

**AFFINITY HOSPITALS HOLDING
LIMITED**
(formerly Healthcare Scotland Limited)

Report and Financial Statements

30 June 2005



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REPORT AND FINANCIAL STATEMENTS 2005

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REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTOR

R Russell (resigned 23 December 2004)
P Batchelor (appointed 23 December 2004)
J Ward (appointed 23 December 2004)
J Shaw (appointed 23 December 2004)

SECRETARY

S Russell (resigned 23 December 2004)
D Chappell (appointed 23 December 2004, resigned 24 December 2004)
J Shaw (appointed 23 December 2004)

REGISTERED OFFICE

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB

SOLICITORS

Hammond Suddards
Trinity Court
16 John Dalton Street
Manchester

BANKERS

Royal Bank of Scotland
1 Spinningfields Square
Manchester

HSBC
5 Great Underbank
Stockport
Cheshire

AUDITORS

Deloitte & Touche LLP
Manchester

AFFINITY HOSPITALS HOLDING LIMITED (formerly Healthcare Scotland Limited)

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2005.

ACTIVITIES

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

RESULTS AND TRANSFER TO RESERVES

The company made a profit before taxation of £310,540 (2004: loss £141,631). The retained profit after tax of £58,994 (2004: loss £279,210) has been transferred to/(from) reserves.

The directors have not proposed or paid any dividends (2004: £100,000).

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

On 18 February 2005, the company changed its name from Healthcare Scotland Limited to Affinity Hospitals Holding Limited.

During the year, the company was acquired by Affinity Healthcare Limited (formerly Ingleby (1620) Limited), a company incorporated in England. The ultimate parent company of Affinity Hospitals Holding Limited is Affinity Healthcare Holdings Limited (formerly Ingleby (1640) Limited).

As a result of this transaction, the activity of this company has fallen as costs are borne by other group companies.

DIRECTORS

The membership of the board is set out on page 1. The beneficial interests of the directors in the company were as follows.

The directors do not have any beneficial interests in the company.

The interests of the directors in the ultimate parent company, Affinity Healthcare Holdings Limited, are disclosed in the financial statements of that company.

EMPLOYEE INVOLVEMENT

The company provides information to employees covering various aspects of the company'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 of interest takes place.

EMPLOYMENT OF DISABLED PERSONS

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

AUDITORS

A resolution to reappoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the directors on *27 October 2005*

Director



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 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 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 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 HOSPITALS HOLDING LIMITED (formerly Healthcare Scotland Limited)

We have audited the financial statements of Affinity Hospitals Holding Limited (formerly Healthcare Scotland Limited) for the year ended 30 June 2005 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 22. 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, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 the affairs of the company at 30 June 2005 and of the profit of the company 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
Manchester

Date: *27 October 2005*

AFFINITY HOSPITALS HOLDING LIMITED (formerly Healthcare Scotland Limited)

PROFIT AND LOSS ACCOUNT

Year ended 30 June 2005

	Note	2005 £	2004 £
TURNOVER	2	-	50,881
Cost of sales		-	-
GROSS PROFIT		-	50,881
Administrative income/(expenses)		10,385	(217,412)
OPERATING PROFIT/(LOSS)	6	10,385	(166,531)
Loss on sale of fixed assets		-	(420,952)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		10,385	(587,483)
Finance income (net)	4	300,155	445,852
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		310,540	(141,631)
Tax on profit/(loss) on ordinary activities	7	(251,546)	(37,579)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		58,994	(179,210)
Dividends paid and proposed	8	-	(100,000)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	18	58,994	(279,210)

There are no recognised gains or losses for the current or preceding financial year other than as included above. Accordingly, no statement of total recognised gains and losses is presented.

All activity arose from continuing operations.

AFFINITY HOSPITALS HOLDING LIMITED (formerly Healthcare Scotland Limited)

BALANCE SHEET

At 30 June 2005

	Note	2005 £	2004 £
FIXED ASSETS			
Tangible assets	9	-	4,642
Investments	10	396,003	526,750
		<u>396,003</u>	<u>531,392</u>
CURRENT ASSETS			
Debtors			
- amounts falling due within one year	11	-	2,634,844
- amounts falling due after one year	11	12,289,437	-
Cash		-	9,674,361
		<u>12,289,437</u>	<u>12,309,205</u>
CREDITORS: amounts falling due within one year	12	<u>(230,496)</u>	<u>(1,987,330)</u>
NET CURRENT ASSETS		<u>12,058,941</u>	<u>10,321,875</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		12,454,944	10,853,267
CREDITORS: amounts falling due after one year	14	(1,542,683)	-
PROVISIONS FOR LIABILITIES AND CHARGES	15	-	-
NET ASSETS		<u>10,912,261</u>	<u>10,853,267</u>
CAPITAL AND RESERVES			
Called up share capital	17	150	150
Profit and loss account	18	10,912,111	10,853,117
EQUITY SHAREHOLDERS' FUNDS	16	<u>10,912,261</u>	<u>10,853,267</u>

These financial statements were approved by the Board of Directors on
and signed on its behalf:

27 October 2005

Director

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Director

[Handwritten signature]

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2005

1. ACCOUNTING POLICIES

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

Accounting convention

The financial statements are prepared under the historical cost convention.

Exemption from consolidation

The company is exempt under s228 of the Companies Act 1985 from preparing group accounts as the results of the company and its subsidiaries are included in the accounts of the ultimate parent company, Affinity Healthcare Holdings Limited. These financial statements therefore represent the results of the company only.

Cash flow statement

The company has taken advantage of exemptions within FRS 1 and has not prepared a cash flow statement on the grounds that the company is a wholly owned subsidiary of a parent undertaking which produces consolidated financial statements including a consolidated cash flow statement dealing with the cash flows of the group.

Tangible fixed assets

On fixed 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 and fittings – over 7 years

Investments

Investments in subsidiary undertakings held as fixed assets are stated at cost less provision for any impairment. Other investments held as fixed assets are stated at market value.

Foreign currencies

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.

Taxation

Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which 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 financial statements. Deferred tax has not been provided on timing differences arising from the revaluation of fixed assets, where there is no commitment to sell the asset.

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.

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.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

There were no employees during the current or prior year. Directors' remuneration is borne by another group company as it is not practical to allocate the total remuneration between each of the group companies.

AFFINITY HOSPITALS HOLDING LIMITED (formerly Healthcare Scotland Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2005

4. FINANCE INCOME (NET)

	2005	2004
	£	£
Bank interest receivable	299,001	442,760
Bank interest payable and similar charges	(104)	(509)
Investment income (see note 5)	1,258	3,601
	<u>300,155</u>	<u>455,852</u>

5. INVESTMENT INCOME

	2005	2004
	£	£
Investment income - fixed asset investments	<u>1,258</u>	<u>3,601</u>

6. OPERATING PROFIT/(LOSS)

	2005	2004
	£	£
Operating profit/(loss) is after charging/(crediting):		
Depreciation - owned assets	-	905
Auditors' remuneration:		
- audit fees	4,363	15,275
- non-audit fees	-	100,598
Profit on sale of fixed assets	<u>18,793</u>	<u>-</u>

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	2005	2004
	£	£
Current taxation		
UK corporation tax at standard rate	235,636	54,289
Group relief	-	1,076
Adjustments in respect of prior periods	<u>15,910</u>	<u>(17,382)</u>
Deferred taxation	251,546	37,983
Origination and reversal of timing differences	-	(6,974)
Adjustments to the estimated recoverable amounts of deferred tax assets arising in prior period	-	8,370
Adjustments in respect of prior periods	<u>-</u>	<u>(1,800)</u>
Tax on profit/(loss) on ordinary activities	<u>251,546</u>	<u>37,579</u>

AFFINITY HOSPITALS HOLDING LIMITED (formerly Healthcare Scotland Limited)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2005

7. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (continued)

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 and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2005	2004
	£	£
Profit/(loss) on ordinary activities before tax	310,540	(141,631)
Tax on profit/(loss) on ordinary activities at standard rate	93,162	(42,489)
Factors affecting charge for the year:		
Capital allowances less than/(in excess of) depreciation	448	(44)
Other timing differences	-	(1,200)
Expenses not deductible for tax purposes	142,026	-
Prior period adjustments	15,910	(17,382)
Chargeable (gains)/ losses exempted by substantial shareholdings relief	-	98,022
Total actual amount of current tax	<u>251,546</u>	<u>36,907</u>

8. DIVIDENDS PAID AND PROPOSED

	2005	2004
	£	£
Equity dividends paid £nil per share (2004: £0.67)	-	100,000

9. TANGIBLE FIXED ASSETS

	Fixtures & fittings	Total
	£	£
Cost		
At 1 July 2004	6,535	6,535
Disposals	(6,535)	(6,535)
At 30 June 2005	-	-
Accumulated depreciation		
At 1 July 2004	1,893	1,893
Charge for the year	-	-
On disposals	(1,893)	(1,893)
At 30 June 2005	-	-
Net book value		
At 30 June 2005	-	-
At 30 June 2004	<u>4,642</u>	<u>4,642</u>

AFFINITY HOSPITALS HOLDING LIMITED (formerly Healthcare Scotland Limited)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2005

10. INVESTMENTS

	Other investments £	Shares in subsidiary undertakings £	Total £
Cost			
At 1 July 2004	154,580	396,003	550,583
Disposals	(154,580)	-	(154,580)
	<hr/>	<hr/>	<hr/>
At 30 June 2005	-	396,003	396,003
	<hr/>	<hr/>	<hr/>
Provisions			
At 1 July 2004	(23,833)	-	(23,833)
Disposals	23,833	-	23,833
	<hr/>	<hr/>	<hr/>
At 30 June 2005	-	-	-
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 June 2005	-	396,003	396,003
	<hr/>	<hr/>	<hr/>
At 30 June 2004	130,747	396,003	526,750
	<hr/>	<hr/>	<hr/>

Other investments represent investments in quoted companies. These were sold in the year for £149,540.

The principal activities of the subsidiary undertakings are the provision of hospital and consultancy services.

Subsidiary undertakings	Country of incorporation	Shares owned	%
Affinity Hospitals Group Limited (formerly Healthcare England Limited)	Scotland	Ordinary	100
Affinity Hospitals Group Limited has the following subsidiaries:			
Affinity Hospitals Limited (formerly Affinity Healthcare Limited)	England	Ordinary	100
Affinity Hospitals Limited has the following subsidiaries:			
Cheadle Royal Healthcare Limited	England	Ordinary	100
Middleton St George Healthcare Limited (formerly Trees Park Healthcare Limited)	England	Ordinary	100

NOTES TO THE FINANCIAL STATEMENTS
Year ended 30 June 2005

11. DEBTORS

	2005	2004
	£	£
Amounts falling due within one year:		
Amounts owed by other group companies	-	2,000,000
Amounts owed by related parties (note 21)	-	629,844
Prepayments and accrued income	-	5,000
	<u>-</u>	<u>2,634,844</u>
Amounts falling due after one year:		
Amounts owed by subsidiary companies	9,479,270	-
Amounts owed by other group companies	2,810,167	-
	<u>12,289,437</u>	<u>-</u>
	<u>12,289,437</u>	<u>2,634,844</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005	2004
	£	£
Amounts owed to subsidiary companies	-	1,537,649
Amounts due to related parties	-	353,717
Group relief	104,481	1,076
Corporation tax	126,015	71,588
Other creditors including taxation and social security (note 13)	-	3,025
Accruals and deferred income	-	20,275
	<u>230,496</u>	<u>1,987,330</u>

13. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2005	2004
	£	£
Directors' loan (note 21)	-	3,025
	<u>-</u>	<u>3,025</u>

The directors' loans are unsecured, interest free and repayable upon demand.

14. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2005	2004
	£	£
Amounts owed to subsidiary companies	1,542,683	-
	<u>1,542,683</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2005

15. PROVISION FOR LIABILITIES AND CHARGES

	£
Deferred tax	
At 1 July 2004	-
Charge for the year	-
	<hr/>
At 30 June 2005	-
	<hr/> <hr/>

Provision for deferred taxation consists of the following amounts:

	2005 £	2004 £
Capital allowances in excess of depreciation	-	404
Other	-	(404)
	<hr/>	<hr/>
	-	-
	<hr/> <hr/>	<hr/> <hr/>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Profit/(loss) for the financial year	58,994	(179,210)
Dividends paid	-	(100,000)
	<hr/>	<hr/>
Net addition to/(reduction in) shareholders' funds	58,994	(279,210)
Opening shareholders' funds	10,853,267	11,132,477
	<hr/>	<hr/>
Closing shareholders' funds	10,912,261	10,853,267
	<hr/> <hr/>	<hr/> <hr/>

17. CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised		
150,002 ordinary shares of £0.001 each	150	150
	<hr/>	<hr/>
Called up, allotted and fully paid		
150,002 ordinary shares of £0.001 each	150	150
	<hr/>	<hr/>

18. RESERVES

	Profit and loss account £
Balance at 1 July 2004	10,853,117
Profit for the year	58,994
	<hr/>
Balance at 30 June 2005	10,912,111
	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 June 2005

19. OPERATING LEASE COMMITMENTS

At the year end, there were no operating lease commitments (2004 - £nil).

20. CAPITAL COMMITMENTS

At the year end, there were no capital commitments.

21. RELATED PARTY TRANSACTIONS

At the year end, the directors had the following outstanding loans to the company:

	2005 £	2004 £
R Russell (resigned 23 December 2004)	-	3,025

Interest is charged on amount due from the directors at the UK base rate plus 1%. The maximum balance due from the directors during the year was £6,913,471 (2004 - £3,025). All amounts were repaid in the year.

At the end of the year there were amounts due from the following companies:

	2005 £	2004 £
Canadian Independent Healthcare Inc	-	320,811
Delbrook Surgical Centre Inc	-	309,033
	-	629,844

There is no relationship with either of these parties in the current year.

22. ULTIMATE PARENT COMPANY

The directors regard Duke Street Capital V Limited as the ultimate controlling party of the company. The ultimate parent company is Affinity Healthcare Holdings Limited. Copies of the financial statements of the ultimate parent company may be obtained from Affinity Healthcare Holdings Limited, 100 Wilmslow Road, Heald Green, Cheadle.

The intermediate parent company is Affinity Healthcare Limited, a company registered in England and Wales.

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.