ARTHUR ANDERSEN

Medical Services International Limited and Subsidiary Undertaking

Financial statements 31 December 1997
together with auditors' and directors' reports

Registration number 1416977

Directors' report

For the year ended 31 December 1997

The directors present their report on the affairs of the group, together with the auditors' reports, for the year ended 31 December 1997.

Principal activities and business review

The group operates and manages a private hospital in London providing general medical facilities and leasing of medical equipment. The directors expect the general level of activity to increase in line with the growth in the private healthcare market.

Results and dividends

The profit for the year was £543,559 (1996 - £1,052,879) . During 1996, rent amounting to £766, 844 was waived by a sister company; during 1997, no amount was waived. The directors do not propose a dividend for the year (1996 - nil.)

Directors

The directors of the company during the year ended 31 December 1997 are as listed below:

Dr. K.J. Zilkha (Chairman)
Dr. K. Hameed
Mr Hugh McGarel-Groves (appointed 15 April 1997)
Mr Alan Baker
Mr Khalaf Al Mazrooei

Directors' interests

The directors do not have any interests in the shares of group companies required to be disclosed under Schedule 7 of the Companies Act 1985.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The group is committed to involving all employees in the performance and development of the group. Employees are encouraged to discuss matters of interest to them, which affect the day-to-day operations of the group, with management. This is achieved through formal and informal meetings.

Supplier payment policy

The group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Directors' report (continued)

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 group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 group 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 group and 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Cromwell Hospital
Cromwell Road
London SW5 0TU

By order of the Board,

Shahid Hameed

K. Hameed
Company secretary

26 November 1998

Auditors' report

London

To the Shareholders of Medical Services International Limited:

We have audited the financial statements on pages 5 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors
As described in their report on pages 1 and 2, 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 financial 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 circumstances of the company and of the group, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 31 December 1997 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

26 November 1998

Consolidated profit and loss account

For the year ended 31 December 1997

	Notes	1997 £	1996 £
Turnover	2	35,200,990	31,516,711
Operating charges	3	(34,696,241)	(30,549,736)
Operating profit for the year		504,749	966,975
Interest receivable		182,908	154,416
Interest payable and similar charges	5	(40,741)	(17,555)
Profit on ordinary activities before taxation		646,916	1,103,836
Tax on profit on ordinary activities	6	(103,357)	(50,957)
Retained profit for the year	14	543,559	1,052,879
Accumulated deficit, brought forward	14	(32,918,720)	(33,971,599)
Accumulated deficit, carried forward		(32,375,161)	(32,918,720)

All turnover and operating profit arose from continuing operations.

The group has no recognised gains or losses in either year other than its profit for that year.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated balance sheet

31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	7	14,644,473	14,430,233
Current assets			
Stocks	8	745,242	680,847
Debtors - due within one year	9	6,224,154	5,008,981
Cash at bank and in hand		3,740,860	2,921,717
		10,710,256	8,611,545
Creditors: Amounts falling due within one year	10	(6,637,380)	(4,867,988)
Net current assets		4,072,876	3,743,557
Total assets less current liabilities		18,717,349	18,173,790
Creditors: Amounts falling due after more than one year	11	(23,092,510)	(23,092,510)
Net liabilities		(4,375,161)	(4,918,720)
Capital and reserves			
Called-up equity share capital	13,14	28,000,000	28,000,000
Accumulated deficit	14	(32,375,161)	(32,918,720)
Total shareholders' deficit	14	(4,375,161)	(4,918,720)

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	7	14,644,473	14,430,233
Current assets			
Stocks	8	745,242	680,847
Debtors - due within one year	9	6,224,154	5,008,981
- due after one year	9	23,500,000	-
Cash at bank and in hand		3,740,860	2,921,717
		34,210,256	8,611,545
Creditors: Amounts falling due within one year	10	(6,649,663)	(4,867,988)
Net current assets		27,560,593	3,743,557
Total assets less current liabilities		42,205,066	18,173,790
Creditors: Amounts falling due after more than one year	11	(46,592,510)	(23,092,510)
Net liabilities		(4,387,444)	(4,918,720)
Capital and reserves			
Called-up equity share capital	13,14	28,000,000	28,000,000
Accumulated deficit	14	(32,387,444)	(32,918,720)
Total shareholders' deficit	14	(4,387,444)	(4,918,720)

By order of the Board

K. Hameed — Chief executive

K.J. Zilkha — Chairman

26 November 1998

The accompanying notes are an integral part of this balance sheet.

Consolidated cash flow

For the year ended 31 December 1997

	Notes	1997 £	1996 £
Net cash inflow from operating activities	15	4,178,563	2,926,050
Returns on investment and servicing of finance	16	142,167	136,861
Taxation	16	(380,909)	(47,861)
Capital expenditure	16	(3,093,790)	(3,553,279)
Cash inflow (outflow) before management of liquid resources and financing		846,031	(538,229)
Financing		(26,888)	-
Increase (Decrease) in cash in the year	17	819,143	(538,229)

The accompanying notes are an integral part of this consolidated cash flow statement.

Notes to financial statements

31 December 1997

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

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

In respect of the going concern basis adopted by the directors, Medical Services International Limited and its subsidiary have a deficit on shareholders' funds at 31 December 1997 of £4,387,444 (1996 - £4,918,720). However, on the basis of the director's assessment of expected 1998 and 1999 operating performance and taking into account the timing of debt maturities (see note 11) they have satisfied themselves that the group is in a position to trade profitability and can meet its financial obligations for the foreseeable future as they fall due. Accordingly, the directors have decided to prepare the financial statements on a going concern basis.

b) Tangible fixed assets

Fixed assets are stated at cost less depreciation.

Depreciation is provided by the straight-line method, based on the estimated useful lives of assets as follows:

Medical equipment	5-12 years
Plant and machinery	10-30 years
Furniture, fixtures and fittings	5-7 years
Motor vehicles	4 years
Computer hardware	4-10 years
Computer software	2-10 years
Leasehold premises	shorter of lease term and estimated useful life.

Depreciation is not provided in respect of leasehold premises with a term greater than 50 years.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the periods of the leases where these are shorter.

c) Stocks

Stocks are valued at the lower of cost and net realisable value after due allowance for any obsolete or slow moving items.

d) Leased assets

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives. Rentals under operating leases are charged on a straight-line basis over the lease terms, even if the payments are not made on such a basis.

Notes to financial statements (continued)

1 Accounting policies (continued)

e) Pension costs and other post retirement benefits

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

f) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the financial statements and by the tax authorities) has been calculated using the liability method. Deferred tax is provided on timing differences, which will probably reverse at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

2 Turnover

Turnover represents the invoiced value of medical and ancillary services rendered to patients in the United Kingdom exclusive of VAT and net of trade discounts.

3 Operating charges

Operating charges include:

	1997 £	1996 £
a) Auditors' remuneration		
i. audit fees	48,000	48,000
ii. non-audit fees	166,703	62,881
b) Depreciation and amounts written off tangible fixed assets	2,841,489	2,022,484
c) Other operating lease expenses	131,441	63,449

Notes to financial statements (continued)

4 Staff costs

The average monthly number of persons employed during the year was as follows:

	1997 Number	1996 Number
Medical	300	294
Other	94	144
	394	438

Their aggregate remuneration comprised:

	1997 £	1996 £
Wages and salaries	13,534,696	12,359,817
Social security costs	857,613	867,202
Other pension costs	239,273	185,656
	14,631,582	13,412,675

Directors' remuneration:

Remuneration

The remuneration of the directors was as follows:

	1997 £	1996 £
Emoluments	375,140	268,107
Company contributions to money purchase pension schemes	21,780	20,000
	396,920	288,107

Pensions

The number of directors who were members of pension schemes was as follows:

	1997 Number	1996 Number
Money purchase schemes	1	1
Defined benefit schemes	1	-
	2	1

Notes to financial statements (continued)

4 Staff costs (continued)

Highest-paid director

The amounts for remuneration noted above include the following in respect of the highest paid director:

	1997	1996
	£	£
Emoluments	247,071	215,107
Company contributions to money purchase schemes	21,780	20,000
	268,851	235,107

5 Interest payable and similar charges

	1997	1996
	£	£
Bank charges	25,577	17,555
Finance leases	15,164	-
	40,741	17,555

6 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1997	1996
	£	£
Corporation tax	103,357	50,957

Notes to financial statements (continued)

7 Tangible fixed assets

	Leasehold premises £	Medical equipment £	Plant and machinery £	Furniture, fixtures and fittings £	Motor vehicles £	Computer software & hardware £	Leased assets £	Group and Company Total £
Cost								
1 January 1997	109,730	11,833,281	14,967,054	4,169,767	33,037	2,516,551	1,797,787	35,427,207
Additions	-	1,286,133		694,765	-	446,636	670,314	3,097,848
Reclassifications	(71,247)	232,133	(186,912)	26,026	-	-	-	-
Disposals	-	(151,916)	(8,761)	(43,314)	(20,980)	(1,046,055)	(45,943)	(1,316,969)
31 December 1997	38,483	13,199,631	14,771,381	4,847,244	12,057	1,917,132	2,422,158	37,208,086
Depreciation								
1 January 1997	-	3,904,182	9,709,141	3,596,220	33,037	1,958,155	1,796,239	20,996,974
Charge	-	1,687,615	318,030	303,207	-	509,566	23,071	2,841,489
Disposals	-	(147,717)	(4,490)	(43,168)	(20,980)	(1,018,084)	(40,412)	(1,274,851)
31 December 1997	-	5,444,080	10,022,681	3,856,259	12,057	1,449,637	1,778,898	22,563,612
Net book value								
1 January 1997	109,730	7,929,099	5,257,913	573,547	-	558,396	1,548	14,430,233
31 December 1997	38,483	7,755,551	4,748,700	990,985	-	467,494	643,260	14,644,473

8 Stocks

The following are included in the net book value of stocks:

	Group and Company 1997 £	Group and Company 1996 £
Medical stocks	745,242	680,847

Notes to financial statements (continued)

9 Debtors

Included within debtors due within one year are:

	Group 1997 £	Group 1996 £	Company 1997 £	Company 1996 £
Trade debtors (net of provisions)	5,744,980	4,572,350	5,744,980	4,572,350
Other debtors	127,166	170,255	127,166	170,255
Prepayments and accrued income	352,009	266,376	352,009	266,376
	6,224,154	5,008,981	6,224,154	5,008,981

Included within debtors due after one year are:

	1997 £	1996 £	1997 £	1996 £
Amounts due from subsidiary undertaking	-	-	23,500,000	-
	-	-	23,500,000	-

10 Creditors: Amounts falling due within one year

Included within creditors falling due within one year are:

	Group 1997 £	Group 1996 £	Company 1997 £	Company 1996 £
Trade creditors	2,578,696	1,786,939	2,578,696	1,786,939
Amounts owed to other group undertakings	434,878	36,257	452,870	36,257
Other creditors				
-UK corporation tax payable	103,357	380,909	97,648	380,909
-social security and PAYE	372,198	354,740	372,198	354,740
VAT	-	184,131	-	184,131
Accruals and deferred income	3,148,251	2,125,012	3,148,251	2,125,012
	6,637,380	4,867,988	6,649,663	4,867,988

Amounts owed to other group undertakings are interest free and have no fixed date for repayment.

Notes to financial statements (continued)

11 Creditors: Amounts falling due after more than one year

Included within creditors falling due after one year are:

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Subordinated loans	23,092,510	19,900,000	23,092,510	19,900,000
Amounts due to parent company	-	3,192,510	-	3,192,510
Amounts due to subsidiary undertaking	-	-	23,500,000	-
	23,092,510	23,092,510	46,592,510	23,092,510

As at 31 December 1996 the parent company had outstanding interest free subordinated loans repayable on 1 January 2000 or such later date as might be agreed between the parent company and the company. The other amount due to the parent company of £3,192,510 was interest free and the terms of its availability were due to be reviewed in 1998.

Following this review, the parent company has reclassified £3,192,510 as subordinated loans. The repayment terms of all interest free subordinated loans has now been extended such that they are repayable on 31 December 2007 or such later date as may be agreed between the parent company and the company.

The amount due to the subsidiary undertaking is unsecured and interest is payable quarterly in arrears at a rate not in excess of 2% above an agreed bank rate. The loan is repayable on demand at any time after 1 September 2017 or at an earlier time as agreed by Borrower and Lender.

12 Provisions for liabilities and charges

In the directors' opinion no provision for deferred taxation is required as any timing differences arising will probably not reverse.

The amount of unprovided deferred taxation is as follows:

	Group		Company	
	1997	1996	1997	1996
	£	£	£	£
Accelerated capital allowances	1,374,933	1,700,601	1,374,933	1,700,601
Tax losses available	-	(208,406)	-	(208,406)
Other timing differences	(59,015)	(129,792)	(59,015)	(129,792)
	1,315,918	1,362,403	1,315,918	1,362,403

Notes to financial statements (continued)

13 Called-up equity share capital

	Group 1997 £	Group 1996 £	Company 1997 £	Company 1996 £
Authorised				
40,000,000 ordinary shares of £1 each	40,000,000	40,000,000	40,000,000	40,000,000
Issued and fully-paid				
28,000,000 ordinary shares of £1 each	28,000,000	28,000,000	28,000,000	28,000,000

14 Reconciliation of movement in shareholders' funds

Group

	Equity share capital £	Profit and loss account £	Total shareholders funds £
Balance at 1 January 1997	28,000,000	(32,918,720)	(4,918,720)
Retained profit for the year	-	543,559	543,559
Balance at 31 December 1997	28,000,000	(32,375,161)	(4,375,161)

Company

	Equity share capital £	Profit and loss account £	Total shareholders funds £
Balance at 1 January 1997	28,000,000	(32,918,720)	(4,918,720)
Retained profit for the year	-	531,276	531,276
Balance at 31 December 1997	28,000,000	(32,387,444)	(4,387,444)

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

	Group 1997 £	Group 1996 £
Operating profit	504,749	966,975
Depreciation charge for the year	2,841,489	2,022,484
Loss on disposal of assets	38,061	139,990
(Increase) in stocks	(64,395)	(1,990)
(Increase) in debtors	(1,215,173)	(499,882)
Increase in creditors	2,073,832	298,473
Net cash inflow from operating activities	4,178,563	2,926,050

Notes to financial statements (continued)

16 Analysis of cash flows

	Group 1997 £	Group 1996 £
Returns on investments and servicing of finance		
Interest received	182,908	154,416
Interest paid	(40,741)	(17,555)
Net cash inflow	142,167	136,861
Taxation		
UK corporation tax paid	(380,909)	(47,861)
Net cash outflow	(380,909)	(47,861)
Capital expenditure		
Purchase of tangible fixed assets	(3,097,847)	(3,563,179)
Sale of tangible fixed assets	4,057	9,900
Net cash outflow	(3,093,790)	(3,553,279)

17 Analysis of changes in net debt during the year

	Group 1997 £	Group 1996 £
Balance at beginning of year	2,921,717	3,459,946
Net cash inflow (outflow)	819,143	(538,229)
Balance at end of year	3,740,860	2,921,717

There were no changes to the net debt position of the company except for the movement on the cash balances shown above.

Notes to financial statements (continued)

18 Guarantees and other financial commitments for Group and Company

a) Lease commitments

The minimum annual commitment under operating leases is as follows:

	Land & buildings		Other operating leases	
	1997	1996	1997	1996
	£	£	£	£
Operating leases expiring:				
- within 1 year	-	-	-	15,839
- between 1-5 years	-	-	45,865	45,674
- after 5 years	1,670,000	1,577,000	23,089	1,936
	1,670,000	1,577,000	68,954	63,449

During 1996, rent of £766,844, included under Land and Buildings above, was waived by a group company; no amount was waived during 1997.

b) Pension arrangements

The group operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. Contributions to the scheme are determined with the advice of independent qualified actuaries on the basis of triennial valuations. The most recent valuation was conducted as at 6 April 1995 using the discounted income method. Principal long term actuarial assumptions used were that the annual increases in pensions and salaries would be 7% and 3% respectively.

The valuation showed that using the discounted income method the value of the scheme's assets were £2,227,000 and the actuarial value of those assets represented 98% of the benefits due to members.

To eliminate the deficit, employers' contributions were increased from 8.1% to 8.7% in March 1996. The actuary has confirmed that this is an acceptable solution. No material variation will arise in the financial statements of the group based on this deficit.

The pension cost charge for the year was £ 239,273 (1996 - £ 185,656).

The most recent actuarial valuation was completed prior to the announcement in the Budget that pension schemes will be unable to reclaim tax credits on UK dividends. The directors' view, based on initial actuarial advice, is that reflection of this new factor would not significantly alter the pension charge for the period and the amounts in the balance sheet at 31 December 1997. The directors are considering the implications of the Budget for future funding of the pension scheme and the associated costs to the group.

Notes to financial statements (continued)

18 Guarantees and other financial commitments for Group and Company (continued)

c) Capital commitments

Authorised future capital expenditure amounted to:

	1997	1996
	£	£
Contracted but not provided for	3,479,252	239,681

19 Ultimate parent company

The company's ultimate parent company is IMC Holdings (Grand Cayman) Limited, a company incorporated in Grand Cayman, British West Indies and located at the Bank of Nova Scotia Building, George Town, Grand Cayman.

The financial statements of this company are not available to the public.

The following statement does not form part of the audited statutory financial statements of the company.