

Health & Care Services (UK) Limited

Annual report for the period ended 31 December 1997

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Directors and advisers

Executive directors

J L Adams
M A Stratford

Registered auditors

Coopers & Lybrand
Temple Court
35 Bull Street
Birmingham
B4 6JT

Solicitors

Simon Bishop & Partners
"Hillcairnie"
St Andrew's Road
Droitwich
Hereford & Worcester
WR9 8DJ

Secretary and registered office

S J Bishop
"Hillcairnie"
St Andrew's Road
Droitwich
Hereford & Worcester
WR9 8DJ

Bankers

National Westminster Bank plc
Cheltenham & Gloucester
Business Centre
68-70 Suffolk Road
Cheltenham
Gloucestershire
GL50 2ED

**Directors' report
for the period ended 31 December 1997**

The directors present their report and the audited financial statements for the period ended 31 December 1997.

Principal activity

The principal activity of the company continues to be the operation of a nursing home.

Parent company

The company is a wholly owned subsidiary of Craegmoor Healthcare Company Limited. The company was acquired by Craegmoor Healthcare Company Limited on 4 February 1997 and changed its year end to 31 December in line with that company.

Review of business

Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend for the 47 weeks ended 31 December 1997 (57 weeks ended 4 February 1997: £422,310), and recommend that the profit for the period ended 31 December 1997 of £1,202,911 (period ended 4 February 1997: Loss of £76,169) be transferred to reserves.

Directors

The directors of the company during the period ended 31 December 1997 are shown on page 1.

Directors' report for the period ended 31 December 1997

Directors' interests

All of the directors are directors of the immediate parent company, Craegmoor Healthcare Company Limited, and their share interests are shown in the directors' report of that company.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1997. The directors also confirm that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Changes in fixed assets

The movements in fixed assets during the year are set out in note 11 to the financial statements. The directors consider there to be no significant difference between the market value of the company's freehold land and buildings and their book value.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



S J Bishop
Company secretary
30 April 1998

**Report of the auditors to the members of
Health & Care Services (Yorks) Limited**

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

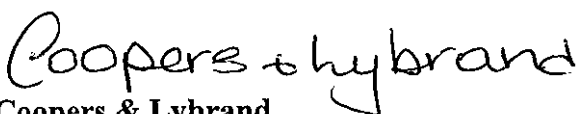
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1997 and of its profit and total recognised gains for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditors

Birmingham

30 April 1998

Profit and loss account for the period ended 31 December 1997

| | Notes | 47 weeks ended 31 December 1997 £ | 57 weeks ended 4 February 1997 £ |
|--|-------|--|---|
| Turnover - continuing operations | 2 | 4,254,252 | 4,812,730 |
| Cost of sales - continuing operations | | (1,987,828) | (2,418,743) |
| Gross profit - continuing operations | | 2,266,424 | 2,393,987 |
| Administrative expenses - continuing operations | | (466,730) | (2,380,624) |
| Other operating income | 4 | - | 355,868 |
| Operating profit - continuing operations | | 1,799,694 | 369,231 |
| Income from shares in subsidiary undertakings | | - | 380,000 |
| Interest receivable and similar income | 6 | 3,234 | 14,781 |
| Interest payable and similar costs | 7 | - | (182,848) |
| Profit on ordinary activities before taxation | 8 | 1,802,928 | 581,164 |
| Tax on profit on ordinary activities | 9 | (600,017) | (235,023) |
| Profit for the financial period | | 1,202,911 | 346,141 |
| Dividends | 10 | - | (422,310) |
| Retained profit/(loss) for the period | 19 | 1,202,911 | (76,169) |

The comparatives have been reclassified to conform with the presentation adopted in the current year, which the Directors consider to be more meaningful.

Statement of total recognised gains and losses

| | Notes | 47 weeks ended 31 December 1997 £ | 57 weeks ended 4 February 1997 £ |
|--|-------|--|---|
| Profit for the financial period | 19 | 1,272,412 | 346,141 |
| Unrealised surplus on revaluation of freehold land and buildings | 19 | 5,470,720 | - |
| | | <hr/> | <hr/> |
| Total gains and losses recognised since last annual report | | 6,743,132 | 346,141 |
| | | <hr/> | <hr/> |

Note of historical cost profits and losses

| | £ | £ |
|---|-----------|---------|
| Reported profits on ordinary activities before taxation | 1,802,929 | 581,164 |
| Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount. | 97,448 | - |
| | <hr/> | <hr/> |
| Historical cost profit on ordinary activities before taxation | 1,900,377 | 581,164 |
| | <hr/> | <hr/> |
| Historical cost profit for the period after taxation | 1,369,860 | 346,141 |
| | <hr/> | <hr/> |

Health & Care Services (UK) Limited

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Balance sheet at 31 December 1997

| | Notes | 31 December 1997 | 4 February 1997 |
|--|-------|---------------------|--------------------|
| | | £ | £ |
| Fixed assets | | | |
| Tangible assets | 11 | 9,433,630 | 3,367,752 |
| Investments | 12 | 230,001 | 230,001 |
| | | <hr/> | <hr/> |
| | | 9,663,631 | 3,597,753 |
| Current assets | | | |
| Stocks | 13 | 3,650 | 3,650 |
| Debtors | 14 | 2,432,286 | 1,047,271 |
| Cash at bank and in hand | | 444,125 | 47,789 |
| | | <hr/> | <hr/> |
| | | 2,880,061 | 1,098,710 |
| Creditors: amounts falling due within one year | 15 | (1,250,857) | (718,941) |
| | | <hr/> | <hr/> |
| Net current assets | | 1,629,204 | 379,769 |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | 11,292,835 | 3,977,522 |
| Creditors: amounts falling due after more than one year | 16 | (3,726,450) | (3,084,768) |
| Provisions for liabilities and charges | 17 | (69,500) | (69,500) |
| | | <hr/> | <hr/> |
| Net assets | | 7,496,885 | 823,254 |
| | | <hr/> | <hr/> |
| Capital and Reserves | | | |
| Called up share capital | 18 | 601,300 | 601,300 |
| Share premium account | | 176,700 | 176,700 |
| Revaluation reserve | 19 | 5,470,720 | - |
| Capital redemption reserve | | 43,300 | 43,300 |
| Profit and loss account | 19 | 1,204,865 | 1,954 |
| | | <hr/> | <hr/> |
| Equity shareholders' funds | 20 | 7,496,885 | 823,254 |
| | | <hr/> | <hr/> |

The financial statements on pages 5 to 18 were approved by the board of directors on 30 April 1998 and were signed on its behalf by:

M A Stratford
Director

M.A. Stratford

Notes to the financial statements for the period ended 31 December 1997

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The comparatives have been restated in order that they are in line with group treatment. A summary of the more important accounting policies, which have been applied consistently, except as indicated, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Land and buildings are stated at valuations made by directors based on valuations made by independent professionally qualified valuers on an existing use open market value basis. Land and buildings are revalued by professionally qualified valuers every five years and in the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets less their estimated residual values, on the following basis:

| | |
|-----------------------------------|-----------------------------|
| Freehold land and buildings | 2% straight line method |
| Furniture, fittings and equipment | 15% reducing balance method |
| Motor vehicles | 25% straight line method |

The company changed the rate of depreciation for furniture, fittings and equipment from 25% reducing balance to 15% reducing balance. The company also changed the rate of depreciation on motor vehicles from 25% reducing balance to 25% straight line. In the directors' opinion this rate of depreciation more accurately reflects the remaining useful lives of these assets. The effect of this change on the reported profits for the year is considered to be immaterial.

1 Principal accounting policies (continued)**Operating leases**

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks

Stocks are stated at lower of cost and net realisable value.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallise.

Cash flow statement

The company is a wholly owned subsidiary of Craegmoor Healthcare Company Limited and its cash flows are included in the consolidated group cash flow statement of the parent company. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cash flow statement.

2 Turnover

Turnover which excludes value added tax consists entirely of fee income charged for the period in the United Kingdom.

3 Directors' emoluments

Directors' emoluments for the period ended 31 December 1997 were Nil (57 weeks ended 4 February 1997: £675,122).

4 Other operating income

| | 47 weeks ended 31 December 1997 | 57 weeks ended 4 February 1997 |
|--------------------|---------------------------------------|--------------------------------------|
| | £ | £ |
| Grants received | - | 12,442 |
| Other | - | 4,926 |
| Management Charges | - | 338,500 |
| | <hr/> | <hr/> |
| | - | 355,868 |
| | <hr/> | <hr/> |

5 Employee information

The average weekly number of persons (including executive directors) employed by the company during the year was as shown below. Comparatives are not available due to the company taking advantage of small company exceptions last year.

| | 47 weeks ended 31 December 1997 Number | 57 weeks ended 4 February 1997 Number |
|---|---|--|
| Nursing, ancillary and administrative staff | 231 | 229 |
| | <u>£</u> | <u>£</u> |
| Staff costs (for the above persons) | | |
| Wages and salaries | 1,683,745 | 2,308,531 |
| Social security costs | 115,103 | 148,979 |
| Other pension costs | - | 94,850 |
| | <u>1,798,848</u> | <u>2,552,360</u> |

6 Interest receivable and similar income

| | 47 weeks ended 31 December 1997 £ | 57 weeks ended 4 February 1997 £ |
|------------------------|---|--|
| Bank interest received | 3,234 | 14,781 |
| | <u>3,234</u> | <u>14,781</u> |

7 Interest payable and similar charges

| | 47 weeks ended 31 December 1997 | 57 weeks ended 4 February 1997 |
|--|---------------------------------------|--------------------------------------|
| | £ | £ |
| Bank loan partly repayable in more than five years | - | 179,258 |
| Finance charges - finance leases and hire purchase contracts | - | 3,100 |
| Other interest payable | - | 490 |
| | <hr/> | <hr/> |
| | - | 182,848 |
| | <hr/> | <hr/> |

8 Profit on ordinary activities before taxation

| | £ | £ |
|---|---------|---------|
| Profit on ordinary activities before taxation is stated after | | |
| Depreciation charge for the year: | | |
| Tangible owned fixed assets | 219,688 | 186,484 |
| Auditors' remuneration for: | | |
| Audit | 6,500 | 6,500 |
| Hire of assets | 4,000 | 16,448 |
| | <hr/> | <hr/> |

9 Tax on profit on ordinary activities

| | 47 weeks ended 31 December 1997 £ | 57 weeks ended 4 February 1997 £ |
|--|--|---|
| United Kingdom corporation tax at 31.5% (Period ended 4 February 1997: 33%): | | |
| Current | 600,000 | 206,200 |
| Deferred | - | 50,850 |
| Over/(under) provision in respect of previous year's | 17 | (22,027) |
| | <u>600,017</u> | <u>235,023</u> |
| | <u><u>600,017</u></u> | <u><u>235,023</u></u> |

10 Dividends

| | £ | £ |
|---|-----------------|-----------------------|
| Ordinary dividends paid (1996: 16.6p per share) | - | 100,010 |
| Stock option dividend | - | 322,300 |
| | <u>-</u> | <u>422,310</u> |
| | <u><u>-</u></u> | <u><u>422,310</u></u> |

11 Tangible fixed assets

| | Freehold land and buildings | Furniture and fittings | Motor vehicles | Total |
|--|--------------------------------|---------------------------|-------------------|-------------------|
| | £ | £ | £ | £ |
| Cost or valuation | | | | |
| At 5 February 1997 | 3,259,287 | 581,925 | 83,144 | 3,924,356 |
| Additions | 643,737 | 137,227 | 37,528 | 818,492 |
| Inter group transfers | - | - | (5,862) | (5,862) |
| Disposals | - | (947) | (7,905) | (8,852) |
| Revaluations | 5,319,661 | - | - | 5,319,661 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1997 | 9,222,685 | 718,205 | 106,905 | 10,047,795 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Depreciation | | | | |
| At 5 February 1997 | 151,059 | 350,812 | 54,733 | 556,604 |
| Inter group transfers | - | - | (4,190) | (4,190) |
| Charge for period | 153,703 | 58,748 | 7,237 | 219,688 |
| Disposals | - | (555) | (6,323) | (6,878) |
| Revaluations | (151,059) | - | - | (151,059) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1997 | 153,703 | 409,005 | 51,457 | 614,165 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Net book value | | | | |
| At 31 December 1997 | 9,068,982 | 309,200 | 55,448 | 9,433,630 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 4 February 1997 | 3,108,228 | 231,113 | 28,411 | 3,367,752 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | £ | £ | £ | £ |
| Cost or valuation at 31 December 1997 | | | | |
| Valuation in period | 9,222,685 | - | - | 9,222,685 |
| Cost | - | 718,205 | 106,905 | 825,110 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 9,222,685 | 718,205 | 106,905 | 10,047,795 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

11 Tangible fixed assets

| | Freehold land and buildings | Furniture and fittings | Motor vehicles | Total |
|--|--------------------------------|---------------------------|-------------------|-------------------|
| | £ | £ | £ | £ |
| Cost or valuation | | | | |
| At 5 February 1997 | 3,259,287 | 581,925 | 83,144 | 3,924,356 |
| Additions | 643,737 | 137,227 | 37,528 | 818,492 |
| Inter group transfers | - | - | (5,862) | (5,862) |
| Disposals | - | (947) | (7,905) | (8,852) |
| Revaluations | 5,319,661 | - | - | 5,319,661 |
| At 31 December 1997 | 9,222,685 | 718,205 | 106,905 | 10,047,795 |
| Depreciation | | | | |
| At 5 February 1997 | 151,059 | 350,812 | 54,733 | 556,604 |
| Inter group transfers | - | - | (4,190) | (4,190) |
| Charge for period | 153,703 | 58,748 | 7,237 | 219,688 |
| Disposals | - | (555) | (6,323) | (6,878) |
| Revaluations | (151,059) | - | - | (151,059) |
| At 31 December 1997 | 153,703 | 409,005 | 51,457 | 614,165 |
| Net book value | | | | |
| At 31 December 1997 | 9,068,982 | 309,200 | 55,448 | 9,433,630 |
| At 4 February 1997 | 3,108,228 | 231,113 | 28,411 | 3,367,752 |
| | £ | £ | £ | £ |
| Cost or valuation at 31 December 1997 | | | | |
| Valuation in period | 9,222,685 | - | - | 9,222,685 |
| Cost | - | 718,205 | 106,905 | 825,110 |
| | 9,222,685 | 718,205 | 106,905 | 10,047,795 |

11 Tangible fixed assets (continued)

The land and buildings were re-valued independently as at 4th February 1997 using an open market value for existing use basis. This valuation was undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom by Matthews & Goodman, a firm of independent chartered surveyors.

If land and buildings had not been revalued they would have been included at the amounts shown in the section headed Cost or Valuation at 31 December 1997 above.

If freehold land and buildings had not been revalued they would have been included at the following amounts:

| | 1997 |
|--------------------------------------|-----------|
| | £ |
| Cost | 3,903,024 |
| Aggregate depreciation based on cost | (208,820) |
| | <hr/> |
| Net book value based on cost | 3,694,204 |
| | <hr/> |

12 Investments

| | 31 December 1997 | 4 February 1997 |
|---|---------------------|--------------------|
| | £ | £ |
| Shares in subsidiary undertakings at cost | 230,001 | 230,001 |
| | <hr/> | <hr/> |

The company's subsidiary undertakings are as follows:-

Health & Care Services (NW) Limited
Health & Care Services (Yorks) Limited
Health & Care Services (Humbs) Limited
Concept Care Limited

All of the above companies are incorporated in Great Britain and all are held by the company itself with the exception of 0.1% of the shares in Concept Care Limited, which are held by another subsidiary undertaking.

13 Stock

| | 31 December 1997 | 4 February 1997 |
|-------------|---------------------|--------------------|
| | £ | £ |
| Consumables | 3,650 | 3,650 |
| | <u> </u> | <u> </u> |

14 Debtors

| | £ | £ |
|---|-------------------|-------------------|
| Amounts falling due within one year | | |
| Trade debtors | 202,302 | 309,389 |
| Amounts owed by group undertakings | 1,980,939 | 289,034 |
| Corporation tax repayable | 52,194 | 52,194 |
| Other debtors | 1,204 | 3,356 |
| Prepayments and accrued income | 195,647 | 13,298 |
| | <u> </u> | <u> </u> |
| | 2,432,286 | 667,271 |
| Amounts falling due after more than one year | | |
| Amount due from subsidiary undertaking | - | 380,000 |
| | <u> </u> | <u> </u> |
| | 2,432,286 | 1,047,271 |
| | <u> </u> | <u> </u> |

15 Creditors: amounts falling due within one year

| | 31 December 1997 | 4 February 1997 |
|---|---------------------|--------------------|
| | £ | £ |
| Trade creditors | 40,046 | 189,755 |
| Corporation tax | 594,794 | 91,977 |
| Other taxation and social security | 307 | 50,544 |
| Accruals and deferred income | 231,720 | 184,055 |
| Amounts owed to subsidiary undertakings | 383,990 | 202,610 |
| | <u>1,250,857</u> | <u>718,941</u> |

16 Creditors: amounts falling due after more than one year

| | £ | £ |
|--|------------------|------------------|
| Amounts owed to immediate parent company | 3,726,450 | 3,084,768 |
| | <u>3,726,450</u> | <u>3,084,768</u> |

Amounts owed to the immediate parent company comprise an interest free loan. There are no defined repayment terms but the immediate parent company has confirmed to the directors of the company that it will not seek any repayments of this loan within the next 12 months.

17 Provisions for liabilities and charges

| | Deferred taxation |
|---|----------------------|
| | £ |
| At 5 February 1997 and 31 December 1997 | 69,500 |
| | <u>69,500</u> |

17 Provisions for liabilities and charges - continued

Deferred taxation provided in the financial statements and the amount unprovided of the total potential liability, are as follows:

| | Amount provided | | Amount unprovided | |
|--|---------------------|--------------------|---------------------|--------------------|
| | 31 December 1997 | 4 February 1997 | 31 December 1997 | 4 February 1997 |
| | £ | £ | £ | £ |
| Tax effect of timing differences because of: | | | | |
| Excess capital allowances over depreciation | 69,500 | 69,500 | 13,487 | - |
| Revaluation surplus | - | - | 1,600,000 | - |
| | <u>69,500</u> | <u>69,500</u> | <u>1,613,487</u> | <u>-</u> |

18 Called up share capital

| | 31 December 1997 | 4 February 1997 |
|---|---------------------|--------------------|
| | £ | £ |
| Authorised | | |
| ordinary shares of £1 each | 700,000 | 700,000 |
| | <u>700,000</u> | <u>700,000</u> |
| Allotted, called up and fully paid | | |
| ordinary shares of £1 each | 601,300 | 601,300 |
| | <u>601,300</u> | <u>601,300</u> |

19 Reserves

| | Revaluation reserve | Profit & loss account |
|----------------------------------|------------------------|-----------------------------|
| | £ | £ |
| At 5 February 1997 | - | 1,954 |
| Retained profit for the period | - | 1,202,911 |
| Surplus on property revaluations | 5,470,720 | - |
| | <u>5,470,720</u> | <u>1,204,865</u> |
| At 31 December 1997 | <u>5,470,720</u> | <u>1,204,865</u> |

20 Reconciliation of movement in shareholders' funds

| | 31 December 1997 | 4 February 1997 |
|---|---------------------|--------------------|
| | £ | £ |
| Opening shareholders' funds | 823,254 | 1,085,898 |
| Profit for the financial period | 1,202,911 | 346,141 |
| Dividends | - | (422,310) |
| Shares issued during the period | - | 322,300 |
| Purchase of own shares | - | (508,775) |
| | <hr/> | <hr/> |
| | 2,026,165 | 823,254 |
| Other recognised gains relating to the period | 5,470,720 | - |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 7,496,885 | 823,254 |
| | <hr/> | <hr/> |

21 Capital commitments

There were no capital commitments at 31 December 1997 (4 February 1997: £4,869).

22 Contingent liability

There is a fixed and floating charge over the property, undertaking and assets of the company in respect of a loan from Craegmoor Finance PLC to Parkcare Homes Limited under the Parkcare/Issuer Loan Agreement dated 20 December 1996. Craegmoor Finance PLC and Parkcare Homes Limited are fellow subsidiaries of the company.

23 Related party transactions

The company has taken advantage of the exemption granted under Paragraph 3(c) of FRS8 and not disclosed any transactions with group companies.

24 Immediate and ultimate parent companies

The directors regard Craegmoor Healthcare Company Limited, a company registered in England and Wales, as the immediate parent company. Copies of the immediate parent company's consolidated financial statements may be obtained from The Secretary, Craegmoor Healthcare Company Limited, "Hillcainie", St Andrew's Road, Droitwich, Hereford and Worcester WR9 8DJ. The directors regard Warburg Pincus LP, a limited partnership incorporated in the United States of America, as the ultimate parent company. Copies of the ultimate parent company's financial statements are not available to the public.