one year	6,126,096	3,881,019
	<u>7,687,928</u>	<u>5,951,203</u>
Analysis of repayments:		
Bank overdraft		
Within one year or on demand	<u>203,434</u>	<u>929,271</u>
Bank loans		
Within one year	1,358,398	1,140,913
Between one and two years	1,296,731	1,065,186
Between two and five years	1,891,301	1,765,520
Over five years	<u>938,064</u>	<u>1,050,313</u>
	<u>5,484,494</u>	<u>5,021,932</u>
Amounts due to ultimate parent company		
Within one year	-	-
Between one and two years	-	-
Between two and five years	<u>2,000,000</u>	-
	<u>2,000,000</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 either 1.25% or 1.75% 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 12 to 142 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 2003 under this arrangement amounted to £5,606,647 (2002: £4,627,413).

The loan due to the ultimate parent company bears interest at 5% and is repayable in full in 53 months time.

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

18. PROVISION FOR LIABILITIES AND CHARGES

	The Group 2003 £	The Company 2003 £	The Group 2002 £	The Company 2002 £
Deferred Tax				
At 1 July	156,431	1,637	115,163	404
Charge for the year	181,990	5,432	41,268	1,233
At 30 June	<u>338,421</u>	<u>7,069</u>	<u>156,431</u>	<u>1,637</u>

Provision for deferred taxation consists of the following amounts:

	The Group 2003 £	The Company 2003 £	The Group 2002 £	The Company 2002 £
Capital allowances in excess of depreciation	330,306	7,069	144,471	1,637
Other	8,115	-	11,960	-
	<u>338,421</u>	<u>7,069</u>	<u>156,431</u>	<u>1,637</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 £5,372,323 (2002: £5,637,491).

19. RECONCILIATION OF MOVEMENT IN CONSOLIDATED SHAREHOLDERS' FUNDS

	The Group 2003 £	The Group 2002 £
Profit for the financial year	1,461,398	1,018,670
Dividend paid during the year	(3,020,699)	-
Adjustment arising upon revaluation	(946,746)	8,893,459
Repurchase of ordinary shares	(1,396,493)	-
Issue of ordinary shares	50,000	-
Net (decrease)/increase in shareholders' funds	<u>(3,852,540)</u>	<u>9,912,129</u>
Opening shareholders' funds	21,576,036	11,663,907
Closing shareholders' funds	<u>17,723,496</u>	<u>21,576,036</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

20. CALLED UP SHARE CAPITAL

	2003 £	2002 £
Authorised		
12,000 'A' ordinary shares of £0.01 each (2002: 120 'A' ordinary shares of £1 each)	120	120
8,000 'B' ordinary shares of £0.01 each (2002: 80 'B' ordinary shares of £1 each)	80	80
	<u>200</u>	<u>200</u>
	2003 £	2002 £
Called up, allotted and fully paid		
12,000 'A' ordinary shares of £0.01 each (2002: 120 'A' ordinary shares of £1 each)	120	120
6,150 'B' ordinary shares of £0.01 each (2002: 74 'B' ordinary shares of £1 each)	62	74
	<u>182</u>	<u>194</u>

On 31 July 2002 the company's authorised and called share capital was sub-divided with each £1 ordinary share being split into 100 £0.01 ordinary shares.

During the year Affinity Healthcare Limited repurchased 1300 'B' ordinary shares of £0.01 each for £1,396,494. There was a corresponding £13 transfer to the capital redemption reserve. At the same time 50 'B' ordinary shares of £0.01 shares were issued at a premium of £1,000 per share.

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.

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

21. RESERVES

The Group

	Share premium £	Capital redemption reserve £	Merger reserve £	Revalu- ation Reserve £	Profit and loss account £
At 1 July 2002	-	-	1,120,003	18,802,679	1,653,160
Profit for the year	-	-	-	-	(1,559,301)
Adjustment arising upon revaluation	-	-	-	(946,746)	-
Repurchase of ordinary shares	-	13	-	-	(1,396,494)
Issue of ordinary shares	50,000	-	-	-	-
At 30 June 2003	50,000	13	1,120,003	17,855,933	(1,302,635)

	Share premium £	Capital redemption reserve £	Profit and loss account £
The Company			
At 1 July 2002	-	-	(561,672)
Repurchase of ordinary shares	-	13	(1,396,494)
Issue of ordinary shares	50,000	-	-
Profit for the year	-	-	2,250,728
At 30 June 2003	50,000	13	292,562

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

22. OPERATING LEASE COMMITMENTS

At 30 June 2003 the group was committed to making the following payments during the next year in respect of operating leases:

	Other 2003 £	Other 2002 £
Leases which expire:		
Within one year	6,010	-
Within one to two years	-	12,869
	<u>6,010</u>	<u>12,869</u>

23. CAPITAL COMMITMENTS

	2003 £	2002 £
Contracted for but not provided	-	280,979
	<u>-</u>	<u>280,979</u>

24. ULTIMATE PARENT COMPANY

The immediate parent company is Healthcare England Ltd, which is a 100% owned subsidiary of the ultimate parent company Healthcare Scotland Limited, both companies are registered in Scotland. Copies of their 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 £228,279 (2002: £138,091). There were outstanding contributions payable of £16,082 (2002: £12,433) to the fund at the year end.

Defined Benefit Scheme

The company operates the Cheadle Royal Hospital Pension Fund, a funded defined benefit pension scheme. There is no provision for pension costs (2002: £nil) in the profit and loss account or balance sheet as at 30 June 2003 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 relation to its pension scheme. These are provided on the attached schedule.

NOTES TO THE ACCOUNTS
Year ended 30 June 2003

25. PENSION SCHEMES (continued)

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	1.95%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 (122%).

The funding level allows for changes to the Fund which were implemented at 1 November 2002. These changes were:

- All benefits for all members were increased by 10%. The increase for members who were pensioners at 1 November was back dated to 1 September 2001.
- A refund of surplus paid to the employer of £2,411,900, amount received net of tax was £1,517,360.
- A three year contribution holiday for members starting with effect from 1 November 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		30 June 2003	Value at 30 June 2002
	30 June 2003	30 June 2002		
Equities	n/a	n/a	Nil	Nil
Bonds	4.5%	4.9%	£29.7m	£28.1m
Other	4.5%	4.9%	Nil	£2.4m

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

25. PENSION SCHEMES (continued)

The liabilities of the scheme at 30 June 2003 were calculated on the following bases as required under FRS 17:

Assumptions	30 June 2003	30 June 2002
Discount rate	5.0%	5.9%
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 2003 was as follows:

	30 June 2003 £	30 June 2002 £
Fair value of assets	29.7m	30.5m
Present value of scheme liabilities	(23.2m)	(18.0m)
Surplus in the scheme	6.5m	12.5m
Unrecognised surplus in the scheme	(4.2m)	(8.8m)
Related deferred tax liability	2.3m (0.7m)	3.7m (1.1m)
Net pension asset	1.6m	2.6m

Full implementation of FRS17 would increase net assets by £1.6m (2002: £2.6m).

Amount that would be charged to profit and loss account:

	2003 £	2003 £
Expected return on pension scheme assets	1.0m	1.3m
Interest on pension liabilities	(0.8m)	(1.2m)
Other finance income	2.4m	-
Net return	2.6m	0.1m
Current service cost	(0.2m)	(0.1m)
Net pension cost	2.4m	-

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 2003****25. PENSION SCHEMES (continued)****Amount that would be recognised in the statement of total recognised gains and losses:**

	2003	2002
	£	£
Actual return less expected return on pension scheme assets	1.6m	0.5m
Experience gains on liabilities	(0.3m)	2.9m
Changes in assumptions	(2.9m)	(1.0m)
	<hr/>	<hr/>
	(1.6m)	2.4m
Adjustment due to surplus cap	0.2m	(3.8m)
	<hr/>	<hr/>
Net loss recognised	(1.4m)	(1.4m)
	<hr/>	<hr/>

Movements in pension scheme surpluses during the year:

	2003	2002
	£	£
Surplus in scheme at beginning of year	3.7m	5.1m
Movement in year:		
Current scheme costs	(0.2m)	(0.1m)
Contributions	(2.4m)	-
Net return on assets	2.6m	0.1m
Actuarial loss	(1.4m)	(1.4m)
	<hr/>	<hr/>
Surplus in scheme at end of year	2.3m	3.7m
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

25. PENSION SCHEMES (continued)

History of experience gains and losses:

	2003 £	2002 £
Difference between expected and actual return of scheme assets:	1.6m	0.5m
Percentage of scheme assets	6%	1.6%
Experience gains and losses on scheme liabilities:	(0.3m)	2.9m
Percentage of scheme liabilities	(1%)	16.1%
Total amount recognised in statement of total recognised gains and losses	(1.4m)	(1.4m)
Percentage of scheme liabilities	(6%)	7.7%

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

	2003 £	2002 £
Operating profit	2,116,163	1,760,265
Depreciation	747,142	562,533
Increase in stocks	(21,593)	(4,671)
Decrease/ (increase) in debtors	172,227	(611,953)
Increase in creditors	516,464	66,591
Net cash inflow from operating activities	<u>3,530,403</u>	<u>1,772,765</u>

NOTES TO THE ACCOUNTS

Year ended 30 June 2003

27. ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 2002 £	Cashflow £	Other non-cash movements £	At 30 June 2003 £
Cash at bank and in hand	1,070,066	(1,014,235)	-	55,831
Bank overdraft	(929,271)	725,837	-	(203,434)
		(288,398)		
Bank loans – due within year	(1,140,913)	847,700	(1,065,185)	(1,358,398)
Bank loans – due after one year	(3,881,019)	(1,310,262)	1,065,185	(4,126,096)
Loan from Ultimate parent – due after one year	-	(2,000,000)	-	(2,000,000)
	<u>(4,881,137)</u>	<u>(2,750,960)</u>	<u>-</u>	<u>(7,632,097)</u>

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

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

	2003 £	2002 £
Decrease in cash in the year	(288,398)	(279,524)
Cash inflow from increase in debt	(3,550,000)	(1,570,000)
Loan repayments	<u>1,087,438</u>	<u>969,428</u>
Change in net debt resulting from cash flow and movement in net debt in the year	<u>(2,750,960)</u>	<u>(880,096)</u>
	(2,750,960)	(880,096)
Net debt at 1 July	<u>(4,881,137)</u>	<u>(4,001,041)</u>
Net debt at 30 June	<u>(7,632,097)</u>	<u>(4,881,137)</u>