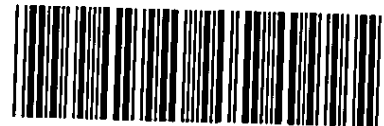


**AFFINITY HEALTHCARE HOLDINGS  
LIMITED**

**Report and Financial Statements**

**Year ended 30 June 2007**

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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  
C Philipps  
J Robinson  
J A Shaw  
C Troup

### **SECRETARY**

J A Shaw

### **REGISTERED OFFICE**

100 Wilmslow Road  
Heald Green  
Cheadle  
Cheshire  
SK8 3DG

### **BANKERS**

Royal Bank of Scotland Plc  
1 Spinningfields Square  
Manchester

### **SOLICITORS**

Wragge & Co LLP  
55 Colmore Row  
Birmingham

### **AUDITORS**

Deloitte & Touche LLP  
Manchester, England

# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 June 2007

### **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 £31.8m 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 decreased by 6.5% over the prior year.

The group regards the earnings before interest, taxation, depreciation and amortisation ('EBITDA') as an important measure of financial performance. EBITDA for the current financial year was £3,548,579 compared to £7,195,783 for the prior period, representing 12.4% and 23.6% as a percentage of sales respectively. During the year, the open acute unit at Cheadle Royal Healthcare was closed and refurbished for use as wards for the care of young persons. Two new units providing care for female patients were opened during 2007 at Middleton St George Healthcare. In May 2006, Middleton St George Healthcare transferred its nursing home business to another operator, resulting in lower turnover for the company during 2007.

During the current year the Group incurred £866,786 of additional costs in relation to the re-negotiation of the banking facility.

The balance sheet on page 7 of the financial statements shows the group's financial position at the end of the financial year. The group is financed by a combination of private equity funding and bank debt. In common with many such companies, this financing includes financial commitments on which interest accrues but is not payable until the loans mature. The accrued loan interest is amortised through the profit and loss account over the life of the loan, resulting in a deficit in retained reserves and an overall deficit in shareholders' funds. Despite this presentation, the directors consider that the company is appropriately financed.

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 works closely with the NHS to ensure that the services provided by the group meet the needs of the NHS.

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

Certain loans held by the Group are subject to financial covenants. The directors regularly review compliance with the covenants and maintain strong relationships with the Group's finance providers in order to minimise any associated risks.

### **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 £8,703,163 (2006 – loss £3,113,895) 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  
L Denton  
A Evans  
C Philipps (resigned 29 January 2007 and re-appointed 28 September 2007)  
J Robinson  
J A Shaw  
T A Lebus (resigned 29 January 2007)  
K Mullord (appointed 29 January 2007 and resigned 28 September 2007)  
C Troup (appointed 29 January 2007)

The directors' interests in the share capital of the company at 30 June 2007 is shown below

	Ordinary 'A' shares of £1 each		Ordinary 'B' shares of £1 each	
	No. 30 June 2007	No. 30 June 2006	No. 30 June 2007	No. 30 June 2006
P Batchelor	175,000	175,000	133,898	133,898
A Evans	56,250	56,250	-	-
J A Shaw	75,000	75,000	-	-
L Denton	10,000	10,000	-	-
J Robinson	18,750	18,750	-	-

No share options in Affinity Healthcare Holdings Limited were held at either 30 June 2007 or 30 June 2006

### 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

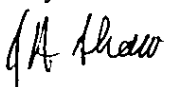
In the case of each of the persons who are directors of the company at the date when this report was approved

- 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.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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 22 October 2007

# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

United Kingdom company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF 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 2007 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 27. 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 2007 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*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Manchester, England

Date *23 October 2007*

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 30 June 2007

	Note	30 June 2007 £	30 June 2006 £
<b>TURNOVER</b>	2	28,566,277	30,536,256
Cost of sales		(16,929,019)	(17,167,140)
<b>GROSS PROFIT</b>		11,637,258	13,369,116
Administrative expenses		(10,435,457)	(8,509,529)
<b>OPERATING PROFIT</b>		1,201,801	4,859,587
Interest receivable and similar income	4	158,053	21,043
Interest payable and similar charges	5	(10,110,883)	(8,378,109)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	6	(8,751,029)	(3,497,479)
Tax on loss on ordinary activities	7	47,866	383,584
<b>RETAINED LOSS FOR THE FINANCIAL YEAR</b>	19,20	(8,703,163)	(3,113,895)

All results are derived from continuing operations

The company has no recognised gains and losses other than the results for the current and prior year as disclosed above, accordingly a separate statement of total recognised gains and losses has not been included

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## CONSOLIDATED BALANCE SHEET

30 June 2007

	Note	2007 £	2006 £
<b>FIXED ASSETS</b>			
Intangible assets – negative goodwill	9	(8,290,634)	(8,465,585)
Tangible assets	10	86,228,425	78,348,392
		<u>77,937,791</u>	<u>69,882,807</u>
<b>CURRENT ASSETS</b>			
Stocks	12	41,002	44,694
Debtors	13	3,590,897	3,285,419
Cash at bank and in hand		1,760,469	2,609,783
		<u>5,392,368</u>	<u>5,939,896</u>
<b>CREDITORS: amounts falling due within one year</b>	14	<u>(6,176,491)</u>	<u>(13,224,791)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(784,123)</u>	<u>(7,284,895)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		77,153,668	62,597,912
<b>CREDITORS: amounts falling due after more than one year</b>	15	(86,945,465)	(63,679,011)
<b>PROVISIONS</b>	17	-	(35,035)
<b>NET LIABILITIES</b>		<u>(9,791,797)</u>	<u>(1,116,134)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	3,694,250	3,666,750
Profit and loss account	19	(13,486,047)	(4,782,884)
<b>TOTAL EQUITY SHAREHOLDERS' DEFICIT</b>	20	<u>(9,791,797)</u>	<u>(1,116,134)</u>

These financial statements were approved by the Board of Directors on

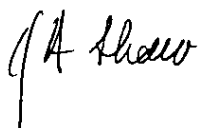
22 October 2007

Signed on behalf of the Board of Directors

Director



Director



# AFFINITY HEALTHCARE HOLDINGS LIMITED

## COMPANY BALANCE SHEET

30 June 2007

	Note	2007 £	2006 £
<b>FIXED ASSETS</b>			
Investments	11	<u>3,633,791</u>	<u>3,633,791</u>
<b>CURRENT ASSETS</b>			
Debtors – amounts falling due after one year	13	115,702	83,180
Debtors – amounts falling due within one year	13	321,114	205,052
Cash		-	11,250
		<u>436,816</u>	<u>299,482</u>
<b>CREDITORS: amounts falling due within one year</b>	14	<u>(59,950)</u>	<u>(32,806)</u>
<b>NET CURRENT ASSETS</b>		<u>376,866</u>	<u>266,676</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,010,657</u>	<u>3,900,467</u>
<b>CREDITORS: amounts falling due after more than one year</b>	15	<u>(176,257)</u>	<u>(161,294)</u>
<b>NET ASSETS</b>		<u><u>3,834,400</u></u>	<u><u>3,739,173</u></u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	3,694,250	3,666,750
Profit and loss account	19	140,150	72,423
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>	20	<u><u>3,834,400</u></u>	<u><u>3,739,173</u></u>

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

22 October 2007



Director

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## CONSOLIDATED CASH FLOW STATEMENT Year ended 30 June 2007

	Note	30 June 2007 £	30 June 2006 £
Net cash inflow from operating activities	23	4,354,612	1,305,682
<b>Returns on investments and servicing of finance</b>			
Interest received	158,053	21,043	
Interest paid	(4,197,518)	(4,396,185)	
<b>Net cash outflow from returns on investments and servicing of finance</b>		(4,039,465)	(4,375,142)
<b>Net cash inflow from taxation</b>		(50,986)	(429,965)
<b>Capital expenditure</b>			
Payments to acquire tangible fixed assets	(10,401,752)	(3,055,125)	
Disposal of fixed assets	-	370,091	
<b>Net cash outflow from capital expenditure</b>		(10,401,752)	(2,685,034)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	-	252,579	
<b>Net cash inflow from acquisitions and disposals</b>		-	252,579
<b>Net cash outflow before financing</b>		(10,137,591)	(5,931,880)
<b>Financing</b>			
Issue of share capital	27,500	231,750	
New secured term loan	2,000,000	-	
Loan notes	-	2,754,675	
Deep discounted bonds	19,602,504	6,774,434	
Repayment of secured loan	(12,341,727)	(1,900,000)	
		9,288,277	7,860,859
<b>(Decrease)/increase in cash in the year</b>	25	(849,314)	1,928,979

# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2007**

### **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 the lower of cost or net realisable value and comprises materials only.

# **AFFINITY HEALTHCARE HOLDINGS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 June 2007**

### **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

#### **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 healthcare 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 2007

### 3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	30 June 2007 £	30 June 2006 £
<b>Directors' emoluments</b>		
Aggregate emoluments	524,477	584,533
Company contributions to a money purchase pension scheme	33,007	21,015
	<u>557,484</u>	<u>605,548</u>
Retirement benefits are accruing to 3 directors under a money purchase pension scheme		
	30 June 2007 £	30 June 2006 £
<b>Remuneration of highest paid director</b>		
Aggregate emoluments	161,742	235,837
Contributions to a money purchase pension scheme	10,350	8,914
	<u>172,092</u>	<u>244,751</u>
	30 June 2007 Number	30 June 2006 £
<b>Average number of persons employed</b>		
Administrative	91	83
Professional	393	370
Technical and support	125	217
	<u>609</u>	<u>670</u>
	30 June 2007 £	30 June 2006 £
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	16,768,597	16,469,841
Social security costs	1,646,253	1,524,982
Other pension costs	615,104	528,215
	<u>19,029,954</u>	<u>18,523,038</u>

### 4. INTEREST RECEIVABLE AND SIMILAR INCOME

	30 June 2007 £	30 June 2006 £
Bank interest	<u>158,053</u>	<u>21,043</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	30 June 2007 £	30 June 2006 £
Bank interest	(7,136)	(188,461)
Bank loans	(5,170,702)	(4,932,609)
On all other loans	(4,433,401)	(2,769,595)
Amortisation of debt issue costs	(499,644)	(487,444)
	<u>(10,110,883)</u>	<u>(8,378,109)</u>

### 6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	30 June 2007 £	30 June 2006 £
Loss on ordinary activities before taxation is after charging/(crediting)		
Depreciation - owned assets	2,521,729	2,510,795
Amortisation of goodwill	(174,951)	(174,600)
Exceptional costs	866,786	-
Rentals under operating leases – hire of plant and machinery	39,184	40,969
Profit on sale of fixed assets	-	(156,591)
	<u></u>	<u></u>

The exceptional costs relate to legal and professional fees incurred in respect of the Group re-negotiation of the banking facility

The analysis of auditors' remuneration is as follows

	30 June 2007 £	30 June 2006 £
Fees payable to the Company's auditors for the audit of the Company's annual accounts	3,285	3,643
Fees payable to the Company's auditors and their associates for other services to the Group	52,295	49,291
– The audit of the Company's subsidiaries pursuant to legislation		
<i>Total audit fees</i>	<u>55,580</u>	<u>52,934</u>
Other services pursuant to legislation	2,622	2,497
Tax services	62,657	43,241
<i>Total non-audit fees</i>	<u>65,279</u>	<u>45,738</u>
	<u>120,859</u>	<u>98,672</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2007 £	2006 £
<b>Current taxation</b>		
UK corporation tax at standard rate	-	-
Adjustments in respect of prior periods	12,831	87,469
<b>Total current taxation</b>	<b>12,831</b>	<b>87,469</b>
<b>Deferred taxation</b>		
Origination and reversal of timing differences (note 17)	121,071	297,925
Adjustments in respect of prior periods (note 17)	(86,036)	(1,810)
<b>Total deferred taxation (note 17)</b>	<b>35,035</b>	<b>296,115</b>
<b>Tax on loss on ordinary activities</b>	<b>47,866</b>	<b>383,584</b>

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2006 – 30%)  
The actual tax charge for the year is lower than the standard rate for the reasons set out in the following reconciliation

	2007 £	2006 £
Loss on ordinary activities before tax	8,751,029	3,497,479
Tax on loss on ordinary activities at standard rate	2,625,309	1,049,244
<b>Factors affecting charge for the year</b>		
Capital allowances in excess of depreciation	(35,129)	(296,430)
Capital items of expensed	(11,250)	(22,501)
Other timing differences	(240,956)	-
Expenses not deductible for tax purposes	(462,491)	(436,686)
Increases in tax losses	(1,875,483)	(293,627)
Adjustments in respect of prior periods	12,831	87,469
<b>Total actual amount of current tax credit</b>	<b>12,831</b>	<b>87,469</b>

The company has £7,100,000 (2006 - £1,800,000) of tax losses to carry forward against future taxable income but no (2006 – nil) deferred tax asset has been recognised on these losses due to the uncertainty surrounding the recovery of them

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 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 £67,727 (2006 - £54,449)

### 9. INTANGIBLE FIXED ASSETS

Group	Negative goodwill arising on consolidation
<b>Cost</b>	
At 1 July 2006	(8,729,957)
At 30 June 2007	(8,729,957)
<b>Amortisation</b>	
At 1 July 2006	264,372
Credit for the year	174,951
At 30 June 2007	439,323
<b>Net book value</b>	
At 30 June 2007	(8,290,634)
At 1 July 2006	(8,465,585)

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

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 June 2007

### 10. TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £	Fixtures and fittings £	Total £
<b>Cost</b>			
1 July 2006	77,794,431	7,774,857	85,569,288
Additions	9,853,565	548,197	10,401,762
At 30 June 2007	87,647,996	8,323,054	95,971,050
<b>Accumulated depreciation</b>			
1 July 2006	2,544,876	4,676,020	7,220,896
Charge for the year	1,594,462	927,267	2,521,729
At 30 June 2007	4,139,338	5,603,287	9,742,625
<b>Net book value</b>			
At 30 June 2007	83,508,658	2,719,767	86,228,425
At 30 June 2006	75,249,555	3,098,837	78,348,392

### 11. INVESTMENTS HELD AS FIXED ASSETS

Company	Other investments £	Shares in subsidiaries £	Total £
At 1 July 2006 and 30 June 2007	602,872	3,030,919	3,633,791

This investment represents the entire issued share capital of Affinity Healthcare Limited, a company incorporated in England. The principal activities of the subsidiary undertakings are the provision of healthcare 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
<b>Cheadle Royal Healthcare Limited has the following subsidiary:</b>			
Cheadle Royal Hospital Limited (Dormant)	England	Ordinary	100

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 12. STOCKS

	Group 2007 £	Group 2006 £
Raw materials and consumables	41,002	44,694

### 13. DEBTORS

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
Amounts falling due within one year				
Trade debtors	3,184,708	-	2,885,220	-
Other debtors	205,471	149,895	183,819	125,625
Prepayments and accrued income	200,718	171,219	216,380	76,156
Corporation tax recoverable	-	-	-	3,271
	<u>3,590,897</u>	<u>321,114</u>	<u>3,285,419</u>	<u>205,052</u>
Amounts falling due after one year				
Amounts owed by subsidiary undertakings	-	115,702	-	83,180
	<u>3,590,897</u>	<u>436,816</u>	<u>3,285,419</u>	<u>288,232</u>

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

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
Bank loans and loan notes (see note 16)	2,600,362	-	10,710,484	-
Trade creditors	1,890,138	-	974,403	-
Other creditors including taxation and social security	770,071	-	628,836	-
Accruals and deferred income	915,920	-	847,251	-
Corporation tax	-	-	63,817	-
Group relief	-	59,950	-	32,806
	<u>6,176,491</u>	<u>59,950</u>	<u>13,224,791</u>	<u>32,806</u>

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

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
Bank loans and loan notes (see note 16)	86,945,465	-	63,679,011	-
Amounts owed to subsidiary undertakings	-	176,257	-	161,294
	<u>86,945,465</u>	<u>176,257</u>	<u>63,679,011</u>	<u>161,294</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 16 BANK LOANS AND LOAN NOTES

Group	2007 £	2006 £
Term loan	51,005,350	50,839,092
Vendor loan notes	-	9,210,122
Bonds	39,163,090	15,978,637
Secured loan notes	2,125,386	1,609,287
	<u>92,293,826</u>	<u>77,637,138</u>
Less deferred issue costs	<u>(2,747,999)</u>	<u>(3,247,643)</u>
	<u>89,545,827</u>	<u>74,389,495</u>

The term loan balance consists of a senior credit facility of £31,500,000 (a Senior A Loan of £15.2m and Senior B Loan of £16.3m), a senior mezzanine facility of £9,972,541 repayable in full on 24 December 2013, and a junior mezzanine facility of £7,532,808 repayable in full on 24 December 2013 and a capex facility of £2,000,000 repayable in instalments between March 2008 and March 2012. 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 £3,400,000 were made on the senior credit facility during the year.

The 14% vendor loan notes were settled for cash in December 2006.

Deep discounted bonds with a nominal value of £49,204,989 were issued during the year at a discount of 60% for £19,602,504. Interest is charged at 14% and at the year end there was £5,788,928 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 2007 £
Duke Street	32,985,609	5,638,030	38,623,639
P Batchelor	388,554	150,898	539,452

Secured loan notes amounting to £268,394 were issued during the year. Interest is charged at 14% and at the year end there was £384,577 of accrued interest in the secured loan note balance. The loan notes are repayable in December 2013.

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 2007 £
Duke Street	676,756	170,830	847,586
P Batchelor	1,064,053	213,747	1,277,800

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.

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

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

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

	2007 £	2006 £
<b>Term loan</b>		
Within one year	3,100,000	2,000,000
Between one and two years	3,600,000	2,700,000
Between two and five years	19,700,000	10,900,000
After five years	24,605,350	35,239,092
	<u>51,005,350</u>	<u>50,839,092</u>
Less issue costs	(2,747,999)	(3,247,643)
	<u>48,257,351</u>	<u>47,591,449</u>
<b>Vendor loan notes</b>		
Within one year	-	9,210,122
Between one and two years	-	-
	<u>-</u>	<u>9,210,122</u>
<b>Deep discounted bonds</b>		
After five years	39,163,090	15,978,637
	<u>39,163,090</u>	<u>15,978,637</u>
<b>Secured loan notes</b>		
After five years	2,125,386	1,609,287
	<u>2,125,386</u>	<u>1,609,287</u>
<b>Total borrowings</b>		
Within one year	3,100,000	11,210,122
Between one and two years	3,600,000	2,700,000
Between two and five years	19,700,000	10,900,000
After five years	65,893,826	52,827,016
	<u>92,293,826</u>	<u>77,637,138</u>
Less issue costs	(2,747,999)	(3,247,643)
	<u>89,545,827</u>	<u>74,389,495</u>
Amounts due in less than one year	<u>2,600,362</u>	<u>10,710,484</u>
Amounts due after more than one year	<u>86,945,465</u>	<u>63,679,011</u>

#### Restrictions on cash balances

At 30 June 2007 a balance of £1,693,286 (2006 - £nil) was held in a designated capex bank account and can only be used to fund specified capital projects

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

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

#### Derivatives not included at fair value

The Group has derivatives which are not included at fair value in the accounts

	Principal	Fair value	
		2007	2006
	£	£	£
Interest rate swap contracts	52,000,000	714,324	(93,498)

The Group uses the derivatives to hedge its exposures to changes in foreign currency exchange rates and to manage its exposure to interest rate movements on its bank borrowings. The fair values are based on market values of equivalent instruments at the balance sheet date.

The interest rate swap contracts with nominal values of £52,000,000 have fixed interest payments at an average rate of 5.12 per cent for periods up until 30 April 2009 and have floating interest receipts at LIBOR.

### 17. PROVISIONS

	Group £	Company £
<b>Deferred tax</b>		
At 1 July 2006	35,035	-
Credit for the year	(35,035)	-
At 30 June 2007	-	-

Provision for deferred taxation consists of the following amounts

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
Capital allowances in excess of depreciation	123,318	-	36,841	-
Other	(123,318)	-	(1,806)	-
	-	-	35,035	-

The company has not recognised a deferred tax asset of £2,000,000 (2006 - £500,000) in relation to trading losses as there is no certainty over the recoverability of this asset at 30 June 2007.

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 18. CALLED UP SHARE CAPITAL

	2007 £	2006 £
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>
Allotted, called up and fully paid		
694,250 (2006 – 666,750) 'A' ordinary shares of £1 each	694,250	666,750
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>3,694,250</u>	<u>3,666,750</u>

During the year the company issued 27,500 'A' ordinary shares with a nominal value of £1 each. All classes of shares carry the same rights.

### 19. RESERVES

	Profit and loss account £
<b>Group</b>	
Balance at 1 July 2006	(4,782,884)
Loss for the year	(8,703,163)
Balance at 30 June 2007	<u>(13,486,047)</u>
<b>Company</b>	
Balance at 1 July 2006	72,423
Profit for the year	67,727
Balance at 30 June 2007	<u>140,150</u>

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

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
(Loss)/profit for the financial year	(8,703,163)	67,727	(3,113,895)	54,449
Issue of £1 ordinary shares	27,500	27,500	231,750	231,750
Net (reduction)/addition to equity shareholders' funds	<u>(8,675,663)</u>	<u>95,227</u>	<u>(2,882,145)</u>	<u>286,199</u>
Opening equity shareholders' (deficit)/funds	(1,116,134)	3,739,173	1,766,011	3,452,974
Closing equity shareholders' (deficit)/funds	<u>(9,791,797)</u>	<u>3,834,400</u>	<u>(1,116,134)</u>	<u>3,739,173</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 21. OPERATING LEASE COMMITMENTS

Group	Other 2007 £	Other 2006 £
Leases which expire		
Within one year	10,409	8,766
Between one and two years	13,430	-
Between two to five years	15,401	22,369
	<u>39,250</u>	<u>31,135</u>

### 22. CAPITAL COMMITMENTS

	2007 £	2006 £
Contracted for but not provided for	<u>2,235,853</u>	<u>7,084,545</u>

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

	2007 £	2006 £
Operating profit	1,201,801	4,859,587
Depreciation charges	2,521,729	2,510,795
Profit on sale of tangible fixed assets	-	(156,591)
Amortisation of goodwill	(174,951)	(174,600)
Decrease in stock	3,692	4,675
Increase in debtors	(305,479)	(288,510)
Increase/(decrease) in creditors	1,107,820	(5,449,674)
Net cash inflow from operating activities	<u>4,354,612</u>	<u>1,305,682</u>

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

	2007 £	2007 £	2006 £	2006 £
(Decrease)/increase in cash in the year	(849,314)		1,928,979	
Cash inflow from increase in debt financing	<u>(9,260,777)</u>		<u>(7,552,954)</u>	
Changes in net debt resulting from cash flows		(10,110,091)		(5,623,975)
Loan note/bond interest accrued		(5,396,188)		(3,570,635)
Amortisation of bank loan costs		<u>(499,367)</u>		<u>(487,444)</u>
Movement in net debt in year		(16,005,646)		(9,682,054)
Net debt at 1 July		<u>(71,779,712)</u>		<u>(62,097,658)</u>
Net debt at 30 June		<u>(87,785,358)</u>		<u>(71,779,712)</u>

# AFFINITY HEALTHCARE HOLDINGS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2007

### 25. ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 2006 £	Cash inflow £	Repayment £	Other non cash changes £	Amortisation of debt costs £	Accrued interest £	At 30 June 2007 £
Cash at bank and in hand	2,609,783	(849,314)	-	-	-	-	1,760,469
<b>Debt due within one year</b>							
Term loan	(1,500,361)	-	3,400,000	(4,500,001)	-	-	(2,600,362)
Loan notes	(9,210,123)	-	8,941,727	268,396	-	-	-
<b>Debt due after one year</b>							
Term loan	(46,091,085)	(2,000,000)	-	4,500,001	(499,367)	(1,566,538)	(45,656,989)
Loan notes	(1,609,289)	-	-	(268,396)	-	(247,701)	(2,125,386)
Bonds	(15,978,637)	(19,602,504)	-	-	-	(3,581,949)	(39,163,090)
	<u>(71,779,712)</u>	<u>(22,451,818)</u>	<u>12,341,727</u>	<u>-</u>	<u>(499,367)</u>	<u>(5,396,188)</u>	<u>(87,785,358)</u>

### 26. 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

### 27. CONTROLLING PARTIES

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