

**AFFINITY HEALTHCARE HOLDINGS  
LIMITED**

**Report and Financial Statements**

**Year ended 30 June 2006**

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# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

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# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

P Batchelor  
L Denton  
A Evans  
J Robinson  
J A Shaw  
K Mullord  
C Troup

### **SECRETARY**

J A Shaw

### **REGISTERED OFFICE**

100 Wilmslow Road  
Heald Green  
Cheadle  
Cheshire  
SK8 3DG

### **BANKERS**

Royal Bank of Scotland  
1 Spinningfields Square  
Manchester

### **SOLICITORS**

Wragge & Co LLP  
55 Colmore Row  
Birmingham

### **AUDITORS**

Deloitte & Touche LLP  
Manchester

# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2006

### **BUSINESS REVIEW AND PRINCIPAL ACTIVITIES**

Affinity Healthcare Holdings Limited is the ultimate holding company for a group of companies

The group's principal activity is the provision of private healthcare. There have not been any significant changes in the group's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the group's activities in the next year.

The company was formed in order to enable the purchase in December 2004 of the Affinity Hospitals Holding group. The company raised equity finance of £3.4m. Further finance was raised by Affinity Healthcare Limited, a wholly owned subsidiary, through bank debt amounting to £52.0m and finance from its current and former shareholders of £8.2m and £5.1m respectively, which was used to fund the transaction.

Since December 2004, further finance of £23.2m (£13m of which was raised after 30 June 2006) has been raised by Affinity Healthcare Limited to support significant capital expansion and settlement of deferred consideration.

As shown in the group's profit and loss account on page 6, the group's sales for the year have increased by 113% over the prior period, which was only a six month period.

The group regards the EBITDA as an important measure of financial performance. EBITDA for the current financial year was £7,195,783 compared to £3,177,022 for the prior period, representing 23.6% and 22.2% as a percentage of sales respectively.

The balance sheet on page 7 of the financial statements shows that the group's financial position at the year end is, in cash terms consistent with the prior year. Details of amounts due to and from its subsidiaries are shown in notes 14 and 15 on page 17.

No significant events have occurred since the balance sheet date.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The group operates in a competitive, regulated and changing market. The group provides services mainly to the NHS which is going through a period of change and restructuring.

The group operates entirely in the UK and is therefore not exposed to exchange rate risk.

Exposure to interest rate risk is managed through a comprehensive hedging policy.

### **REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS**

The results of the group for the year are shown on page 6.

The directors are satisfied with the group result and anticipate that the group will continue to trade satisfactorily during the ensuing year.

### **DIVIDENDS AND TRANSFERS FROM RESERVES**

No dividends have been paid during the year and none are proposed. The retained consolidated loss of £3,113,895 (2005 - £1,668,989) has been withdrawn from consolidated reserves.

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## DIRECTORS' REPORT (continued)

### DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the year and thereafter are set out below

P Batchelor	
J R C Brock	(resigned 28 October 2005)
L Denton	
A Evans	(appointed 28 April 2006)
C Margerit	(resigned 29 January 2007)
J Robinson	
J A Shaw	
J P Ward	(resigned 8 March 2006)
T A Lebus	(appointed 28 October 2005 and resigned 29 January 2007)
K Mullord	(appointed 29 January 2007)
C Troup	(appointed 29 January 2007)

The directors' interests in the share capital of the company at 30 June 2006 is shown below

	Ordinary 'A' shares of £1 each	
	No. 30 June 2006	No. 30 June 2005
P Batchelor	175,000	175,000
A Evans	56,250	-
C Margerit	-	-
J A Shaw	75,000	75,000
L Denton	10,000	-
J Robinson	18,750	-

No share options in Affinity Healthcare Holdings Limited were held at either 30 June 2006 or 30 June 2005

### EMPLOYEE INVOLVEMENT

The group provides information to employees covering various aspects of the group's current and future activities along with certain financial information. In addition, there are regular meetings of employee representatives with senior management, at which full discussion on relevant points takes place.

### DISABLED EMPLOYEES

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

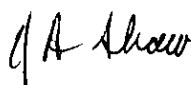
### AUDITORS

In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

A resolution to reappoint Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed by order of the Board

  
Company Secretary  
Date 1 March 2007

# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **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 group and the company 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 company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for establishing and maintaining the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the group and individual company financial statements (the "financial statements") of Affinity Healthcare Holdings Limited for the year ended 30 June 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and individual company balance sheets, 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**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, 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 other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **Basis of audit opinion**

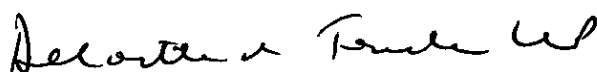
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the individual company's affairs as at 30 June 2006 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Manchester  
Date

5 March 2007

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 30 June 2006

	Note	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
<b>TURNOVER</b>	2	30,536,256	14,337,750
Cost of sales		(17,167,140)	(8,240,937)
<b>GROSS PROFIT</b>		13,369,116	6,096,813
Administrative expenses		(8,509,529)	(4,045,033)
<b>OPERATING PROFIT</b>		4,859,587	2,051,780
Interest receivable and similar income	4	21,043	834
Interest payable and similar charges	5	(8,378,109)	(3,872,389)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	6	(3,497,479)	(1,819,775)
Tax on loss on ordinary activities	7	383,584	150,786
<b>RETAINED LOSS FOR THE FINANCIAL PERIOD</b>	20	(3,113,895)	(1,668,989)

All results are derived from continuing operations

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 30 June 2006

	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
Loss for the financial period	(3,113,895)	(1,668,989)
<b>Total recognised gains and losses relating to the period</b>	(3,113,895)	(1,668,989)



# AFFINITY HEALTHCARE HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET 30 June 2006

	Note	2006 £	2005 £
<b>FIXED ASSETS</b>			
Intangible assets – negative goodwill	9,12	(8,465,585)	(8,387,606)
Tangible assets	10	78,348,392	78,017,562
		<u>69,882,807</u>	<u>69,629,956</u>
<b>CURRENT ASSETS</b>			
Stocks	13	44,694	49,369
Debtors	14	3,285,419	3,000,409
Cash at bank and in hand		2,609,783	680,804
		<u>5,939,896</u>	<u>3,730,582</u>
<b>CREDITORS: amounts falling due within one year</b>	15	(13,224,791)	(9,872,635)
<b>NET CURRENT LIABILITIES</b>		<u>(7,284,895)</u>	<u>(6,142,053)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		62,597,912	63,487,903
<b>CREDITORS: amounts falling due after more than one year</b>	16	(63,679,011)	(61,390,742)
<b>PROVISIONS FOR LIABILITIES</b>	18	(35,035)	(331,150)
<b>NET (LIABILITIES) /ASSETS</b>		<u>(1,116,134)</u>	<u>1,766,011</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	3,666,750	3,435,000
Profit and loss account	20	(4,782,884)	(1,668,989)
<b>TOTAL EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS</b>	21	<u>(1,116,134)</u>	<u>1,766,011</u>

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

1 March 2007

Director

*J A Shaw*

Director

*AB*

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## COMPANY BALANCE SHEET

30 June 2006

	Note	2006 £	2005 £
<b>FIXED ASSETS</b>			
Investments	11	3,633,791	3,329,293
<b>CURRENT ASSETS</b>			
Debtors – amounts falling due after one year	14	83,180	135,000
Debtors – amounts falling due within one year	14	205,052	-
Cash		11,250	-
		299,482	135,000
<b>CREDITORS: amounts falling due within one year</b>	15	(32,806)	(11,319)
<b>NET CURRENT ASSETS</b>		266,676	123,681
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,900,467	3,452,974
<b>CREDITORS: amounts falling due after more than one year</b>	16	(161,294)	-
<b>NET ASSETS</b>		3,739,173	3,452,974
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	3,666,750	3,435,000
Profit and loss account	20	72,423	17,974
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	21	3,739,173	3,452,974

These financial statements were approved by the Board of Directors on  
Signed on behalf of the Board of Directors

1 March 2007

Director

*A Shaw*

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## CONSOLIDATED CASH FLOW STATEMENT Year ended 30 June 2006

	Note	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
Net cash inflow (outflow) from operating activities	24	1,305,682	(4,038,573)
<b>Returns on investments and servicing of finance</b>			
Interest received		21,043	834
Interest paid		(4,396,185)	(2,616,388)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(4,375,142)	(2,615,554)
<b>Net cash outflow from taxation</b>		(429,965)	(332,090)
<b>Capital expenditure</b>			
Payments to acquire tangible fixed assets		(3,055,125)	(967,264)
Disposal of fixed assets		370,091	-
<b>Net cash outflow from capital expenditure</b>		(2,685,034)	(967,264)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		252,579	(59,536,788)
Net cash acquired with subsidiary		-	3,213,612
<b>Net cash inflow /(outflow) from acquisitions and disposals</b>		252,579	(56,323,176)
<b>Net cash outflow before financing</b>		(5,931,880)	(64,276,657)
<b>Financing</b>			
Issue of share capital		231,750	3,435,000
New secured term loan		-	52,316,809
Loan notes		2,754,675	5,063,537
Deep discounted bonds		6,774,434	8,440,348
Repayment of secured loan		(1,900,000)	(200,000)
Expenses of finance arrangement		-	(4,098,233)
		7,860,859	64,957,461
<b>Increase in cash in the year/period</b>	26	1,928,979	680,804

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

#### Turnover

Turnover represents amounts receivable for goods and services, excluding value added tax.

#### Accounting convention

The financial statements are prepared under the historical cost convention.

#### Intangible assets

Goodwill is depreciated in equal annual amounts over a period of twenty years. Provision is made for any impairment.

Negative goodwill is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

#### Fixed asset investments

Fixed asset investments are stated at cost less provision for any impairment.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

On all assets, depreciation is provided on cost or valuation in equal annual instalments over the estimated useful economic lives of the assets. The rates of depreciation are as follows:

Fixtures and fittings	- 7 years
Freehold land and buildings	- 50 years

#### Acquisitions and disposals

On the acquisition of a business, including an interest in an associated undertaking, fair values are attributable to the group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

The profit or loss on disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

#### Stocks

Stocks are stated at cost. Cost comprises materials only.

# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2006**

### **1. ACCOUNTING POLICIES (continued)**

#### **Taxation**

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in full on timing differences that result in an 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 the financial statements

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

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

#### **Leases**

Rentals under operating leases are charged to the profit and loss account in equal amounts over the life of the lease even if payments are not made on such basis

#### **Pension costs**

The group operates a defined contribution scheme. Defined contribution pension costs are charged to the profit and loss account as they become payable by the group. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and all of its subsidiaries. The acquisition method of consolidation is used, and subsidiaries are consolidated from the date on which control passes. Each subsidiary has an accounting reference date of 30 June

#### **Foreign currency**

Transactions denominated in foreign currencies are recorded at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. These translation differences are dealt with in the profit and loss account

#### **Debt**

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the year. Finance costs are recognised in the profit and loss account over the term of such instruments at a constant rate

### **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 tax and substantially arises from work done in the United Kingdom

Revenue is recognised when the company has obtained the right to receive consideration in exchange for its performance of the provision of private healthcare services. Revenue is recognised on a daily basis in accordance with the patients' stay in the private healthcare units provided by the company

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
<b>Directors' emoluments</b>		
Aggregate emoluments	584,533	269,624
Company contributions to a money purchase pension scheme	21,015	7,153
	<u>605,548</u>	<u>276,777</u>

Retirement benefits are accruing to 1 director under a defined benefit pension scheme, and 2 directors under a money purchase pension scheme

	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
<b>Remuneration of highest paid director</b>		
Aggregate emoluments	235,837	181,356
Contributions to a money purchase pension scheme	8,914	2,911
	<u>244,751</u>	<u>184,267</u>

	Year ended 30 June 2006 Number	Period from 6 December 2004 to 30 June 2005 Number
<b>Average number of persons employed</b>		
Administrative	89	75
Professional	419	372
Technical and support	218	196
	<u>726</u>	<u>643</u>

	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
<b>Staff costs during the year/period (including directors)</b>		
Wages and salaries	16,469,841	6,976,421
Social security costs	1,524,982	659,862
Other pension costs	528,215	196,688
	<u>18,523,038</u>	<u>7,832,971</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
Bank interest	21,043	834

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
Bank interest	(188,461)	-
Bank loans	(4,932,609)	(2,694,569)
On all other loans	(2,769,595)	(921,680)
Amortisation of debt issue costs	(487,444)	(256,140)
	<u>(8,378,109)</u>	<u>(3,872,389)</u>

### 6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 30 June 2006 £	Period from 6 December 2004 to 30 June 2005 £
Loss on ordinary activities before taxation is after charging/(crediting)		
Depreciation - owned assets	2,510,795	1,215,014
Amortisation of goodwill	(174,600)	(89,772)
Rentals under operating leases - other	38,723	20,269
Profit on sale of fixed assets	(156,591)	-
Auditors' remuneration - audit	57,663	30,666
- other services	39,157	23,414

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2006 £	2005 £
<b>Current taxation</b>		
UK corporation tax at standard rate	-	106,420
Adjustments in respect of prior periods	87,469	-
	<u>87,469</u>	<u>106,420</u>
<b>Deferred taxation</b>		
Origination and reversal of timing differences (note 18)	297,925	44,366
Adjustments in respect of prior periods (note 18)	(1,810)	-
	<u>296,115</u>	<u>44,366</u>
Tax on loss on ordinary activities	<u>383,584</u>	<u>150,786</u>

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30%. The actual tax charge for the year is lower than the standard rate for the reasons set out in the following reconciliation

	2006 £	2005 £
Loss on ordinary activities before tax	3,497,479	1,819,775
Tax on loss on ordinary activities at standard rate	1,049,244	545,933
<b>Factors affecting charge for the year:</b>		
Capital allowances in excess of depreciation	(296,430)	(35,642)
Capital items of expensed	(22,501)	-
Other timing differences	-	(8,701)
Expenses not deductible for tax purposes	(436,686)	(379,612)
Increases in tax losses	(293,627)	-
UK transfer pricing	-	(15,558)
Adjustments in respect of prior periods	87,469	-
Total actual amount of current tax credit	<u>87,469</u>	<u>106,420</u>

The company has £1,791,445 (2005 - £812,691) of tax losses to carry forward against future taxable income but no (2005 - nil) deferred tax asset has been recognised on these losses due to the uncertainty surrounding the recovery of them

### 8. 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 profit for the year amounts to £54,449



# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2006

### 9. INTANGIBLE FIXED ASSETS

Group	Negative goodwill arising on consolidation
<b>Cost</b>	
At 1 July 2005	(8,477,378)
Adjustments to initial carrying value (see note 12)	(252,579)
At 30 June 2006	<u>(8,729,957)</u>
<b>Amortisation</b>	
At 1 July 2005	89,772
Credit for the year	174,600
At 30 June 2006	<u>264,372</u>
<b>Net book value</b>	
At 30 June 2006	<u>(8,465,585)</u>
At 1 July 2005	<u>(8,387,606)</u>

### 10. TANGIBLE FIXED ASSETS

Group	Heritable properties £	Fixtures and fittings £	Total £
<b>Cost</b>			
1 July 2005	75,693,851	7,033,812	82,727,663
Additions	2,314,080	741,045	3,055,125
Disposals	(213,500)	-	(213,500)
At 30 June 2006	<u>77,794,431</u>	<u>7,774,857</u>	<u>85,569,288</u>
<b>Accumulated depreciation</b>			
1 July 2005	1,022,188	3,687,913	4,710,101
Charge for the year	1,522,688	988,107	2,510,795
At 30 June 2006	<u>2,544,876</u>	<u>4,676,020</u>	<u>7,220,896</u>
<b>Net book value</b>			
At 30 June 2006	<u>75,249,555</u>	<u>3,098,837</u>	<u>78,348,392</u>
At 30 June 2005	<u>74,671,663</u>	<u>3,345,899</u>	<u>78,017,562</u>

The tangible fixed assets are stated at cost however the Directors have had them valued having regard to trading potential as an operational entity inclusive of freehold property and business goodwill as at 30 June 2006 by Colliers CRE, Chartered Surveyors. At 30 June 2006 freehold properties at Cheadle Royal Hospital and Middleton St George Hospital were valued at £109,176,157

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 11. INVESTMENTS HELD AS FIXED ASSETS

Company	Other investments £	Shares in subsidiaries £	Total £
At 1 July 2005	433,374	2,895,919	3,329,293
Additions	169,498	135,000	304,498
At 30 June 2006	602,872	3,030,919	3,633,791

This investment represents the entire issued share capital of Affinity Healthcare Limited. The principal activities of the subsidiary undertakings are the provision of hospital and consultancy services.

Subsidiary undertakings	Country of incorporation	Shares owned	%
<b>Affinity Healthcare Limited has the following subsidiaries:</b>			
Affinity Hospitals Holding Limited	Scotland	Ordinary	100
<b>Affinity Hospitals Holding Limited has the following subsidiaries:</b>			
Affinity Hospitals Group Limited	Scotland	Ordinary	100
<b>Affinity Hospitals Group Limited has the following subsidiaries:</b>			
Affinity Hospitals Limited	England	Ordinary	100
<b>Affinity Hospitals Limited has the following subsidiaries:</b>			
Cheadle Royal Healthcare Limited	England	Ordinary	100
Middleton St George Healthcare Limited	England	Ordinary	100
Cheadle Royal Hospital Limited (Dormant)	England	Ordinary	100

### 12. ADJUSTMENTS TO INITIAL CARRYING VALUE OF GOODWILL

On 24 December 2004, the company's immediate subsidiary, Affinity Healthcare Limited, acquired the entire issued share capital of Affinity Hospitals Holding Limited.

During the current year the actual deferred consideration paid was £252,579 lower than the amount accrued on 24 December 2004 and the negative goodwill arising on consolidation was adjusted accordingly.

### 13. STOCKS

	Group 2006 £	Group 2005 £
Raw materials and consumables	44,694	49,369

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 14. DEBTORS

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Amounts falling due within one year				
Trade debtors	2,885,220	-	2,734,764	-
Other debtors	183,819	125,625	15,997	-
Prepayments and accrued income	216,380	76,156	246,148	-
Corporation tax recoverable	-	3,271	3,500	-
	<u>3,285,419</u>	<u>205,052</u>	<u>3,000,409</u>	<u>-</u>
Amounts falling due after one year				
Amounts owed by subsidiary undertakings	-	83,180	-	135,000
	<u>3,285,419</u>	<u>288,232</u>	<u>3,000,409</u>	<u>135,000</u>

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Bank loans and loan notes (see note 17)	10,710,484	-	1,387,720	-
Trade creditors	974,403	-	1,004,807	-
Other creditors including taxation and social security	628,836	-	844,826	-
Deferred consideration (see note 12)	-	-	4,730,257	-
Accruals and deferred income	847,251	-	1,320,274	-
Corporation tax	63,817	-	584,751	3,271
Group relief	-	32,806	-	8,048
	<u>13,224,791</u>	<u>32,806</u>	<u>9,872,635</u>	<u>11,319</u>

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

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Bank loans and loan notes (see note 17)	63,679,011	-	61,390,742	-
Amounts owed to subsidiary undertakings	-	161,294	-	-
	<u>63,679,011</u>	<u>161,294</u>	<u>61,390,742</u>	<u>-</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 17. BANK LOANS AND LOAN NOTES

Group	2006 £	2005 £
Term loan	50,839,092	52,116,809
Vendor loan notes	9,210,122	5,430,609
Bonds	15,978,637	9,073,137
Secured loan notes	1,609,287	-
	<u>77,637,138</u>	<u>66,620,555</u>
Less deferred issue costs	(3,247,643)	(3,842,093)
	<u>74,389,495</u>	<u>62,778,462</u>

The term loan balance consists of a senior credit facility of £34,900,000 (a Senior A Loan of £17.9m and Senior B Loan of £17m), a senior mezzanine facility of £9,032,152 repayable in full on 24 December 2013, and a junior mezzanine facility of £6,906,490 repayable in full on 24 December 2013. The Senior A Loan is repayable in instalments between June 2005 and June 2011, and the Senior B Loan is repayable between June 2012 and December 2012.

Repayments of £1,900,000 were made on the senior credit facility during the year.

Vendor loan notes amounting to £2,754,675 were issued during the year. Interest is charged at 14% and at the year end there was £1,391,910 of accrued interest in the loan note balance. The vendor loan notes are repayable in December 2006.

As at the year end the following amounts of vendor loans notes were outstanding with persons who are, or were at some point during the year, directors of Affinity Healthcare Holdings Limited:

	Principal £	Accrued interest £	Total 2006 £
P Batchelor	2,127,205	401,776	2,598,981
J P Ward	2,246,108	405,168	2,651,276

Deep discounted bonds with a nominal value of £15,094,231 were issued during the year at a discount of 65% for £5,302,019. Interest is charged at 14% and at the year end there was £2,206,977 of accrued interest in the deep discounted bond balance. The deep discounted bonds are repayable in December 2013.

As at the year end the following amounts of deep discounted bonds were outstanding with directors of Affinity Healthcare Holdings Limited and Duke Street Capital V Limited, who the directors consider as the ultimate controlling party:

	Principal £	Accrued interest £	Total 2006 £
Duke Street	13,383,106	2,122,328	15,505,434
P Batchelor	388,554	84,649	473,203

Secured loan notes amounting to £1,472,415 were issued during the year. Interest is charged at 14% and at the year end there was £136,873 of accrued interest in the secured loan note balance. The loan notes are repayable in December 2013.

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 17. BANK LOANS AND LOAN NOTES (continued)

As at the year end the following amounts of secured loan notes were outstanding with directors of Affinity Healthcare Holdings Limited and Duke Street Capital V Limited, who the directors consider as the ultimate controlling party

	Principal £	Accrued interest £	Total 2006 £
Duke Street	676,756	66,740	743,496
P Batchelor	795,659	70,133	865,791

Bank loans and overdrafts within creditors due within 1 year are shown net of deferred issue costs of £499,638

The term loan is secured by a legal charge over the freehold land and buildings and a floating charge over the assets of the group

Borrowings in respect of bank loans, loan notes and bonds are repayable as follows

	2006 £	2005 £
<b>Term loan</b>		
Within one year	2,000,000	1,900,000
Between one and two years	2,700,000	2,000,000
Between two and five years	10,900,000	9,600,000
After five years	35,239,092	38,616,809
	<u>50,839,092</u>	<u>52,116,809</u>
Less issue costs	(3,247,643)	(3,842,093)
	<u>47,591,449</u>	<u>48,274,716</u>
<b>Vendor loan notes</b>		
Within one year	9,210,122	-
Between one and two years	-	5,430,609
	<u>9,210,122</u>	<u>5,430,609</u>
<b>Deep discounted bonds</b>		
After five years	15,978,637	9,073,137
	<u>15,978,637</u>	<u>9,073,137</u>
<b>Secured loan notes</b>		
After five years	1,609,287	-
	<u>1,609,287</u>	<u>-</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 17. BANK LOANS AND LOAN NOTES (continued)

	2006 £	2005 £
<b>Total borrowings</b>		
Within one year	11,210,122	1,900,000
Between one and two years	2,700,000	7,430,609
Between two and five years	10,900,000	9,600,000
After five years	52,827,016	47,689,946
	<u>77,637,138</u>	<u>66,620,555</u>
Less issue costs	(3,247,643)	(3,842,093)
	<u>74,389,495</u>	<u>62,778,462</u>
Amounts due in less than one year	10,710,484	1,387,720
Amounts due after more than one year	<u>63,679,011</u>	<u>61,390,742</u>

### 18. PROVISION FOR LIABILITIES

	Group £	Company £		
<b>Deferred tax</b>				
At 1 July 2005	331,150	-		
Credit for the year	(296,115)	-		
	<hr/>	<hr/>		
At 30 June 2006	35,035	-		
	<hr/>	<hr/>		
Provision for deferred taxation consists of the following amounts				
	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
Capital allowances in excess of depreciation	36,841	-	350,897	-
Other	(1,806)	-	(19,747)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	35,035	-	331,150	-

The company has not recognised a deferred tax asset of £537,434 (2005 - £243,807) in relation to trading losses as there is no certainty over the recoverability of this asset at 30 June 2006

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 19. CALLED UP SHARE CAPITAL

	2006 £	2005 £
Authorised		
750,000 'A' ordinary shares of £1 each	750,000	750,000
2,614,514 'B' ordinary shares of £1 each	2,614,514	2,614,514
385,486 'B <sub>1</sub> ' ordinary shares of £1 each	385,486	385,486
	<u>3,750,000</u>	<u>3,750,000</u>
	2006 £	2005 £
Allotted, called up and fully paid		
666,750 (2005 - 435,000) 'A' ordinary shares of £1 each	666,750	435,000
2,614,514 'B' ordinary shares of £1 each	2,614,514	2,614,514
385,486 'B <sub>1</sub> ' ordinary shares of £1 each	385,486	385,486
	<u>3,666,750</u>	<u>3,435,000</u>

During the year the company issued 231,750 'A' ordinary shares with a nominal value of £1 each. All classes of shares carry the same rights.

### 20. RESERVES

	Profit and loss account £
<b>THE GROUP</b>	
Balance at 1 July 2005	(1,668,989)
Loss retained for the year	<u>(3,113,895)</u>
Balance at 30 June 2006	<u>(4,782,884)</u>
<b>THE COMPANY</b>	
Balance at 1 July 2005	17,974
Profit retained for the year	<u>54,449</u>
Balance at 30 June 2006	<u>72,423</u>

### 21. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS

	Group 2006 £	Company 2006 £	Group 2005 £	Company 2005 £
(Loss)/profit for the financial year/period	(3,113,895)	54,449	(1,668,989)	17,974
Issue of £1 ordinary shares	<u>231,750</u>	<u>231,750</u>	<u>3,435,000</u>	<u>3,435,000</u>
Net (reduction)/addition to equity shareholders' funds	(2,882,145)	286,199	1,766,011	3,452,974
Opening equity shareholders' funds at 1 July 2005	<u>1,766,011</u>	<u>3,452,974</u>	-	-
Closing equity shareholders' (deficit)/funds at 30 June 2006	<u>(1,116,134)</u>	<u>3,739,173</u>	<u>1,766,011</u>	<u>3,452,974</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 22. OPERATING LEASE COMMITMENTS

Group	Other 2006 £	Other 2005 £
Leases which expire		
Within one year	8,766	7,012
Between one and two years	-	-
Between two to five years	22,369	31,711
	<u>31,135</u>	<u>38,723</u>

### 23. CAPITAL COMMITMENTS

	2006 £	2005 £
Contracted for but not provided for	<u>7,084,545</u>	<u>393,492</u>

### 24. RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £
Operating profit	4,859,587	2,051,780
Depreciation charges	2,510,795	1,215,014
Profit on sale of tangible fixed assets	(156,591)	-
Amortisation of goodwill	(174,600)	(89,772)
Decrease in stock	4,675	11,684
Increase in debtors	(288,510)	(124,369)
Decrease in creditors	(5,449,674)	(7,102,910)
Net cash inflow/(outflow) from operating activities	<u>1,305,682</u>	<u>(4,038,573)</u>

### 25. RECONCILIATION OF NET CASH INFLOW TO MOVEMENT IN NET DEBT

	2006 £	2006 £	2005 £	2005 £
Increase in cash in the year	1,928,979		680,804	
Cash inflow from increase in debt financing	<u>(7,552,954)</u>		<u>(61,522,461)</u>	
Changes in net debt resulting from cash flows		(5,623,975)		(60,841,657)
Loan note/bond interest accrued		(3,463,630)		(999,861)
Amortisation of bank loan costs		<u>(594,449)</u>		<u>(256,140)</u>
Movement in net debt in year/period		<u>(9,682,054)</u>		<u>(62,097,658)</u>
Net debt at 1 July		(62,097,658)		-
Net debt at 30 June		<u>(71,779,712)</u>		<u>(62,097,658)</u>



# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2006

### 26. ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 2005 £	Cash inflow £	Repayment £	Other none cash changes £	Debt costs £	Accrued interest £	At 30 June 2006 £
Cash at bank and in hand	680,804	1,928,979	-	-	-	-	2,609,783
<b>Debt due within one year</b>							
Term loan	(1,387,720)	(2,000,000)	1,900,000		(12,641)	-	(1,500,361)
Loan notes	-	-	-	(8,185,284)	-	(1,024,839)	(9,210,123)
<b>Debt due after one year</b>							
Term loan	(46,886,996)	2,000,000	-		(581,808)	(622,281)	(46,091,085)
Loan notes	(5,430,609)	(2,754,675)	-	8,185,284	-	-	-
Bonds	(9,073,137)	(6,698,279)	-		-	(1,816,510)	(17,587,926)
	<u>(62,097,658)</u>	<u>(7,523,975)</u>	<u>1,900,000</u>	<u>-</u>	<u>(594,449)</u>	<u>(3,463,630)</u>	<u>(71,779,712)</u>

### 27. RELATED PARTY TRANSACTIONS

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Affinity Healthcare Holdings Limited group of companies

### 28. CONTROLLING PARTIES

The directors of Affinity Healthcare Holdings Limited regard Duke Street Capital V Limited as the ultimate controlling party of the group