

HCI (Scotland) Limited

**Annual report
for the year ended 31 December 1998**

Registered No. 154662



HCI (Scotland) Limited

Annual report for the year ended 31 December 1998

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Directors and advisers

Directors

Hareb Al Darmaki
Amjed Al-Jaffery (appointed 3 July 1998)

Registered Auditors

PricewaterhouseCoopers
Kintyre House
209 West George Street
GLASGOW
G2 2LW

Secretary and registered office

Dundas & Wilson CS
Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EN

Solicitors

Dundas & Wilson
Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EN

Bankers

The Royal Bank of Scotland plc
Clydebank Branch
30 Sylvania Way South
Clyde Regional Centre
CLYDEBANK
G81 1TS

**Directors' report
for the year ended 31 December 1998**

The directors present their report and the audited financial statements for the year ended 31 December 1998

Principal activity

The principal activity of the company is the provision of hospital and healthcare services.

Review of business

The results for the year are set out in the profit and loss account on page 7.

Turnover for the year of £10.6m represented an increase of 12% over the previous year and the loss for the year of £9.3m was 37% less than the previous year by £5.5m.

Aggregate losses incurred to the 31 December 1998 give rise to a negative balance on equity shareholders' funds of £54.9m. However, this deficit has been funded by shareholders' loans and the shareholders have continued to support the business throughout 1998.

Dividends and reserves

The directors are unable to recommend the payment of a dividend. The loss for the financial year of £9,293,823 has been carried forward.

Directors

The directors of the company at 31 December 1998, both of whom have been directors for the whole of the year except where stated, are noted on page 1.

Directors' interests

The directors have no beneficial interest in the shares of the company.

Directors' responsibilities statement

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

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 year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and 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.

Basis of preparing the financial statements

During the year the company incurred a loss of £9,293,823 and at the balance sheet date its current liabilities exceed its current assets by £57,959,685. The company relies on its ultimate parent company for financial support which has been provided by loans to fellow subsidiaries. These loans are classified as current liabilities, being technically repayable on demand. On the basis of current forecasts the directors believe that the parent company will not require early repayment of these loans and the company will continue trading for the foreseeable future. However, written confirmation of continuing support has not been received from the parent company.

The financial statements have been prepared on a going concern basis which assumes that the group will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continued support of the ultimate parent company for the foreseeable future which is in turn dependant on the achievement of current trading projections.

If the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts and to provide for any further liabilities that may arise. Whilst the directors are presently uncertain as to the outcome of the matters mentioned above he believes that it is appropriate for the financial statements to be prepared on a going concern basis.

The directors wish to emphasise that funding facilities have been made available to the company during the period 1 January 1998 to the date of signing these accounts.

Employees

The company's policy is to consult and discuss with employees, through monthly staff meetings, matters likely to affect employees' interests.

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

As part of the equal opportunities policy, the company will recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given.

Charitable and political contributions

The contributions made by the company during the year for charitable purposes were £350 (1997 - £500). There were no political contributions.

Year 2000

The company's plans to cope with the impact of Year 2000 on key financial and other systems are at an advanced stage and no significant problems are anticipated.

Auditors

A resolution to reappoint the auditors, PricewaterhouseCoopers, will be proposed at the annual general meeting.

By order of the board



Hareb Al Darmaki

Director

2 September 1999

Report of the auditors to the members of HCI (Scotland) Limited

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We have audited the financial statements on pages 7 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of the director and auditors

The directors are responsible for preparing the Annual Report, including as described on page 2 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding director's remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or *material inconsistencies with the financial statements*.

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 director 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.

However we were unable to obtain confirmation that the company's ultimate parent company would continue to provide adequate funding facilities to enable the company to continue operations for the foreseeable future. The financial statements have been prepared on a going concern basis and the validity of this depends on continuation of the ultimate parent company's support. In the absence of the confirmation of ultimate parent company support, we have been unable to form an opinion on whether or not it is appropriate to prepare the financial statements on a going concern basis. Further details of circumstances relating to this matter are described in the directors' report and note 1 to the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion : disclaimer on view given by financial statements

Because of the possible effect of the limitation in evidence available to us regarding the appropriateness of the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the company at 31 December 1998 and of the loss of the company for the year then ended.

With the exception of the limitation on our work relating to the going concern basis we have obtained all the information and explanations that we considered necessary for the purpose of our audit.

In all other respects the financial statements have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers
Chartered Accounts and Registered Auditors
Glasgow
2 September 1999

**Profit and loss account
for the year ended 31 December 1998**

	Notes	1998 £'000	1997 £'000
Turnover		10,606	9,465
Net operating expenses		(22,056)	(24,296)
Exceptional operating credit - VAT refund		<u>2,168</u>	<u>-</u>
Operating loss		(9,282)	(14,831)
Interest receivable and similar income		14	36
Interest payable and similar charges	4	<u>(25)</u>	<u>(15)</u>
Loss on ordinary activities before taxation	5	(9,293)	(14,810)
Taxation	6	<u>-</u>	<u>-</u>
Loss for the financial year		(9,293)	(14,810)
Loss brought forward		(55,584)	(40,774)
Loss carried forward	14	<u>(64,877)</u>	<u>(55,584)</u>

All items dealt with in arriving at the operating loss relate to continuing operations.

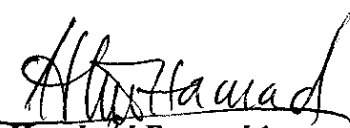
The company has no recognised gains and losses other than the losses above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the operating loss and the loss for the year stated above and their historical cost equivalents.

**Balance sheet
at 31 December 1998**

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	7	882	1,512
Investments	8	2,200	2,200
		<u>3,082</u>	<u>3,712</u>
Current assets			
Stocks	9	1,293	1,389
Debtors	10	9,966	8,530
Cash at bank and in hand		188	82
		<u>11,447</u>	<u>10,001</u>
Creditors: amounts falling due within one year	11	69,406	59,275
Net current liabilities		<u>(57,959)</u>	<u>(49,274)</u>
Creditors: amounts falling due after more than one year	12	-	22
Net liabilities		<u>(54,877)</u>	<u>(45,584)</u>
Capital and reserves			
Called up share capital	13	10,000	10,000
Profit and loss account	14	(64,877)	(55,584)
Equity shareholders' funds	15	<u>(54,877)</u>	<u>(45,584)</u>

The financial statements on pages 7 to 15 were approved by the board of directors on 2 September 1999 and were signed on its behalf by:


Hareb Al Darmaki
Director

**Notes to the financial statements
for the year ended 31 December 1998**

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of preparing the financial statements

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons set out in the directors' report.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidated accounts

The company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its parent, HCI (Holdings) Limited, a company registered in Scotland.

Cash flows

The company is a wholly owned subsidiary of HCI (Holdings) Limited and the cash flows of the company are included in the consolidated group cash flow statement of HCI (Holdings) Limited. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from preparing a cash flow statement.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Buildings and leasehold improvements	20
Medical equipment	20
Fixtures and fittings	20
Motor vehicles	20
Computer equipment	25-33

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in, first out basis. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Turnover consists entirely of sales made in the United Kingdom.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest is charged against profit in proportion to the reducing capital element outstanding.

Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Assets leased to customers under operating leases are capitalised in accordance with the fixed asset policy above. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the year to which they relate.

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 or asset will crystallise. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions and other post retirement benefits.

Pension costs

The company makes contributions to a defined contribution pension scheme. Contributions payable in respect of the accounting year are charged against the profit and loss account.

2 Directors' emoluments

The directors received no emoluments in respect of the financial year.

3 Employee information

The average weekly number of persons (including executive directors) employed by the company during the year was:

	1998 Number	1997 Number
By activity		
Hospital medical	215	223
Hospital administration	100	124
	<u>315</u>	<u>347</u>

	1998 £'000	1997 £'000
Staff costs (for the above persons)		
Wages and salaries	7,046	8,644
Social security costs	687	901
Pension costs (Note 16)	548	766
	<u>8,281</u>	<u>10,311</u>

4 Interest payable and similar charges

	1998 £'000	1997 £'000
On finance leases	25	15
	<u> </u>	<u> </u>

5 Loss on ordinary activities before taxation

	1998 £'000	1997 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year	667	609
Auditors' remuneration for:		
Audit services	58	49
Other services	220	21
Hire of plant and machinery – operating leases	3,871	3,682
	<u>3,871</u>	<u>3,682</u>

6 Taxation

There is no liability to UK corporation tax due to the losses incurred in the year.

7 Tangible fixed assets

	Buildings and improvements £'000	Fixtures and fittings £'000	Hotel medical equipment £'000	Motor Vehicle s £'000	Computer equipment £'000	Total £'000
Cost						
At January 1998	125	351	2,343	86	806	3,711
Additions	-	19	13	-	5	37
At 31 December 1998	125	370	2,356	86	811	3,746
Depreciation						
At 1 January 1998	101	138	1,181	34	745	2,199
Charge in year	9	70	535	20	33	667
At 31 December 1998	110	208	1,716	54	778	2,863
Net book value						
At 31 December 1998	15	162	640	32	33	882
At 31 December 1997	24	213	1,162	52	61	1,512

The net book value of tangible fixed assets includes an amount of £88,436 (1997:£199,103 in respect of asset held under finance lease.

8. Investments
Interest in group undertakings

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held
Beardmore Asset Management Limited	Scotland	Ordinary £1 shares	100%
Beardmore Pharmaceuticals Limited	Scotland	Ordinary £1 shares	100%

All of the above companies operated principally in their country of incorporation or registration.

The principal business activities of these subsidiary undertakings are:

- (i) Beardmore Asset Management Limited - the purchase and leasing of fixed assets.
- (ii) Beardmore Pharmaceuticals Limited - to carry on business as a general commercial company.

9 Stocks

	1998 £'000	1997 £'000
Work in progress	817	828
Raw materials and consumables	476	561
	<u>1,293</u>	<u>1,389</u>

10 Debtors

	1998 £'000	1997 £'000
Trade debtors	2,640	1,258
Amounts owed by parent company	6,270	6,131
Amounts owed by fellow subsidiary company	495	71
Other debtors	387	960
Prepayments and accrued income	174	110
	<u>9,966</u>	<u>8,530</u>

HCI (Scotland) Limited

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11 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Obligations under finance leases	22	60
Trade creditors	441	865
Amounts owed to intermediate parent company	49,624	41,445
Amounts owed to subsidiary companies	16,815	13,038
Other taxation and social security	233	266
Other creditors	704	1,594
Accruals and deferred income	1,567	2,007
	<u>69,406</u>	<u>59,275</u>

12 Creditors amounts falling due after more than one year

	1998 £'000	1997 £'000
Obligations under finance leases	-	22

The net finance lease obligations to which the company is committed are:

	1998 £'000	1997 £'000
In one year or less	22	60
Between two and five years	-	22
	<u>22</u>	<u>82</u>

13 Called up share capital

	1998 £'000	1997 £'000
Authorised		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

14 Profit and loss account

	1998 £'000	1997 £'000
At 1 January 1998	(55,584)	(40,774)
Loss for the year	(9,293)	(14,810)
At 31 December 1998	<u>(64,877)</u>	<u>(55,584)</u>

15 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Opening shareholders' funds	(45,584)	(30,774)
Loss for the financial year	(9,293)	(14,810)
Closing shareholders' funds	<u>(54,877)</u>	<u>(45,584)</u>

16 Pension costs

The company contributes to a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions paid by the company to the fund and amounted to £548,112 (1997 - £765,676) for the year.

17 Ultimate parent company

The company's immediate parent company is HCI (Holdings) Limited, a company registered in Scotland.

The director regards Abu Dhabi Investment Company, a company incorporated in Abu Dhabi as the ultimate parent company. Copies of the parent company's consolidated financial statements may be obtained from the Abu Dhabi Investment Company, 12th Floor, NBAD Building, Khalidiya, P.O. Box 46309, Abu Dhabi.