Turnstone Equityco 1 Limited

Directors' report and consolidated financial statements

Registered number 07496756

Period from 18 January 2011 to 31 March 2012

Contents

Directors' report for the period ended 31 March 2012

The directors present their report and the audited consolidated financial statements of Turnstone Equityco 1 Limited for the period ended 31 March 2012.

Principal activities

The principal activity of the company during the period was to act as a holding company. The principal activity of the group of companies owned by Turnstone Equityco 1 Limited ("the group") is the operation of dental practices.

The group provides a range of National Health Service (NHS) and private dental services from practices located in England, Wales and Scotland.

Business review

The company was incorporated on 18 January 2011.

The IDH group was formed on 11 May 2011 through the acquisition of Integrated Dental Holdings from Bank of America Merrill Lynch Capital Partners by The Carlyle Group (Carlyle) and Palamon Capital Partners (Palamon) and the simultaneous acquisition of Associated Dental Practices, a Palamon portfolio company.

Founded in 1987, Carlyle is one of the world's largest alternative asset managers. Palamon, founded in 1999, is an independent private equity partnership focused on providing equity for European growth services companies.

Carlyle and Palamon have joint control of IDH. Carlyle's majority holding is owned by CEP III Participations S.à.r.l. SICAR, an investment vehicle for Carlyle. Palamon's ownership of the group is through its fund Palamon European Equity II, L.P. As at 31 March 2012, senior managers held 12.2% of the company through an employee incentive scheme.

The equity funding is split between preference and ordinary share capital, with the ordinary capital being designated 'A1', 'A2' and 'B' for ownership identification. 'A1' ordinary shares have a nominal value of £0.01, 'A2' and 'B' ordinary shares have a nominal value of £0.04.

OWNERSHIP STRUCTURE

Number of shares (% of total)	Management		Carlyle		Palamon and co-investors		Total	
'A1' Ordinary ('000)	-	-	1,282	66.9%	400	20.9%	1,682	87.7%
'A2' Ordinary ('000)	18	1.0%	-	-	-	-	18	1.0%
'B' Ordinary ('000)	217	11.3%	-	-	-	-	217	11.3%
Total	**235**	**12.3%**	**1,282**	**66.9%**	**400**	**20.9%**	**1,917**	**100.0%**

On 11 May 2011, the company's subsidiary, Turnstone Bidco 1 Limited, acquired 100% of Pearl Topco Limited and 100% of ADP Healthcare Services Limited.

Turnstone Bidco 1 Limited was established as an investment vehicle to acquire Pearl Topco Limited and the Integrated Dental Holdings ("IDH") chain of dental practices and to merge the operations with the dental practices owned by ADP Healthcare Services Limited ("ADP").

Consolidated profit and loss account
Turnover in the period ended 31 March 2012 amounted to £309.9 million and profit on ordinary activities before interest and taxation was £3.8 million.

Amortisation of intangible assets amounted to £26.8 million in the period ended 31 March 2012. Taking into account depreciation of £11.2 million and the amortisation of grant income of £0.7 million, this gives a Group EBIT before exceptional items of £15.1 million. After exceptional items of £7.7 million relating to the integration costs and restructuring of IDH and ADP in the period, operating profit was £7.4 million.

The group delivered an EBITDA of £52.3 million for the trading period ended 31 March 2012 before exceptional items, following acquisition by The Carlyle Group and Palamon Capital Partners

Finance expenses of £57.6 million and the loss arising from the disposal of five practices of £3.6 million results in a loss on ordinary activities before tax of £53.8 million. The loss on ordinary activities after tax for the period amounts to £51.6 million.

Directors' report for the period ended 31 March 2012 *(continued)*

Business review *(continued)*

Consolidated balance sheet
Goodwill and intangible assets amount to £543.8million and arise from the acquisition of the Integrated Dental Holdings and Associated Dental Practices groups in May 2011 and the acquisition of further practices during the financial period. Fixed assets of £61.0 million include £13.5m of additions during the year resulting from upgrades to the group's equipment and facilities.

Borrowings amounted to £638.8 million. This is comprised of £249.6 million of senior debt facilities, £7.4 million of 4% loan notes, £348.1 million of 12% loan notes, £7.6 million of 15% loan notes and £26.1 million of preference shares, including interest capitalised.

Consolidated cash flow statement
The net cash inflow from operating activities of £35.1 million reflects the strong cash generation properties of the group.

After the servicing of external finance costs and the cash flows associated with the acquisition of IDH and ADP, the closing cash balance was £19.0 million.

Proposed dividend

The directors do not recommend the payment of a dividend for the period.

KPIs – financial and non-financial

The KPIs set out in the table below are fundamental to the IDH business and reflect focus on the drivers of value that will enable and inform the management team to achieve the IDH business plans, strategic aims and objectives.

FINANCIAL KPIs	
£m, period ending March	**11 Months 2012**
NHS Revenue	273
Private Revenue	37
Total Revenue	**310**
Gross Profit	146
EBITDA before exceptioal items	52
Net Bank Debt	250
Net cash inflow after returns on investment & servicing of finance excluding one off issue costs of £22m	19
Net cash inflow from operating activities	35
Employees	4,720
Number of Practices	497
£m, period ending March	**12 months 2012**
Total UDAs delivered (million)	10.6
Total UOAs delivered (million)	0.3
Compliments / complaints ratio	1:0.06

UDA – Units of Dental Activity, measures set by the PCT as part of the contract terms.

UOA – Units of Orthodontic Activity, measures set by the PCT as part of the contract terms.

Employees – excluding self-employed dentists.

Directors' report for the period ended 31 March 2012 *(continued)*

Business review *(continued)*

The group owns and manages a national chain of dental practices, with 497 sites. In common with the majority of dental practices in the UK, the group's practices offer a mixture of NHS and private treatment to patients. With around 88% of its revenue coming from NHS contracts, the group is the largest provider of NHS dentistry in the UK.

The main trading entities of the group are Petrie Tucker and Partners Limited, Whitecross Dental Care Limited and ADP Dental Company Limited. The business has grown during the year through a mixture of corporate and practices acquisitions and through organic expansion.

The group's revenue continues to be principally derived from long term-fixed value contracts with local NHS Primary Care Trusts ("PCTs"). In addition the group has variable income streams based on treatment provided to patients under private contract and to NHS patients in Scotland. Provided the group achieves certain performance related criteria, the fixed-income nature of the contracts in England and Wales provides the group with stability and visibility over its revenue and profit streams.

2012 was a successful year for the IDH group with the business successfully completing the merger of IDH and ADP and delivering central cost savings. In addition, the business has continued to acquire new practices, increasing the group total to 497 as at 31 March 2012.

Principal risks & uncertainties

Revenue risks

NHS contract
The NHS contract for the dentist in England and Wales, introduced in April 2006, provides clear benefits to the group, both in terms of income visibility and dentist retention. However, as with any system, there are likely to be modifications to it, potentially through the introduction of a new contract structure. The extent of such modifications and the impact which they may have on the group, either in a favourable or adverse manner are not known. However, IDH seeks to maintain a close dialogue with the Government in developing the new contract and is currently involved in five new contract pilots to ensure that the business is well prepared for any changes.

Clinicians
The group requires skilled clinicians in order to care for its growing patient base. The expansion of the EU over recent years and the increased capacity of UK dental schools have increased the supply of clinicians available to the group. The improved supply, coupled with the fixed nature of dentist's contracts has improved the retention of dentists within the group. The directors recognise the importance of quality clinicians for ensuring the continued success of the group. The group manages the risk associated with the supply of clinicians through training and development programmes to enhance retention and a recruitment strategy to ensure that the growth in patient numbers can be treated.

Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the group's risk management framework. The group's activities expose it to a variety of financial risks: credit risk, liquidity risk, market (including currency and interest rate risk), and inflation risk.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

Credit risk
Credit risk is the risk of financial loss to the group if a customer fails to meet its contractual obligations. The nature of the group's contracts with PCTs means that credit risk is minimised for a significant proportion of group revenue. The patient's contribution to NHS charges is usually collected before treatment in order to minimise risk to the group. Payment is also requested in advance for major courses of private treatment.

Directors' report for the period ended 31 March 2012 *(continued)*

Financial Risk Management *(continued)*

Liquidity risk
Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the group's reputation.

The group regularly monitors its cashflow forecasts and currently maintains funds on demand to meet all operational expenses including the servicing of financial obligations. The group's bank facilities are disclosed in Note 17 of the financial statements.

Market risk
Market risk is the risk that changes in foreign exchange rates and interest rates will affect the group's income.

The group has limited currency risk as all operations are carried out in the United Kingdom and all income, expenses and facilities are denominated in Sterling. However, as materials are sourced by suppliers internationally, the group is indirectly exposed to currency risk as suppliers adjust their UK price lists for changes in international material prices. This risk is managed through competitive tendering for the group's significant supply contracts.

Under the terms of the group's facility agreement, at least 66% of the exposure to changes in interest rates on borrowings was required to be fixed. The group has entered in to two fixed interest rate contracts totalling £215 million in 2011, representing 78% of total drawn debt in compliance with the requirements of the agreement. Further details are set out in Note 17.

Inflation risk
Inflation risk is the risk that the cost of key services and products procured by the group will rise with inflation and affect the group's income.

The group undergoes a regular review of key suppliers through its procurement programme to mitigate cost increases, using tendering processes where possible. In addition, the group seeks to rationalise its supplier base to benefit from its scale.

Employees

The group does not discriminate between employees on the grounds of race, ethnic origin, age or sex. Equal opportunity is given to all suitable job applicants.

Applications for employment from disabled persons are given full and fair consideration with regard paid only to the ability of candidates to carry out satisfactorily the duties of the job. Should an existing employee become disabled, every effort is made to ensure continuing employment with retraining arranged where necessary. Disabled persons share in the opportunities for career development and promotion while training takes account of any special needs.

Briefing and consultative procedures exist throughout the group to inform employees on matters of concern to them, the financial and economic performance of their business units and to provide opportunities for comment and discussion.

Outlook & strategy

Whilst the market continues to be challenging for dentistry in the UK, with the pressures on NHS funding and consumer spending, the directors believe that the group continues to be well positioned to take advantage of further opportunities. In particular, the group will continue to focus on delivering growth through:

- delivering high quality care and promoting the highest clinical standards
- optimising delivery of its existing NHS contracts
- exploring opportunities to tender for new contracts
- diversifying our revenues through new initiatives in private dentistry
- implementing improved systems and processes to increase efficiency and oversight
- investing in our practice estate; and
- growing our portfolio through new practice acquisitions

Directors' report for the period ended 31 March 2012 *(continued)*

Directors

The directors who held office during the period and to the date of this report were as follows:

J Bonnavion	(Appointed 25 May 2011)
J Heathcote	(Appointed 25 May 2011)
E Kump	(Appointed 20 January 2011)
P Newcombe	(Appointed 18 January 2011, resigned 17 March 2011)
P Pindar	(Appointed 2 July 2012)
M Robson	(Appointed 2 July 2012)
R Smith	(Appointed 2 July 2012)
A Stirling	(Appointed 20 January 2011)

The directors benefitted from qualifying third party indemnification provisions in place during the financial period and to the date of this report. The group also provided qualifying third party indemnity provisions to certain directors of associated companies during the financial period and to the date of this report.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' report for the period ended 31 March 2012 *(continued)*

Political and charitable contributions

The company made no political or charitable contributions during the period.

Policy and practice on the payment of creditors

It is the group's policy in respect of all suppliers, including self-employed dentists, to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director 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 statement is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Independent auditors

PricewaterhouseCoopers LLP were appointed as auditors during the period and have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the annual general meeting.

By order of the Board

M Robson
Director
24 August 2012

Europa House
Stoneclough Road
Kearsley
Manchester
M26 1GG

Independent auditors' report to the members of Turnstone Equityco 1 Limited

We have audited the group and parent company financial statements (the "financial statements") of Turnstone Equityco 1 Limited for the period from 18 January 2011 to 31 March 2012 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's loss and cash flows for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

PricewaterhouseCoopers LLP

Martin Heath (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
24 August 2012

Consolidated profit and loss account
for the period from 18 January 2011 to 31 March 2012

	Note	15 month period to 31 March 2012 £'000
Turnover	2	**309,865**
Cost of sales		**(164,226)**
Gross profit		**145,639**
Other operating income		**1,803**
Administrative expenses		**(140,091)**
Operating profit	3	**7,351**
Analysed as		
EBITDA before exceptional items		**52,312**
Depreciation		**(11,196)**
Amortisation of goodwill		**(26,803)**
Amortisation of grant income		**749**
Exceptional items - integration costs		**(7,711)**
Operating profit		**7,351**
Loss on disposal of assets	6	**(3,533)**
Profit on ordinary activities before interest and taxation		**3,818**
Interest receivable and similar income	7	**30**
Interest payable and similar charges	7	**(57,627)**
Loss on ordinary activities before taxation		**(53,779)**
Tax on loss on ordinary activities	8	**2,211**
Loss on ordinary activities after taxation		**(51,568)**
Equity minority interests		**4**
Loss for the financial period	21	**(51,564)**

All results arise from acquisitions during the period.

The group has no material recognised gains and losses during the period other than those stated above and therefore no separate statement of total recognised gains and losses has been presented.

There were no differences between the historical cost profit and losses and the figures noted in the consolidated profit and loss account.

Consolidated balance sheet
at 31 March 2012

	Note	2012 £'000	2012 £'000
Fixed assets			
Intangible assets	10		543,790
Tangible assets	11		60,963
			604,753
Current assets			
Stocks	13	5,727	
Debtors	14	24,873	
Cash at bank and in hand		19,019	
		49,619	
Creditors: amounts falling due within one year	15	(61,427)	
Net current liabilities			(11,808)
Total assets less current liabilities			592,945
Non-current liabilities			
Creditors: amounts falling due after more than one year	16		624,725
Provisions for liabilities and charges	18		17,871
Minority interest - equity			(4)
			642,592
Capital and reserves			
Share capital	19	27	
Share premium account	20	1,890	
Profit and loss reserve	21	(51,564)	
Total shareholders' deficit	22		(49,647)
			592,945

The notes on pages 12 to 40 form part of these financial statements.

The financial statements were approved by the Board of Directors on 24 August 2012 and were signed on its behalf by:

M Robson
Director

Company balance sheet
at 31 March 2012

	Note		**2012**
		£'000	**£'000**
Fixed assets			
Investments	*12*		**-**
Current assets			
Debtors	*14*		**9,411**
Total assets less current liabilities			**9,411**
Non-current liabilities			
Creditors: amounts falling due after more than one year	*16*		**7,296**
Capital and reserves			
Share capital	*19*	**27**	
Share premium reserve	*20*	**1,890**	
Profit and loss reserve	*21*	**198**	
Total shareholders' funds	*22*		**2,115**
			9,411

The notes on pages 12 to 40 form part of these financial statements.

The financial statements were approved by the Board of Directors on 24 August 2012 and were signed on its behalf by:

M Robson
Director

Consolidated cash flow statement

for the period from 18 January 2011 to 31 March 2012

	Note	**15 month period to 31 March 2012 £'000**
Net cash inflow from operating activities	*26*	**35,116**
Returns on investments and servicing of finance	*27*	**(38,661)**
Net cash outflow after returns on investment & servicing of finance		**(3,545)**
Capital expenditure	*27*	**(12,018)**
Acquisitions and disposals	*27*	**(588,479)**
Net cash outflow before financing		**(604,042)**
Financing	*27*	**623,061**
Increase in cash in the financial period	*29*	**19,019**

The notes on pages 12 to 40 form part of these financial statements.

Notes to the financial statements
(forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 2006.

A summary of the more important group accounting policies is set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 March 2012. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings or dental practices acquired or disposed of in the accounting period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Profits and losses on intergroup transactions have been eliminated on consolidation.

Turnover

Turnover represents the income received in the ordinary course of business for dentistry goods or services provided to the extent that the group has obtained the right to consideration. Turnover derived from NHS contracts in England and Wales is recognised on the volume of dental activity delivered in the financial period. Turnover from all private dental work and NHS patients in Scotland is recognised on the completion of each piece of treatment carried out, with the exception of orthodontic treatment, which is recognised based on the stage of completion reached during the course of treatment.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, which is 20 years. The carrying value of goodwill is evaluated when there is an indicator of impairment. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

In calculating the goodwill, the total consideration, both actual and deferred, is taken into account. Where the deferred consideration is contingent and dependent upon future trading performance, an estimate of the present value of the likely consideration payable is made. This contingent deferred consideration is re-assessed annually and corresponding adjustment is made to the goodwill arising on acquisition.

On the subsequent disposal or termination of a business acquired, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Investments

Investments held as fixed assets are stated at historic purchase cost less amounts written off for impairment.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. The cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset less expected residual value over its expected useful life as follows:

Freehold and long leasehold buildings	-	50 years
Leasehold improvements	-	Over the term of the lease
Fixtures, fittings and equipment	-	4-10 years

Where the residual value of an asset is material it is reviewed at the end of each reporting period, to ensure that it has been depreciated on an appropriate basis.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Impairments of fixed assets and goodwill

Impairment write downs are recognised in the profit and loss account when the book value of the asset is higher than the higher of the net realisable value of the asset or the value in use.

The value in use of assets is calculated using discounted forecast cash flows linked to the asset or income generating unit.

Stock

Stock is stated at the lower of cost and net realisable value (net realisable value is the price at which stocks can be sold after allowing for costs of realisation). In the case of raw materials and consumables, cost includes purchase price less trade discounts, transport and handling costs, calculated on an average price basis over the financial period. Provision is made for obsolete, slow moving and defective stock.

Taxation

The charge for taxation is based on the results for the accounting period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Cash

Cash for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions

The group operates a stakeholder defined contribution pension scheme, to which the group makes no contributions on behalf of its employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

The group also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. Contributions to the scheme are charged to the profit and loss account as incurred. The amounts for other finance income and the actuarial loss arising from the actual and expected return on assets and the changes in assumptions underlying the present value of scheme liabilities have not been recognised in the profit and loss account and the statement of total recognised gains and losses on the grounds of materiality, but are disclosed in Note 25.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Government grants

Grants received to assist with the purchase of tangible fixed assets are credited to deferred income and are amortised over a period to match the life of the asset acquired. Revenue grants are recognised in the profit and loss account in the period in which they are received.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a discount rate which reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as an interest expense.

Issue costs on bank loans and related fees

Issue costs related to bank loans are amortised over the term of the loan at a constant rate on the carrying amount.

Partnerships

Certain members of the group management team act as partners on behalf of group companies in a number of dental practice partnerships.

All trading undertaken by these partnerships is included in the consolidated financial statements and the profit arising from these partnerships is recognised as it is earned, in accordance with the group's accounting policies.

Minority interests

Equity minority interests represent the share of the profits less losses on ordinary activities attributable to the interests of equity shareholders in subsidiaries which are not wholly owned by the group.

Preference shares

Preference shares which are redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as an interest expense.

Notes to the financial statements *(continued)*

2 Segmental analysis

The turnover, loss on ordinary activities before taxation and net liabilities of the group relate to its principal activity of dental services. All services are provided in the United Kingdom.

3 Operating profit

	15 month period to 31 March 2012 £'000
Operating profit is stated after charging/(crediting):	
Depreciation – owned assets	**11,196**
Amortisation of goodwill	**26,803**
Operating lease rentals: plant and machinery	**481**
Operating lease rentals: land and buildings	**8,737**
Other operating income	**(1,803)**
Amortisation of grant income	**(749)**
Profits from partnerships	**(514)**
Exceptional items - integration costs	**7,711**

Other operating income
Additional income to assist in the upkeep of premises is received from Scottish health boards and is based on the proportion of NHS treatment carried out by a dental practice. Income is also received from property rentals.

Integration costs
Following the merger of the IDH and ADP businesses, certain costs were incurred in bringing the two businesses together. These costs include the expenses incurred in closing the ADP head office, redundancy and compensation payments made to staff, legal and professional fees and consultancy fees.

Notes to the financial statements *(continued)*

3 Operating profit *(continued)*

Auditors' remuneration:
During the period, the group obtained the following services from the company's auditors and their associates:

Amounts receivable by the auditors and their associates in respect of:	**15 month period to 31 March 2012 £'000**
Fees payable to the company's auditors for the audit of the parent company and the consolidated accounts	**47**
Fees payable to the company's auditors and their associates for other services:	
Audit of financial statements of subsidiaries pursuant to legislation	**161**
	208

In addition, the following services have been received from the company's auditor and its associates in relation to the acquisitions of Pearl Topco Limited and ADP Healthcare Services Limited, and the fees capitalised as part of the cost of these investments.

Amounts receivable by the auditors and their associates in respect of:	**15 month period to 31 March 2012 £'000**
Financial and commercial due diligence services	**310**
Tax advisory services	**75**
	385

Notes to the financial statements *(continued)*

4 Employees

There were no persons employed by the company.

The average number of persons employed by the group (including directors), during the financial period was made up as follows:

	15 month period to 31 March 2012 No of employees
Surgery staff	2,799
Administration staff	1,921
	4,720

The staff costs of these persons were as follows:

	15 month period to 31 March 2012 £'000
Wages and salaries	57,487
Social security costs	4,234
	61,721

5 Directors' remuneration

The directors received no emoluments from the company for their services during the period.

The emoluments received as directors of a group trading company are disclosed in the financial statements of Petrie Tucker and Partners Limited for R Smith and M Robson.

Notes to the financial statements *(continued)*

6 Loss on disposal of assets

	Group 15 month period to 31 March 2012 £'000
Profit on disposal of freehold properties	327
Loss on disposal/closure of practices	(3,593)
Loss on disposal of other tangible fixed assets	(267)
	(3,533)

During the period, the group disposed of five practices following an Office of Fair Trading review of the acquisitions of both IDH and ADP.

7 Interest and similar items

	Group 15 month period to 31 March 2012 £'000
Interest payable and similar charges	
Bank loans and overdrafts	(12,695)
Fixed rate interest swap charges	(3,054)
Amortisation of issue costs of bank loans and related fees	(2,970)
Loan note interest	(34,471)
Preference share dividends	(2,525)
Other interest payable – unwinding of discount (note 18)	(408)
Syndicate charges	(1,504)
Total interest payable and similar charges	(57,627)
Interest receivable and similar income	
Bank deposit interest	30
Total interest receivable and similar income	30
Net interest payable and similar income	(57,597)

Notes to the financial statements *(continued)*

8 Tax on loss on ordinary activities

a) Analysis of tax credit for the financial period

	Group 15 month period to 31 March 2012 £'000
Current tax	
Corporation tax at 26%	-
Total current tax for the period (note 8(b))	-
Deferred tax	
Deferred tax credit in the period	(2,491)
Effect of change in tax rate	280
Total deferred tax credit for the period	(2,211)
Tax credit on loss on ordinary activities	(2,211)

b) Factors affecting the current tax credit for the financial period

The current tax credit for the financial period is lower than the standard rate of corporation tax in the UK for the period ended 31 March 2012 of 26%. The differences are explained below:

	Group 15 month period to 31 March 2012 £'000
Loss on ordinary activities before taxation	(53,779)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 26%	(13,983)
Effects of:	
Depreciation in the period in excess of capital allowances	2,559
Expenses not deductible for tax purposes	9,766
Unrelieved tax losses	1,685
Profit on disposals covered by capital losses	(138)
Other short term timing differences	111
Current tax credit for the period (note 8(a))	-

Notes to the financial statements *(continued)*

8 Tax on loss on ordinary activities *(continued)*

Factors affecting current and future tax charges

The group has estimated non-trade losses of £21.9m available for carry forward against future non-trade profits. Deferred tax assets of £5.2m in respect of these losses have not been recognised as the future recovery is uncertain or not currently anticipated.

The main rate of corporation tax was reduced from 28% to 26% from 1 April 2011. A further reduction to 25% from 1 April 2012 was substantively enacted on 5 July 2011. A further announcement was made in the 2012 Budget on 21 March 2012 that the rate would reduce to 24% with effect from 1 April 2012. This rate reduction was substantively enacted on 26 March 2012 and the deferred tax asset at 31 March 2012 has been re-measured accordingly.

This announcement also included provisions to reduce the main rate of corporation tax by further 1% reductions per annum to 22% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements.

The overall effect of the further reductions from 24% to 22%, if these applied to the deferred tax balances at 31 March 2012, would be to reduce the deferred tax asset by £0.50m (being £0.25m expected to be recognised in 2013 and £0.25m in 2014).

9 Parent company result

The company has taken advantage of Section 408(4) of the Companies Act 2006 and consequently a profit and loss account for the company is not presented.

The company's profit of £198,000 arises from interest on loans to group undertakings.

10 Intangible fixed assets

Group	**Goodwill £'000**
Cost	
Arising on acquisition of Pearl Topco Limited and ADP Healthcare Services Limited (note 30)	557,297
Practice acquisitions (note 30)	7,165
Subsidiary acquisitions (note 30)	13,594
Disposals	(7,808)
At 31 March 2012	**570,248**
Accumulated amortisation	
Charge for the period	26,803
Release on disposal	(345)
At 31 March 2012	**26,458**
Net book value	
At 31 March 2012	**543,790**

Notes to the financial statements *(continued)*

11 Tangible fixed assets

Group	Freehold property £'000	Long leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost				
Arising on acquisition of Pearl Topco Limited and ADP Healthcare Services Limited (note 30)	1,116	2,139	55,955	59,210
Acquisitions (note 30)	-	8	1,250	1,258
Additions	267	178	13,091	13,536
Disposals	(872)	(612)	(490)	(1,974)
At 31 March 2012	**511**	**1,713**	**69,806**	**72,030**
Accumulated depreciation				
Charge for the period	12	250	10,934	11,196
Disposals	(8)	(3)	(118)	(129)
At 31 March 2012	**4**	**247**	**10,816**	**11,067**
Net book value				
At 31 March 2012	**507**	**1,466**	**58,990**	**60,963**

As at 31 March 2012, no assets are held under finance leases or hire purchase contracts.

Company

The company does not own any tangible fixed assets.

Notes to the financial statements *(continued)*

12 Fixed asset investments

Company	£'000
Investment at cost in subsidiary undertaking acquired in the period	-
Investments at cost in subsidiary undertaking at 31 March 2012	-

The company owns 100% of its immediate subsidiary, Turnstone Midco 1 Limited. The cost and book value of its investment in that entity is £1. Turnstone Midco 1 was incorporated on 18 January 2011 and 1 share was issued at par.

The table below provides details of the company's subsidiary undertakings. All companies are indirectly owned with the exception of Turnstone Midco 1 Limited. All of the non-trading entities are holding companies for investments in other group companies.

The group holds 100% of the ordinary share capital of all of the companies listed (with the exception of Denture Excellence Limited, in which the group holds 75% of the ordinary share capital) and all companies are included in the consolidation.

In the opinion of the directors' the value of the company's investment in its subsidiaries is not less than the amount at which it is shown in the balance sheet.

Name of subsidiary	Principal activity	Country of incorporation
Turnstone Midco 1 Limited	Non-trading	England
Turnstone Midco 2 Limited	Non-trading	England
Turnstone Bidco 1 Limited	Non-trading	England
Pearl Cayman 1	Non-trading	Cayman Islands
Pearl Cayman 2	Non-trading	Cayman Islands
Pearl Topco Limited	Non-trading	England
Pearl Bidco Limited	Non-trading	England
IDH Group Limited	Non-trading	England
IDH Acquisitions Limited	Non-trading	England
Diverse Holdings Limited	Non-trading	England
Diverse Acquisitions Limited	Non-trading	England
Diverse Property Investments Limited	Property investments	England
Integrated Dental Holdings Limited	Non-trading	England
A-Z Dental Holdings Limited	Non-trading	England
Petrie Tucker and Partners Limited	Dental practices	Scotland*
Speed 8599 Limited	Dormant	England
Speed 8600 Limited	Dormant	England
A-Z Dental Holdings (Subsidiary No. 1) Limited	Dormant	England
A-Z Dental Holdings (Subsidiary No. 2) Limited	Dormant	England
Whitecross Group Limited	Non-trading	England
Whitecross Dental Care Limited	Dental practices	England
Whitecross Supplies Limited	Dormant	England
Whitecross Healthcare Limited	Non-trading	England
First Choice Dental Limited	Dental practices	England
Du Toit and Burger Partnership (Harwich) Limited	Dental practices	England
Du Toit and Burger Partnership (Ipswich) Limited	Dental practices	England
Du Toit and Burger Partnership Limited	Dental practices	England
Du Toit and Burger Partnership (Sudbury) Limited	Dental practices	England
Du Toit and Burger Partnership (Silvertown) Limited	Dental practices	England
Du Toit and Burger Partnership (Stratford) Limited	Dental practices	England
KH & GW Limited	Dental practices	England
The Crescent Specialist Dental Centre Limited	Dental practices	England
Mainstone Health Limited	Dental practices	England
The Plains Dental Practice Limited	Dental practices	England
Padgate (No.1) Limited	Dental practices	England
Westhoughton (No.1) Limited	Dental practices	England
Euxton (No.1) Limited	Dental practices	England
Fallowfield (No.1) Limited	Dental practices	England
Bramora Limited	Dental practices	England

Notes to the financial statements *(continued)*

12 Fixed asset investments *(continued)*

Ffolliot Bird Associates Limited	Dental practices	England
Orthoworld Limited	Non-trading	England
Orthoworld 2000 Limited	Dental practices	England
Jackro Healthcare Limited	Dental practices	England
Adelstone Dental Care Limited	Dental practices	England
South Tyneside Smiles Limited	Dental practices	England
Richard Flanagan and Associates Limited	Dental practices	England
IDH 324 & 325 Limited	Dental practices	England
IDH 331 Limited	Dental practices	England
IDH 341 Limited	Dental practices	England
IDH 346 Limited	Dental practices	England
IDH 363 Limited	Dental practices	England
IDH 403 Limited	Dental practices	England
IDH 406 Limited	Dental practices	England
IDH 418 Limited	Dental practices	England
IDH 437 Limited	Dental practices	England
IDH 441 to 444 Limited	Dental practices	England
IDH 449 Limited	Dental practices	England
IDH 450 Limited	Dental practices	England
IDH 474 Limited	Dental practices	England
IDH 476 Limited	Dental practices	England
IDH 477 Limited	Dental practices	England
Durgan and Ashworth Dental Care Limited	Dental practices	England
Salcombe Dental Practice Limited	Dental practices	England
Silverdale Dental Care Limited	Dental practices	England
Hessle Grange Dental Care Limited	Dental practices	England
Priory House Dental Care Limited	Dental practices	England
SLS Dental Care Limited	Dental practices	England
Hirst and O'Donnell Limited	Dental practices	England
IDH 622 Limited	Dental practices	England
PJ Burridge Limited	Dental practices	England
Cromwell Dental Practice Limited	Dental practices	England
Orthocentres Limited	Dental practices	England
Denture Excellence	Dental practices	England
ADP Healthcare Services Limited	Non-trading	England
ADP Healthcare Acquisitions Limited	Non-trading	England
ADP Holdings Limited	Non-trading	England
MyDentist Limited	Dormant	England
Dental Talent Tree (Recruitment) Limited	Dormant	England
ADP Healthcare Limited	Dormant	England
ADP No 1 Limited	Non-trading	England
Natural Management Limited	Non-trading	England
Community Dental Centres Limited	Dental practices	England
ADP Dental Company Limited	Dental practices	England
ADP Ashford Limited	Dental practices	England
ADP Mansfield Limited	Dental practices	England
Our Dentist Limited	Dormant	England
ADP Yorkshire Limited	Dormant	England
@TheDentist Limited	Dormant	England
Dental Health Care Limited	Dormant	England

*Countries of operation – England, Scotland and Wales

In addition to the limited companies listed above, the company controls 65 partnerships through the appointment of members of the management team as partners, acting on behalf of certain group companies.

Notes to the financial statements *(continued)*

13 Stock

	Group 2012 £'000
Raw materials and consumables	5,727

The company holds no stock.

14 Debtors

	Group 2012 £'000	Company 2012 £'000
Trade debtors	2,110	-
Other debtors	1,746	-
Amounts owed by related undertakings	-	8,959
Accrued interest	-	452
Prepayments and accrued income	15,175	-
Deferred tax asset	5,842	-
	24,873	9,411

The amounts owed by related undertakings are in relation to loan notes issued by Turnstone Midco 1 Limited, the company's immediate subsidiary.

Deferred tax

The elements of deferred taxation are as follows:

	2012 £'000
Accelerated capital allowances	8,355
Other short term timing differences	(2,513)
	5,842

	2012 £'000
Arising on acquisition of Pearl Topco Limited and ADP Healthcare Services Limited (note 30)	3,631
Credit in the period (note 8)	2,211
	5,842

Notes to the financial statements *(continued)*

15 Creditors: amounts falling due within one year

	Group 2012 £'000
Bank and other loans (note 17)	15,894
Trade creditors	7,827
Corporation tax	249
Other taxation and social security costs	1,272
Deferred consideration for acquisitions	920
Accruals and deferred income	35,236
Acquisition fee related accruals	29
	61,427

Included within accruals and deferred income falling due within one year are unamortised Government grants totalling £0.73m. The amount amortised during the period was £0.75m.

Included in bank loans are unamortised issue costs and associated professional fees of £3.43m.

The company has no creditors due within one year.

	Government grants £'000
Unamortised grants acquired upon acquisition of Pearl Topco Limited and ADP Healthcare Services Limited	2,162
Grants received during the period	154
Amortisation (note 3)	(749)
At the end of the financial period	1,567

16 Creditors: amounts falling due after more than one year

	Group 2012 £'000	Company 2012 £'000
Bank and other loans (note 17)	233,706	-
Loan notes	363,088	7,296
Preference shares classified as liabilities	26,152	-
Deferred consideration for acquisitions	938	-
Accruals and deferred income	841	-
	624,725	7,296

Included within accruals and deferred income are unamortised Government grants totalling £0.84m.

Included within bank loans are £15.87m of unamortised loan issue costs and associated professional fees.

Loan stock of £314,508,000 was issued on 11 May 2011 to fund the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited. Interest accrues on the principle amount at a rate of 12% per annum. Interest that remains unpaid on the anniversary of the note issue is capitalised. The notes are redeemable in full on 11 May 2021. At 31 March 2012, interest of £33,605,000 was accrued on these notes.

On 11 May 2011, loan notes of £7,109,000 were issued to fund the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited. Interest accrues on the principle amount at a rate of 4% per annum. The notes are redeemable in full on 11 May 2021. At 31 March 2012, interest of £253,000 was accrued.

Notes to the financial statements *(continued)*

16 Creditors: amounts falling due after more than one year *(continued)*

A total of 23,627,422 £1 preference shares were issued at par on 11 May 2011 to fund the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited. The preference shares have a fixed, cumulative dividend of 12% per annum and are repayable on the earlier of 11 May 2021 or an exit by majority shareholders. Preference share dividends of £2,525,000 were accrued for the period.

On 31 August 2011, £7,000,000 of loan notes were issued to support the group's dental practice acquisition programme. Interest accrues on the principle amount at a rate of 15% per annum. Interest that remains unpaid on the anniversary of the note issue is capitalised. The notes are redeemable in full on 31 August 2021. At 31 March 2012, interest of £613,000 was accrued on these notes.

17 Bank loans

The company does not hold any bank loans.

The group bank and other loans are repayable as follows:

	Group 2012 £'000
Bank loans	
Less than one year	**19,333**
Between one and two years	**14,630**
Between two and five years	**79,437**
Over five years	**155,500**
Total bank loans	**268,900**
Less: unamortised arrangement fees and related costs	**(19,300)**
	249,600

The bank loans are secured by a fixed charge over the group's freehold property assets, the book debts, the bank accounts, investments, goodwill and plant and machinery and by floating charges over the remaining assets of the group.

The group incurred total issue costs of £22.27m in respect of the facilities entered into on 16 March 2011. Amounts were drawn down to fund the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited on 11 May 2011 and further amounts have been drawn down during the financial period in order to acquire additional dental practices. The amortisation of arrangement fees and related costs has been allocated to the profit and loss account over the life of the facilities.

Bank loans are all denominated in Pound Sterling with details as follows:

- Facility A1 - £96.00m has been fully drawn down. Interest is payable in arrears at the rate of LIBOR plus 4.25%. £4.80m was repaid during the financial period. The balance at 31 March 2012 was £91.20m.
- Facility A2 - £8.50m has been fully drawn down. Interest is payable in arrears at the rate of LIBOR plus 4.25%. £0.43m was repaid during the financial period. The balance at 31 March 2012 was £8.07m.
- Facility B1 - £142.50m has been fully drawn down. Interest is payable in arrears at the rate of LIBOR plus 4.75%. The balance at 31 March 2012 was £142.50m.
- Facility B2 - £13.00m has been fully drawn down. Interest is payable in arrears at the rate of LIBOR plus 4.75%. The balance at 31 March 2012 was £13.00m.
- Capex/Acquisition facility – the group has a £85.00m facility, of which £14.13m has been drawn down as of 31 March 2012. Interest is payable in arrears at LIBOR plus 4.50%.
- Revolving Facility – the group has a £10.00m facility, of which £1.8m has been drawn to cover the provision of a letter of credit. Interest is payable in arrears at the rate of LIBOR plus 4.50%.

On 31 May 2011, as part of an interest rate management strategy, the group entered into two interest rate contracts to swap LIBOR for a fixed rate. One contract for a notional principle amount of £107.50m matures on 30 May 2014 and interest is fixed at 2.6024%. The second contract, also for a notional principle amount of £107.50m, matures on 30 May 2014 and interest is fixed at 2.6024%.

Notes to the financial statements *(continued)*

18 Provisions for liabilities

Group	Above market rental £'000	Vacant property and dilapidations £'000	Total £'000
Fair value of provisions arising upon acquisition of Pearl Topco Limited and ADP Healthcare Services Limited (note 30)	7,368	10,744	**18,112**
Arising from acquisitions (note 30)	935	110	**1,045**
Utilised in the financial period	(1,171)	(523)	**(1,694)**
Unwinding of discount	357	51	**408**
At 31 March 2012	**7,489**	**10,382**	**17,871**

Property provisions

The new group has a number of properties where the rentals payable are in excess of the current market rents. Provision has been made to recognise the liability arising from the "above market rental" element of these leases.

The gross provision of £9.2m has been discounted to present value using a rate of 5%.

The group has a number of vacant and partly sub-let leasehold properties arising from the closure of loss making practices. Provision has been made for the residual lease commitments, together with other outgoings, after taking into account existing sub-tenant arrangements. It is not assumed that the properties will be able to be sublet beyond the periods in the present sub-lease agreements.

Provision has also been made for the costs associated with contractual obligations to return practices to their original condition at the end of the lease and the costs of compliance with existing regulations.

19 Share capital

Group and company	Number issued	2012 £'000
Allotted, called up and fully paid		
"A1" Ordinary shares of £0.01	**1,681,763**	**17**
"A2" Ordinary shares of £0.04	**18,236**	**1**
"B" Ordinary shares of £0.04	**216,600**	**9**
	1,916,599	**27**

On incorporation, 1 £1 ordinary share was issued. On 11 May 2011, the share was subdivided into 100 £0.01 ordinary shares and the shares re-designated as "A1" ordinary shares. On the same date the following shares were issued as part of the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited:

a) 400,000 A1 ordinary shares were issued for £400,000 as part consideration for the acquisition of ADP Healthcare Services Limited.

b) the original 100 A1 shares plus an additional 1,281,663 A1 ordinary shares issued for £1,281,763, 18,236 A2 ordinary shares issued for £18,236 and 150,000 B ordinary shares issued for £150,000 as part consideration for the acquisition of Pearl Topco Limited.

On 31 January 2012, 66,200 B ordinary shares were issued for £66,200. On 29 February 2012, 400 B ordinary shares were issued for £400. Following the period end, on 2 July 2012, 30,000 B ordinary shares were issued for £30,000. On 31 July 2012, 33,000 B ordinary shares were issued for £33,000.

The "A1" and "A2" ordinary shares rank pari-passu.

The "B" ordinary shares retain the same voting rights as the "A1" and "A2" ordinary shares but with restrictions on distributions in the event of a sale of the company.

Notes to the financial statements *(continued)*

20 Share premium reserve

Group and company	**2012** **£'000**
Premium on shares issued during the period	**1,890**

21 Profit and loss reserve

	Group Profit and loss account £'000	**Company Profit and loss account £'000**
(Loss)/profit for the financial period	**(51,564)**	**198**
At 31 March 2012	**(51,564)**	**198**

22 Reconciliation of movements in shareholders' (deficit)/funds

	Group 2012 £'000	**Company 2012 £'000**
(Loss)/profit for the financial period	**(51,564)**	**198**
Ordinary shares issued	**27**	**27**
Share premium arising on issue of ordinary shares	**1,890**	**1,890**
Net increase in shareholders' (deficit)/funds	**(49,647)**	**2,115**
Closing shareholders' (deficit)/funds	**(49,647)**	**2,115**

23 Contingent liabilities

Assigned leases

When disposing of practices, the group has generally assigned the associated leases to the purchaser. In the event that the purchaser defaults on their lease payments and should the landlord be unable to mitigate their losses sufficiently, then there is an obligation on the group to take on these lease commitments.

In the opinion of the directors such eventualities are remote, as practices have been disposed of as going concerns, and as a result there is no such provision against such eventualities made in these financial statements. The group has no experience of any leases that it has assigned, in relation to dental practices, reverting back to it.

Partnership guarantees

A number of individuals in the management team have joined partnerships as part of the group's acquisition of the trade and assets of those partnerships. The partners hold their interest in the partnership under a trust deed on behalf of one of the group companies. In order to indemnify the partners against specific risks in relation to this arrangement, a guarantee is in place supported by a letter of credit from the group's bank for £1.8m.

Notes to the financial statements *(continued)*

24 Commitments under operating leases

At 31 March 2012, the group had annual commitments under non-cancellable operating leases as follows:

	Group 2012 £'000
Land and buildings:	
Expiring within one year	**288**
Expiring between two and five years	**1,525**
Expiring after five years	**7,701**
	9,514
Other:	
Expiring within one year	**34**
Expiring between two and five years	**484**
	518

25 Pension commitments

Group

The group operates two defined contribution pension schemes. The pension cost charge for the financial period represents contributions payable by the group to the schemes and amounted to £nil.

There were no outstanding or prepaid contributions at either the beginning or end of the financial period.

The group also operates a pension scheme providing benefits based on final pensionable pay. The pension scheme was acquired as part of the acquisition of Pearl Topco Limited. The scheme is closed to new members and has no active members. In order to provide comparable information, the disclosures included in the consolidated amounts of Pearl Topco Limited for the year ended 30 April 2011, duly updated, have been included in this note.

Over the period to 31 March 2012 the group did not contribute directly to the scheme, however, the cost of insuring death in service benefits and other trustee expenses were paid by the group and amounted to £38,000. The group does not expect to make contributions to the scheme or for the costs of the scheme to change significantly in the next financial year.

The latest full actuarial valuation for which results are available, was carried out as at 6 April 2011 and was updated for FRS 17 'Retirement benefits' purposes to 31 March 2012 by a qualified independent actuary.

The major assumptions used in this valuation were:

	31 March 2012	30 April 2011
Expected return on plan assets	**5.2%**	5.6%
Rate of increase in pensions in payment and deferred pensions	**3.3%**	3.5%
Discount rate applied to scheme liabilities	**4.7%**	5.3%
Inflation assumption	**3.3%**	3.5%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in 2012 will on average live for a further 24.4 years (2011: 24.0 years) after retirement if they are male and 26.2 years (2011: 26.0 years) if they are female.

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

	Percentage of plan assets 2012	**Value at 31 March 2012 £'000**	Percentage of plan assets 2011	Value at 30 April 2011 £'000
Equities	**24%**	**1,020**	24%	1,013
Bonds	**73%**	**3,101**	73%	3,027
Property	**2%**	**84**	2%	87
Cash	**1%**	**8**	1%	8
Total market value of assets	**100%**	**4,213**	100%	4,135
Present value of scheme liabilities		**(3,717)**		(3,214)
Surplus in the scheme – pension asset		**496**		921
Related deferred tax liability		**-**		-
Net pension asset		**496**		921

The figures show the scheme to be in surplus as at 31 March 2012. A surplus can only be recognised to the extent that it is recoverable through reduced future contributions or by a refund from the scheme. As the scheme is paid up and there is no agreement with the trustees to refund any monies, the surplus has not been regarded as recoverable and has not been recognised on this basis.

The amounts for other finance income and the actuarial loss arising from the actual and expected return on assets and the changes in assumptions underlying the present value of scheme liabilities have not been recognised in the profit and loss account and the statement of total recognised gains and losses on the grounds of materiality.

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

The expected rates of return on the assets in the scheme were:

	Long term rate of return 2012 %	Long term rate of return 2011 %
Equities	**8.00**	7.80
Bonds	**4.50**	4.80
Property	**6.25**	6.30
Cash	**3.50**	3.30

The expected returns have been based on the current split by investment sector of the assets of the scheme, using average expected returns for each sector. The expected returns have been reduced to allow for expected investment expenses.

Movement in surplus during the period:

	31 March 2012 £'000	30 April 2011 £'000
Surplus in the scheme at the start of the period	**921**	821
Current service cost	**(59)**	(52)
Contributions paid	**38**	37
Other finance income	**54**	61
Actuarial loss	**(458)**	54
Surplus in the scheme at the end of the period	**496**	921

Changes in the present value of the defined benefit obligation are as follows:

	31 March 2012 £'000	30 April 2011 £'000
Opening defined benefit obligation	**(3,214)**	(2,968)
Current service cost	**(59)**	(52)
Interest cost	**(150)**	(163)
Actuarial loss	**(617)**	(84)
Benefits paid	**323**	53
Closing defined benefit obligation	**(3,717)**	(3,214)

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

Changes in the fair value of plan assets are as follows:

	31 March 2012 £'000	30 April 2011 £'000
Opening market value of plan assets	**4,135**	3,789
Expected return on scheme assets	**204**	224
Actuarial gain	**159**	138
Contributions by employer	**38**	37
Benefits paid	**(323)**	(53)
Closing market value of assets	**4,213**	4,135

Analysis of amounts that would be included in other finance income

	31 March 2012 £'000	30 April 2011 £'000
Expected return on pension scheme assets	**204**	224
Interest cost on pension scheme liabilities	**(150)**	(163)
	54	61

Analysis of amount that would be recognised in the statement of total recognised gains and losses

	31 March 2012 £'000	30 April 2011 £'000
Actual return less expected return on scheme assets	**159**	138
Experience gains and losses arising on scheme liabilities	**(103)**	-
Changes in assumptions underlying the present value of scheme liabilities	**(514)**	(84)
Actuarial loss	**(458)**	(54)

The group does not expect to make any contributions to the pension scheme during the next financial year.

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

Five year record

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	**(3,717)**	(3,214)	(2,968)	(2,037)	(2,342)
Plan assets	**4,213**	4,135	3,789	3,448	3,772
Surplus	**496**	921	821	1,411	1,430
Experience adjustments on plan liabilities	**(103)**	-	(48)	45	23
Experience adjustments on plan assets	**159**	138	327	(500)	(141)

26 Reconciliation of operating profit to net cash inflow from operating activities

	15 month period to 31 March 2012 £'000
Operating profit	**7,351**
Amortisation of goodwill	**26,803**
Depreciation	**11,196**
Amortisation of grant income	**(749)**
Increase in stock	**(736)**
Decrease in debtors	**1,828**
Decrease in creditors	**(8,883)**
Decrease in provisions	**(1,694)**
Net cash inflow from operating activities	**35,116**

Notes to the financial statements *(continued)*

27 Analysis of cash flows

	15 month period to 31 March 2012 £'000
Returns on investment and servicing of finance	
Senior facility loan interest paid	(12,695)
Interest rate swap cash paid	(2,517)
Bank interest received	30
Bank loan arrangement fees and associated professional costs	(22,222)
Syndicate charges paid	(1,257)
Net cash outflow for returns on investments and servicing of finance	**(38,661)**
Capital expenditure	
Purchase of tangible fixed assets	(13,619)
Capital grants received	154
Purchase of freehold property	(267)
Proceeds on sale of freehold property and other tangible fixed assets	1,714
Net cash outflow for capital expenditure	**(12,018)**
Acquisitions and disposals	
Consideration in respect of the acquisition of Pearl Topco Limited and ADP Healthcare Services Limited	(578,529)
Cash acquired on acquisition of Pearl Topco Limited and ADP Healthcare Services Limited	7,664
Acquisition of other subsidiary undertakings (including associated costs)	(13,129)
Acquisition of practices (including associated costs)	(6,970)
Proceeds from sale of practices (net of costs)	4,153
Deferred consideration paid	(1,668)
Net cash outflow for acquisitions and disposals	**(588,479)**
Financing	
Drawdown of bank loans	274,125
Repayment of senior and mezzanine bank loans	(5,225)
Proceeds from issue of preference shares	23,627
Proceeds from issue of loan notes	328,617
Proceeds of equity share issue	1,917
Net cash inflow from financing	**623,061**

Notes to the financial statements *(continued)*

28 Reconciliation of net cash flow to movement in net debt

	15 month period to 31 March 2012 £'000
Increase in cash in the financial period	19,019
Drawdown of bank loans (net of loan arrangement fees)	(251,855)
Repayment of bank loans	5,225
Issue of loan notes	(328,617)
Issue of preference shares	(23,627)
Total cash movement in net debt	(579,855)
Accrued loan interest	(36,996)
Amortisation of loan arrangement fees	(2,970)
Total non-cash movement in net debt	(39,966)
Total movement in net debt	(619,821)
Net debt brought forward	-
Net debt carried forward	(619,821)

29 Analysis of changes in net debt

	Cash flows £'000	Other non-cash changes £'000	At end of the period £'000
Cash and cash equivalents			
Cash at bank and in hand	19,019	-	19,019
Debt			
Senior bank loans	(246,630)	(2,970)	(249,600)
Loan notes	(328,617)	(34,471)	(363,088)
Preference shares	(23,627)	(2,525)	(26,152)
Total debt	(598,874)	(39,966)	(638,840)
Total net debt	(579,855)	(39,966)	(619,821)

Notes to the financial statements *(continued)*

30 Acquisitions

Acquisition of Pearl Topco Limited and ADP Healthcare Services Limited

On 11 May 2011, the company's subsidiary Turnstone Bidco 1 Limited acquired the entire share capital of Pearl Topco Limited and ADP Healthcare Services Limited for consideration of £456.8m and £121.8m respectively. The adjustments required to the book values of the assets and liabilities of the groups acquired in order to present the net assets at the provisional fair values in accordance with group accounting principles were £13.6m and £5.2m respectively, details of which are set out together with the resultant amount of goodwill arising.

Pearl Topco Limited

	Book value	Provisional fair value adjustments	Fair value
	£'000	£'000	£'000
Tangible fixed assets	50,162	-	50,162
Stock	3,669	-	3,669
Debtors	11,746	(388)	11,358
Cash	7,496	4	7,500
Deferred tax	105	(215)	(110)
Creditors	(32,844)	(3,594)	(36,438)
Provisions	(1,880)	(9,364)	(11,244)
Net assets acquired	38,454	(13,557)	24,897
Goodwill			431,864
			456,761
Satisfied by:			
Cash			452,901
Acquisition expenses			3,860
			456,761

ADP Healthcare Services Limited

	Book value	Provisional fair value adjustments	Fair value
	£'000	£'000	£'000
Tangible fixed assets	9,746	(698)	9,048
Stock	-	1,272	1,272
Debtors	9,769	1,500	11,269
Cash	156	8	164
Deferred tax	(18)	3,759	3,741
Creditors	(17,837)	(4,454)	(22,291)
Provisions	(288)	(6,580)	(6,868)
Net liabilities acquired	1,528	(5,193)	(3,665)
Goodwill			125,433
			121,768
Satisfied by:			
Cash			120,739
Acquisition expenses			1,029
			121,768

Notes to the financial statements *(continued)*

30 Acquisitions *(continued)*

Acquisition of Pearl Topco Limited and ADP Healthcare Services Limited

On 11 May 2011, the company acquired the entire share capital of Pearl Topco Limited for £456,761,000. In the 12 month period to 30 April 2011, Pearl Topco Limited had turnover of £220,434,000, operating profit of £12,902,000 and loss after tax of £14,044,000.

On 11 May 2011, the company acquired the entire share capital of ADP Healthcare Services Limited for £121,768,000. In the 12 month period to 31 March 2011, ADP Healthcare Limited had turnover of £78,754,000, operating loss of £9,654,000 and loss after tax of £19,479,000.

Provisional fair value adjustments

A number of provisional adjustments have been made to the book values of the acquired assets and liabilities to reflect their fair values in accordance with the group's accounting policies. The principle adjustments that have been made are as follows:

- Reduction to the carrying value of tangible fixed assets to reflect the net recoverable value of assets acquired as part of ADP Healthcare Services Limited.
- Recognition of the carrying value of stock in ADP Healthcare Services Limited due to the alignment of stock accounting policies.
- Recognition of a previously unrecognised deferred tax asset arising within ADP Healthcare Services Limited.
- Increase in the carrying value of creditors to recognise pre-acquisition liabilities that have been identified during the period and which were not reflected within the acquired book values.
- Adjustments to provisions reflect costs identified in meeting contractual lease obligations, existing regulations and onerous leases, where the related premises had been vacated prior to 11 May 2011. Provision has also been made to reflect a number of leases acquired where the rents are in excess of current 'market' rates. Please refer to note 18 for further details.

Corporate acquisitions

During the accounting period the group acquired the entire issued share capital of 10 companies, and 75% of the issued share capital of Denture Excellence Limited. None of these acquisitions were material in their own right; the details are shown in aggregate below:

Name of acquisition	Date of acquisition
Salcombe Dental Practice Limited	19 July 2011
Silverdale Dental Care Limited	29 July 2011
Hessle Grange Dental Care Limited	19 August 2011
Priory House Dental Care Limited	19 August 2011
SLS Dental Care Limited	19 August 2011
Hirst and O'Donnell Limited	30 September 2011
Penistone Dental Clinic Limited (now IDH 622 Limited)	09 November 2011
PJ Burridge Limited	23 November 2011
Cromwell Dental Practice Limited	06 December 2011
Orthocentres Limited	11 January 2012
Denture Excellence Limited (75%)	21 February 2012

Notes to the financial statements *(continued)*

30 Acquisitions *(continued)*

***Corporate acquisitions** (continued)*

	Book value	Provisional fair value adjustments	Fair value
	£'000	£'000	£'000
Tangible fixed assets	923	-	923
Stock	44	-	44
Creditors	(421)	-	(421)
Provisions	-	(658)	(658)
Net liabilities acquired	546	(658)	(112)
Goodwill			13,594
			13,482
Satisfied by:			
Cash			12,374
Deferred consideration			353
Acquisition expenses			755
			13,482

Included within the cash consideration are loans made by the acquiring entities to the acquired company in order to settle vendor shareholder loans of £3m.

The adjustment to provisions results from properties where the lease terms upon acquisition are such that rentals payable are in excess of the current market rents. Provision has been made to recognise the liability arising from the "above market rental" element of these leases. Provision has also been made for the costs associated with contractual obligations to return practices to their original condition at the end of the lease and the costs of compliance with existing regulations.

Post balance sheet acquisitions

Since 31 March 2012, the group has acquired two incorporated dental practices for total consideration of £2.5m.

Notes to the financial statements *(continued)*

30 Acquisitions *(continued)*

Unincorporated acquisitions

The group also acquired the businesses of 13 unincorporated dental practices in the period. None of these acquisitions were material in their own right; the details are shown in aggregate below.

	Book value £'000	Provisional fair value adjustments £'000	Fair value £'000
Tangible fixed assets	335	-	335
Stock	5	-	5
Provisions	-	(387)	(387)
Net liabilities acquired	340	(387)	(47)
Goodwill			7,165
			7,118
Satisfied by:			
Cash			6,431
Deferred consideration			148
Acquisition expenses			539
			7,118

Of these acquisitions, 10 were via the acquisition of trade and assets from partnerships, which retain control of the NHS contract. The partners hold their interest in the partnership on behalf of group companies under a deed of trust.

The adjustment to provisions results from properties where the lease terms upon acquisition are such that rentals payable are in excess of the current market rents. Provision has been made to recognise the liability arising from the "above market rental" element of these leases. Provision has also been made for the costs associated with contractual obligations to return practices to their original condition at the end of the lease and the costs of compliance with existing regulations.

Post balance sheet acquisitions

Since 31 March 2012, the group has acquired six unincorporated dental practices for total consideration of £3.8m.

Notes to the financial statements *(continued)*

31 Related party transactions

Bank loans

Certain funds managed by The Carlyle Group are members of the banking syndicate providing facilities to the company. These are considered to be related parties due to common control.

At 31 March 2012, the following amounts were held of the group's senior debt.

	2012 £'000
CELF Loan Partners BV	3,000
CELF Loan Partners II Plc	3,000
CELF Loan Partners III Plc	3,000
CELF Loan Partners IV Plc	8,000
CELF Loan Leveraged Partners BV	3,000
	20,000

Shareholder loans

CEP III IHP S.a.r.l, an entity controlled by The Carlyle Group, and a related party due to common control, hold £254,947,000 of loan notes in the company's subsidiary, Turnstone Midco 1 Limited. During the period to 31 March 2012, interest of £27,241,000 was accrued.

ADP Primary Care Acquisitions Limited, an entity controlled by Palamon Capital Partners and a related party due to common control, holds £59,561,000 of loan notes in the company's subsidiary, Turnstone Midco 1 Limited. During the period to 31 March 2012, interest of £6,364,000 was accrued.

ADP Primary Care Acquisitions Limited also holds preference shares in Turnstone Midco 1 Limited with a par value of £20,000,000. During the period to 31 March 2012, dividends of £2,137,000 were accrued.

32 Controlling party

At 31 March 2012 the immediate parent undertaking of Turnstone Equityco 1 Limited was CEP III IHP S.a.r.l., a company registered in Luxembourg.

No other group financial statements include the results of the group. Turnstone Equityco 1 Limited is the parent undertaking of the smallest and largest group to consolidate these financial statements.

At 31 March 2012 and throughout the period, the ultimate controlling party of Turnstone Equityco 1 Limited is considered by the directors to be CEP III Participations S.a.r.l. SICAR, an investment vehicle for The Carlyle Group.