Patientline Limited

Report and Financial Statements

Year Ended

31 March 2000

Company number: 2841021

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PATIENTLINE LIMITED

Annual report and financial statements for the year ended 31 March 2000

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Directors

D C Lewis (Chairman)
CM Alton
AS Firmston-Williams
P Rushby
J O'Reilly
S Burke
M Christian
B Farrell
W Dunn
HM Crosby

Secretary and registered office

AS Firmston-Williams, Connaught House, 46-48 High Street, Slough, SL1 1EL

Company number

2841021

Auditors

BDO Stoy Hayward, Foxhall Lodge, Gregory Boulevard, Nottingham, NG7 6LH

Bankers

National Westminster Bank plc, PO Box 549, 1-2 Finsbury Square, London, EC2A 1JH

PATIENTLINE LIMITED

Chairman's statements for the year ended 31 March 2000

I am pleased to report on the activities of the group for the year ended 31 March 2000.

Progress

The past year has seen a continuation of the rapid growth of the company. At the beginning of the year service was being provided in 10 hospitals. This had grown to 15 operational hospitals at the year end, with a further 6 hospitals signed. Awareness among NHS trusts also continued to grow, resulting in a marked increase in the number of trusts with whom discussions were underway. The expanded marketing activity of the company has generated significant interest in Scotland and Northern Ireland, with the first contracts in Northern Ireland and Scotland signed shortly after the year end.

A feature of the National Health Service has been the building of most new hospitals under the government's Private Finance Initiative. Patientline has played an active role in this arena, signing a contract for the first of the PFI hospitals, the new Cumberland Infirmary in Carlisle, in December 1999. The installation of this system took place during the commissioning of the building, permitting the service to be offered to new patients as they arrived from the beginning of April 2000. This contract follows the earlier contract for the new Greenwich PFI Hospital which will open in 2001.

The company has been expanding the range of services it offers to patients and NHS trusts. Availability of the pay-per-view movie service has been extended. Simple games were piloted at Addenbrooke's hospital in late 1999 and have subsequently been rolled out to other hospitals. Television programming and movies for ethnic minorities have been introduced. Further services are in development, based on research conducted into patient wants.

At the same time, a menu of optional services for trusts has been introduced, largely reflecting on discussions with existing trusts about their needs. Several trusts have taken up the Patientline telephone switch backup service and others pursuing services such as the electronic patient satisfaction survey and introductory video. The company expects these services to become an increasingly important part of its activities.

The company secured 'Annex 2' telecom operator approval from OFTEL towards the end of the year. This will enable the company to broaden and improve the quality of its services to both patients and trusts, through its newly established 'Trustline' divison.

Quality of service remains a top priority for the company. During the year significant improvements were made in the technology and operation of the call centres, while other changes have improved on site service and generated a further increase in system up time.

Finance

The company has made significant financial progress during the year. Revenues have grown strongly, driven by the growth in the number of hospitals. Trading cashflow has been positive, while earnings before interest and tax turned positive towards the end of the year.

The business remains capital intensive and of a long term nature. For this reason funding is of critical importance to the company. The new loanstock and senior debt facilities completed at the end of the previous year with Mercury Private Equity and NatWest Bank have been a vital ingredient in enabling the company to continue its growth during the year.

BDO

BDO Stoy Hayward
Chartered Accountants
Corporate Advisory Services

Eastgate House Humberstone Road
Leicester LE5 3GJ

PATIENTLINE LIMITED

Report of the auditors

To the shareholders of Patientline Limited

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward

BDO STOY HAYWARD
Chartered Accountants
and Registered Auditor
Nottingham

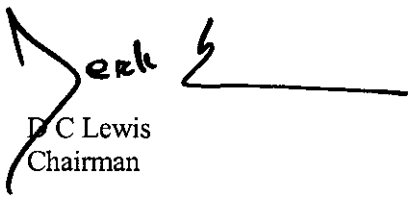
1 August 2000

PATIENTLINE LIMITED

Chairman's statement for the year ended 31 March 2000

People

While Patientline is a technology based business, it is above all a business involved in providing personal service within hospitals, both through on-site staff, and the call centres. We are dependent on the professionalism and commitment of our customer service staff as well as the IT, technical and other support staff in head office. During the year the number of employees grew from 109 to 134. It is testimony to their work that Patientline continues to enjoy a high reputation in hospitals in which service is provided. On behalf of the Board, I would like to thank all of our staff who have contributed to another year of important progress for the company.



D C Lewis
Chairman

Report of the directors for the year ended 31 March 2000

The directors present their report together with the audited financial statements for the year ended 31 March 2000.

Results and dividends

The profit and loss account is set out on page 6 and shows the result for the year.

The directors do not recommend the payment of a dividend.

Principal activity

The principal activity of the company remains the manufacture and operation of bedside television, radio and telephone terminals for hospital patients.

Research and development

During the year the company incurred costs of £228,169 in respect of continuing development expenditure on its new products. These costs have been capitalised in the accounts and will be amortised when the products are in commercial use.

Directors

The directors of the company during the year were:

D Thorp (resigned 7 May 1999)
AS Firmston-Williams
P Rushby
D C Lewis
J O'Reilly
S Burke
M Christian (appointed 9 August 1999)
B Farrell
CM Alton
W Dunn (appointed 1 June 1999)
H Crosby (appointed 22 September 1999)

The interests of the directors in the share capital of the parent company are disclosed in that company's financial statements.

Year 2000

The directors reviewed the effect of the year 2000 issue on its operations. Recent capital and revenue expenditure ensured that information systems were and remain substantially year 2000 compliant.

EMU Impact

Having reviewed its commercial and accounting transactions, the company is ready to manage the impact of the single currency.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

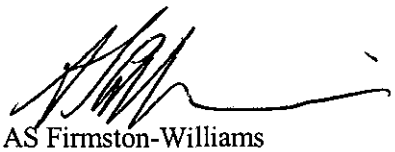
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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.

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By Order of the Board



AS Firmston-Williams
Secretary

PATIENTLINE LIMITED

Profit and loss account for the year ended 31 March 2000

	Note	2000 £	1999 £
Turnover	2	5,632,343	2,779,573
Royalty charge		(1,439,929)	-
Other cost of sales		(594,555)	(332,331)
Gross profit		3,597,859	2,447,242
Administrative expenses		(5,426,730)	(3,615,541)
Operating loss	5	(1,828,871)	(1,168,299)
Interest receivable		-	680
Interest chargeable by holding company		(1,315,847)	-
Other interest payable	6	(589,905)	(331,935)
Loss on ordinary activities before and after taxation		(3,734,623)	(1,499,554)
Deficit brought forward		(4,413,079)	(2,913,525)
Deficit carried forward		(8,147,702)	(4,413,079)

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

The notes on pages 9 to 16 form part of these financial statements.

PATIENTLINE LIMITED

Balance sheet at 31 March 2000

	Note	2000		1999	
		£	£	£	£
Fixed assets					
Intangible assets	7		251,023		49,081
Tangible assets	8		12,543,626		8,860,069
			12,794,649		8,909,150
Current assets					
Stocks	9	261,068		545,190	
Debtors	10	439,218		383,974	
Cash at bank and in hand		212,331		156,090	
		912,617		1,085,254	
Creditors: amounts falling due within one year	11	2,295,920		2,514,929	
Net current liabilities			(1,383,303)		(1,429,675)
Total assets less current liabilities			11,411,346		7,479,475
Creditors: amounts falling due after more than one year	12		8,127,337		4,760,208
Net assets			3,284,009		2,719,267
Creditors: amounts falling due after more than one year - holding company loan	13		8,938,723		4,639,358
Capital and reserves					
Called up share capital - equity	15		2,400,000		200,000
Called up share capital - non-equity	15		-		2,200,000
Share premium account	16		92,988		92,988
Profit and loss account	16		(8,147,702)		(4,413,079)
Shareholders' deficit	20		(5,654,714)		(1,920,091)
			3,284,009		2,719,267

The financial statements were approved by the Board on 21 July 2000.

W Dunn
Director

AS Ffrinston-Williams
Director

The notes on pages 9 to 16 form part of these financial statements.

PATIENTLINE LIMITED

Cash flow statement for the year ended 31 March 2000

	Note	2000		1999	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	17		(313,328)		400,300
Returns on investments and servicing of finance					
Interest paid		(559,317)		(245,958)	
Interest element of finance lease rental payments		(30,588)		(85,977)	
Interest chargeable by holding company		(1,315,847)		-	
Net cash outflow from returns on investments and servicing of finance			(1,905,752)		(331,935)
Investing activities					
Purchase of intangible fixed assets		(228,169)		(49,081)	
Purchase of tangible fixed assets		(5,639,512)		(5,741,725)	
Sale of tangible fixed assets		67,752		197,831	
Net cash outflow from investing activities			(5,799,929)		(5,592,975)
Net cash outflow before financing			(8,019,009)		(5,524,610)
Financing					
Bank loan	19	3,620,128		2,500,000	
Capital element of finance lease rental payments	19	(321,499)		(228,140)	
Loan from parent company	19	4,299,365		2,843,058	
Net cash inflow from financing			7,597,994		5,114,918
Decrease in cash	19		(421,015)		(409,692)

The notes on pages 9 to 16 form part of these financial statements.

1 Accounting policies

There have been no changes in accounting policies during the year.

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Turnover

Turnover represents the value of services provided net of value added tax.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, except assets under construction, evenly over their expected useful lives. It is calculated at the following rates:

Plant and machinery	-	10%-25% per annum
Motor vehicles	-	25% per annum
Fixtures and fittings	-	10% per annum

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated as the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price.

Leasing and hire purchase commitments

Assets acquired under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element is charged to the profit and loss account over the term of the contract.

Rentals in respect of operating leases are charged to the profit and loss account on a sum of digits basis over the term of the agreement.

Development costs

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation the expenditure is deferred and amortised over the period during which the company expects the revenue from the project to accrue.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability will crystallise.

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

3 Employees

	2000 £	1999 £
Staff costs consist of:		
Wages and salaries	2,314,308	1,586,309
Social security costs	219,784	138,357
	2,534,092	1,724,666

The average monthly number of employees, including directors, during the year was 127 (1999 : 84)

4 Directors

Directors' emoluments consist of:

Emoluments	610,308	381,960
Highest paid director	119,045	94,847
Compensation for loss of office	-	75,000

5 Operating loss

	2000 £	1999 £
This has been arrived at after charging:		
Depreciation of owned assets	1,640,507	775,382
Depreciation of assets held under finance lease and hire purchase contracts	217,761	231,148
Operating lease rentals - property	175,958	104,958
Auditors' remuneration	8,000	7,424
Loss on disposal of tangible fixed assets	29,935	14,930
Amortisation of intangible fixed assets	26,227	-

6 Other interest payable

	2000 £	1999 £
Bank overdraft and loans	559,317	245,958
Finance leases and hire purchase contracts	30,588	85,977
	589,905	331,935

7 Intangible fixed assets

	Development costs £
Cost	
At 1 April 1999	49,081
Additions	228,169
At 31 March 2000	277,250
Amortisation	
Provided for year and at 31 March 2000	26,227
Net book value	
At 31 March 2000	251,023
At 31 March 1999	49,081

8 Tangible assets

	Hospital equipment and installations £	Motor vehicles £	Fixtures and fittings £	Total £
Cost				
At 1 April 1999	10,385,731	224,761	69,269	10,679,761
Additions	5,588,820	17,585	33,107	5,639,512
Disposals	(199,999)	(58,452)	-	(258,451)
	15,774,552	183,894	102,376	16,060,822
Depreciation				
At 1 April 1999	1,682,367	119,226	18,099	1,819,692
Provided for the year	1,805,682	41,755	10,831	1,858,268
Eliminated on disposals	(113,606)	(47,158)	-	(160,764)
	3,374,443	113,823	28,930	3,517,196
Net book value				
At 31 March 2000	12,400,109	70,071	73,446	12,543,626
At 31 March 1999	8,703,364	105,535	51,170	8,860,069

The net book value of tangible fixed assets includes an amount of £760,437 (1999: £997,241) in respect of assets held under finance leases and hire purchase contracts.

9 Stocks

	2000 £	1999 £
Consumables and spare parts	145,708	447,932
Goods for resale	115,360	97,258
	261,068	545,190

There is no material difference between the replacement cost of stocks and the amounts stated above.

10 Debtors

Trade debtors	44,525	58,490
Other debtors	2,055	98,189
Prepayments and accrued income	392,638	227,295
	439,218	383,974

All amounts shown under debtors fall due for payment within one year.

11 Creditors: amounts falling due within one year

	2000 £	1999 £
Bank overdraft (note 12)	968,121	490,865
Trade creditors	660,157	1,298,340
Taxation and social security	109,702	64,178
Obligations under finance leases and hire purchase contracts	236,172	304,672
Accruals and deferred income	321,768	356,874
	2,295,920	2,514,929

12 Creditors: amounts falling due after more than one year

Bank loan (secured)	8,120,128	4,500,000
Obligations under finance leases and hire purchase contracts	7,209	260,208
	8,127,337	4,760,208

The bank loan and overdraft are secured by a mortgage debenture over the assets of the group. The bank loan is repayable within five years.

Obligations under finance leases are due as follows:

Within one to two years	7,209	260,208

13 Creditors: amounts falling due after more than one year - holding company loan

Amount due to parent company	8,938,723	4,639,358

The loan bears interest at a commercial rate.

14 Deferred taxation

There is no unprovided deferred taxation because of the availability of trading losses to carry forward.

15 Share capital

	Authorised		Allotted, called up and fully paid	
	2000 £	1999 £	2000 £	1999 £
Equity shares:				
Ordinary shares of £1 each	2,300,000	100,000	2,300,000	100,000
"A" ordinary shares of £1 each	100,000	100,000	100,000	100,000
	2,400,000	200,000	2,400,000	200,000
Non equity shares:				
8% redeemable cumulative preference shares of £1 each	-	2,000,000	-	2,000,000
8% cumulative deferred shares of £1 each	-	200,000	-	200,000
	-	2,200,000	-	2,200,000
Total	2,400,000	2,400,000	2,400,000	2,400,000

On 29 June 1999 a resolution of the company converted the cumulative preference shares and the cumulative deferred shares into ordinary shares of £1 each.

The cumulative preference shares were redeemable at issue price in annual instalments of £400,000 commencing 30 September 1998.

The "A" ordinary shareholders are entitled to a fixed dividend of 24% on the par value of the shares.

The deferred shares did not carry any voting rights.

16 Reserves

	Share premium account £	Profit and loss account £
At 1 April 1999	92,988	(4,413,079)
Loss for year	-	(3,734,623)
At 31 March 2000	92,988	(8,147,702)

17 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	2000 £	1999 £
Operating loss	(1,828,871)	(1,168,299)
Depreciation	1,858,268	1,006,530
Loss on sale of fixed assets	29,935	14,930
Amortisation	26,227	-
Decrease/(increase) in stocks	284,122	(154,064)
(Increase) in debtors	(55,244)	(192,171)
(Decrease)/increase in creditors	(627,765)	893,374
Net cash (outflow)/inflow from operating activities	(313,328)	400,300

18 Analysis of changes in net debt

	At 1 April 1999	Cashflow	At 31 March 2000
Cash at bank in hand	156,090	56,241	212,331
Overdraft	(490,865)	(477,256)	(968,121)
	(334,775)	(421,015)	(755,790)
Bank loan	(4,500,000)	(3,620,128)	(8,120,128)
Parent company	(4,639,358)	(4,299,365)	(8,938,723)
Finance leases	(564,880)	321,499	(243,381)
	(10,039,013)	(8,019,009)	(18,058,022)

19 Reconciliation of net cash flow to movement in net debt

	2000 £	1999 £
Decrease in cash in year	(421,015)	(409,692)
Cash outflow from decrease in lease financing	321,499	228,140
Bank loan	(3,620,128)	(2,500,000)
Parent company	(4,299,365)	(2,843,058)
Changes in net debt	(8,019,009)	(5,524,610)
Net debt at 1 April 1999	(10,039,013)	(4,514,403)
Net debt at 31 March 2000	(18,058,022)	(10,039,013)

20 Reconciliation of movements in shareholders' deficit

	2000 £	1999 £
Loss on ordinary activities before and after taxation	(3,734,623)	(1,499,554)
Opening shareholders' deficit	(1,920,091)	(420,537)
Closing shareholders' deficit	(5,654,714)	(1,920,091)
Shareholders deficit: attributable to non-equity interests	-	2,200,000
Attributable to equity interests	(5,854,714)	(4,120,091)
	(5,654,714)	(1,920,091)

21 Capital commitments

Contracted but not provided for	1,481,168	2,150,758

22 Commitments under operating leases

As at 31 March 2000, the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2000 £	Land and buildings 1999 £
Operating leases which expire:		
Within one year	-	52,500
In two to five years	140,109	43,411

23 Contingency

The company has given cross guarantees to its parent company in respect of bank loans and overdrafts. The contingent liability under the guarantee at 31 March 2000 was £9,088,249 (1999: £4,990,865).

24 Ultimate parent company

At 31 March 2000 the company's ultimate parent company was Patientline Holdings Limited.