

**Deloitte &
Touche**

Deloitte Touche
Tohmatsu



Company Registration No. 3353201

TOTAL RENAL CARE (UK) LIMITED

Report and Financial Statements

Year ended 30 November 1998

**Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR**



**REPORT AND FINANCIAL STATEMENTS 1998**

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REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J R W Ansdell	(resigned 1 April 1999)
V M G Chaltiel	
L Frie	
P H Easterman	(appointed 1 April 1999)
C J Sandham	

SECRETARY

P D A Green

REGISTERED OFFICE

Broadwater Park
Denham
Uxbridge
Middlesex UB9 5HP

BANKERS

The Royal Bank of Scotland plc
London City Office
62-63 Threadneedle Street
London EC2R 8LA

SOLICITORS

Eversheds
1 Royal Standard Place
Nottingham
NG1 6FZ

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 30 November 1998.

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of dialysis and related services to certain UK Health Authorities and Trusts.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Both the level of business and the year end financial position were satisfactory. The directors continue to seek new opportunities for expansion and development of the business.

RESULTS AND DIVIDENDS

The loss for the year attributable to shareholders amounts to £19,644 (1997 - profit £5,734). The directors do not recommend the payment of a dividend (1997 - £nil).

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the year ended 30 November 1998 are those listed on page 1. No director held any interests in the share capital of the company during the year.

The directors' interests in the ultimate parent company are shown in that company's financial statements.

YEAR 2000

During the course of the year the Board appointed a Year 2000 Project Manager, reporting to the Finance Director, to identify areas of exposure to Year 2000 risks and, once identified, to formulate and implement solutions.

As part of the review, all hardware and software in use within the Company has been assessed. The Company's major IT systems are fully Year 2000 compliant. Peripheral areas where non compliance has been identified are being dealt with, and equipment replaced, as part of normal business upgrades.

The Company is reviewing its exposure to all significant suppliers at each of its locations and is developing appropriate contingency measures.

It is impossible to determine the costs of the above review, and any necessary rectification work identified, at this stage; however it is estimated that these costs will not be material.

AUDITORS

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

Approved by the Board of Directors
and signed on behalf of the Board

P D A Green
Secretary

22nd June

1999

**STATEMENT OF 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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

P D A Green
Secretary

22nd June

1999



AUDITORS' REPORT TO THE MEMBERS OF TOTAL RENAL CARE (UK) LIMITED

We have audited the financial statements on pages 5 to 12 which have been prepared under the accounting policies set out on page 7.

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 as at 30 November 1998 and of its loss for the year ended 30 November 1998 and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and
Registered Auditors

24 June 1999


PROFIT AND LOSS ACCOUNT
Year ended 30 November 1998

	Note	Year ended 30 November 1998 £	Period from 10 April 1997 to 30 November 1997 £
TURNOVER	2	1,935,189	287,225
Cost of sales		(1,269,029)	(146,256)
GROSS PROFIT		666,160	140,969
Administrative expenses		(674,450)	(135,173)
OPERATING (LOSS)/PROFIT	3	(8,290)	5,796
Bank interest receivable		12,787	4,179
7% loan note interest payable	10	(3,894)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		603	9,975
Tax on profit on ordinary activities	5	(20,247)	(4,241)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(19,644)	5,734
RETAINED (LOSS)/PROFIT FOR THE PERIOD	13	(19,644)	5,734

All turnover and operating (loss)/profit derives from the principal continuing activity of the company.

There were no other recognised gains or losses relating to the current and preceding financial periods and, accordingly, a statement of total recognised gains and losses has not been presented.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 30 November 1998 £	Period from 10 April 1997 to 30 November 1997 £
Shareholders' funds at 1 December/10 April	1,863,499	-
Retained (loss)/profit for the year/period	(19,644)	5,734
A shares issued	-	910,305
B shares issued	-	947,460
Shareholders' funds at 30 November	1,843,855	1,863,499


**BALANCE SHEET
30 November 1998**

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	6	2,054,681	909,084
CURRENT ASSETS			
Stocks		47,443	44,417
Debtors	7	298,056	815,401
Cash at bank and in hand		91,814	343,234
		<u>437,313</u>	<u>1,203,052</u>
CREDITORS: amounts falling due within one year			
Trade and other creditors	8	(323,176)	(229,142)
Amounts owed to holding company	9	(3,894)	(17,570)
		<u>(327,070)</u>	<u>(246,712)</u>
NET CURRENT ASSETS		<u>110,243</u>	<u>956,340</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,164,924</u>	<u>1,865,424</u>
CREDITORS: amounts falling due after more than one year	10	(300,000)	-
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	11	(21,069)	(1,925)
TOTAL ASSETS LESS LIABILITIES		<u>1,843,855</u>	<u>1,863,499</u>
CAPITAL AND RESERVES			
Called up share capital	12	1,857,765	1,857,765
Profit and loss account	13	(13,910)	5,734
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>1,843,855</u>	<u>1,863,499</u>

These financial statements were approved by the Board of Directors on 22nd June 1999.

Signed on behalf of the Board of Directors

P H Easterman
Director



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

1. ACCOUNTING POLICIES

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

Depreciation

The cost of fixed assets is written off by equal instalments over their expected useful lives as follows:

Leasehold improvements	7 to 25 years
Fixtures, fitting and equipment	5 to 10 years

Capital work in progress

Capital work in progress comprises expenditure on capital projects in the course of construction. On completion, each project is capitalised and depreciated in accordance with the company's depreciation policies.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Pensions

The company operates a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

2. TURNOVER

Turnover comprises the invoice value of services supplied by the company excluding VAT. All services have been carried out in the United Kingdom and relate to the principal activities of the company.

3. OPERATING (LOSS)/PROFIT

This is stated after charging:

	Year ended 30 November 1998 £	Period from 10 April 1997 to 30 November 1997 £
Depreciation	178,888	23,067
Auditors' remuneration		
- audit services	3,479	233
Operating lease charges		
- hire of plant and machinery	3,507	296



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no remuneration for their services as directors of the company (1997: £nil).

	Year ended 30 November 1998 No.	Period from 10 April 1997 to 30 November 1997 No.
Average number of persons employed:		
Medical and nursing	48	37
	£	£
Staff costs during the period:		
Wages and salaries	667,610	90,591
Social security costs	59,748	8,264
Pension costs	13,234	3,079
	740,592	101,934

5. TAXATION

	Year ended 30 November 1998 £	Period from 10 April 1997 to 30 November 1997 £
United Kingdom corporation tax provided at 31%	-	2,316
Adjustments in respect of prior years	1,103	-
Deferred taxation	19,144	1,925
	20,247	4,241



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

6. TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Fixtures and fittings £	Capital work in progress £	Total £
Cost				
At 1 December 1997	489,159	997,707	22,994	1,509,860
Additions	922,240	407,241	6,521	1,336,002
Disposals	(11,750)	-	-	(11,750)
Transfers	22,994	-	(22,994)	-
At 30 November 1998	1,422,643	1,404,948	6,521	2,834,112
Depreciation				
At 1 December 1997	139,334	461,442	-	600,776
Charge for the year	32,261	146,627	-	178,888
Disposals	(233)	-	-	(233)
At 30 November 1998	171,362	608,069	-	779,431
Net book value				
At 30 November 1998	1,251,281	796,879	6,521	2,054,681
At 30 November 1997	349,825	536,265	22,994	909,084

7. DEBTORS

	1998 £	1997 £
Trade debtors	273,470	160,605
Prepayments and accrued income	24,586	7,338
Called up share capital not paid	-	647,458
	298,056	815,401

8. TRADE AND OTHER CREDITORS

	1998 £	1997 £
Trade creditors	300,844	202,125
Corporation tax payable	-	2,316
Taxation and social security	22,332	24,701
	323,176	229,142

9. AMOUNTS OWED TO HOLDING COMPANY AND FELLOW SUBSIDIARIES

	1998 £	1997 £
Amounts owed to ultimate parent company	3,894	17,570



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

10. 7% LOAN NOTES 2012

During the year, the company issued £300,000 of the maximum £1,600,000 7% Loan Notes 2012 to Total Renal Care International Limited, a fellow subsidiary. The company can call up to a maximum of £1,600,000 7% loan notes 2012 as expansion requires. The loan notes are repayable in full on 19 September 2012. Interest is payable quarterly in arrears.

11. DEFERRED TAXATION

Deferred taxation is in respect of timing differences resulting from accelerated capital allowances less unrelieved tax losses as follows:

	1998 £	1997 £
At 1 December/10 April	1,925	-
Current year charge	19,144	1,925
At 30 November	21,069	1,925
Accelerated capital allowances	25,834	1,925
Unrelieved tax losses	(4,765)	-
	21,069	1,925

12. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised share capital:		
910,305 "A" ordinary shares of £1 each	910,305	910,305
947,460 "B" ordinary shares of £1 each	947,460	947,460
	1,857,765	1,857,765
Issued share capital:		
Called up, allotted and fully paid		
910,305 "A" ordinary shares of £1 each	910,305	910,305
Called up, allotted and fully paid		
947,460 "B" ordinary shares of £1 each	947,460	947,460
	1,857,765	1,857,765

During the year the unpaid portion of the "B" ordinary shares, £647,458 at 30 November 1997, was paid in as the company's expansion required.

A and B shares rank pari passu in all respects.



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

13. RESERVES

	Profit and loss account	
	1998	1997
	£	£
At 1 December/10 April	5,734	-
Retained (loss)/profit for the period	(19,644)	5,734
At 30 November	<u>(13,910)</u>	<u>5,734</u>

14. FINANCIAL COMMITMENTS

At 30 November the following capital expenditure has been authorised:

	1998	1997
	£	£
Contracted	<u>-</u>	<u>935,000</u>

15. PENSION COMMITMENTS

The company operates a defined contribution pension scheme for its employees. The assets of this scheme are held separately from those of the company in an independently administered fund. The company's contribution for 1998 was £13,234 (1997: £3,079).

16. CASH FLOW

The company has taken advantage of the exemption granted by FRS1 (revised) as a wholly owned subsidiary undertaking of Total Renal Care Holdings, Inc. a company incorporated in the United States of America, whose consolidated financial statements are publicly available.

17. RELATED PARTY TRANSACTIONS

Transactions with shareholders

On 19 September 1997 the company acquired the assets and undertakings of the Community Dialysis Services business of Priory Healthcare Limited in consideration for 910,305 "A" ordinary shares of £1 each.

On the same day the company entered into an agreement with Total Renal Care, Inc, an American corporation registered in California, USA whereby Total Renal Care, Inc, was to subscribe for £947,460 "B" ordinary shares of £1 each and provide through an intermediate holding company, Total Renal Care International, Limited, up to an additional £1,600,000 by way of 7% Loan Notes to fund the company as its expansion requires (see note 10).

As of 30 November 1998 all the 947,460 "B" ordinary shares of £1 each were fully paid, and £300,000 of 7% Loan Notes had been issued to fund the company's expansion.



NOTES TO THE ACCOUNTS
Year ended 30 November 1998

18. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling entity is Total Renal Care Holdings, Inc, a company incorporated in the United States of America. Copies of the group accounts can be obtained from its registered office at:

21250 Hawthorne Boulevard
Suite 800
Torrance
California 90503-5517
United States of America.