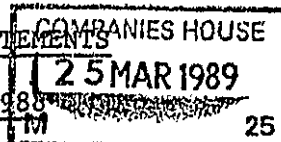


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WESTMINSTER HEALTH CARE LIMITED

FINANCIAL STATEMENTS

31 MAY 1988



PEAT MARWICK McLINTOCK
1 Puddle Dock, Blackfriars, London EC4V 3PD

WESTMINSTER HEALTH CARE LIMITED

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WESTMINSTER HEALTH CARE LIMITEDDIRECTORS' REPORT

The directors have pleasure in submitting their report and financial statements for the year ended 31 May 1988.

Activities

The company's sole activity continues to be the ownership, operation and development of nursing and residential homes providing long term care for the elderly. The results for the year are in accordance with Directors' expectations. The directors foresee no material change in the nature of the company's activities.

Financial

The results for the year are given in the profit and loss account on page 5.

Fixed assets

Information relating to changes in tangible fixed assets is given in note 8 to the financial statements.

Directors

The directors during the year are as follows:

M Andersons	
MM Bradford	
B Busby	
PR Carter	
H Hardy	as alternate to ME Powers
TP McMullen	as alternate to M Andersons
ME Powers	
M Wilensky	as alternate to B Busby

In accordance with the Articles of Association, no directors retire by rotation.

The directors who held office at the end of the financial year had the following interests in the shares of the company:

	<u>Class of share</u>	<u>At end of year</u>	<u>At beginning of year</u>
PR Carter and MM Bradford	Ordinary	100,000	100,000

At 31 May 1988, 90,000 Ordinary shares were held beneficially and 10,000 shares non beneficially.

WESTMINSTER HEALTH CARE LIMITED

DIRECTORS' REPORT (continued)

Policy on employment of disabled persons

The company is committed to developing and maintaining sympathetic measures for the integration of disabled persons into the work force where it is possible and safe to do so.

Policy on employee involvement

The company will continue to develop and promote arrangements which will encourage employee involvement.

Auditors

Our auditors, Peat Marwick McLintock, are willing to continue in office and accordingly a resolution concerning their re-appointment and their remuneration will be submitted to the annual general meeting.

By order of the board

Panton House
25 Haymarket
London SW1Y 4EN

Secretary

M. M. Brady
Director
Marion E. Jones
Director

AUDITORS' REPORT TO THE MEMBERS OF
WESTMINSTER HEALTH CARE LIMITED

We have audited the financial statements on pages 4 to 12 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 May 1988 and of the profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Peat Marwick McLintock

Chartered Accountants

23rd April 1989

ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The effects of events relating to the year ended 31 May 1988 which occurred before 21 March 1989, the date of approval of the financial statements by the board of directors, have been included in the statements to the extent required to show a true and fair view of the state of affairs at 31 May 1988 and of the results for the year ended on that date.

Turnover

Turnover comprises charges to patients and residents of the company's nursing and residential homes.

Depreciation

Depreciation is provided to write off the cost less residual value of fixed tangible assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years
Fixtures and fittings and equipment	-	10 years
Motor vehicles	-	4 years

No depreciation is provided on freehold land.

Stocks

Stocks comprise of fuel and food; such items are expensed when consumed. Linens and kitchen utensils are capitalised initially and subsequent purchases are expensed. Stocks are valued at the lower of cost and net realisable value.

Taxation

Taxation is computed on profits for the year taking into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. No provision for deferred taxation is made if there is reasonable evidence that such deferred taxation will not be payable in the foreseeable future.

Operating leases

Operating lease charges are expensed in the profit and loss account in the period in which they are incurred.

WESTMINSTER HEALTH CARE LIMITEDPROFIT AND LOSS ACCOUNTFor the year ended 31 May 1988

	<u>Notes</u>	<u>1988</u>	<u>1987</u>
Turnover	1	£ 4,901,333	£ 2,501,132
Cost of sales		<u>(3,735,625)</u>	<u>(1,770,655)</u>
Gross profit		1,365,708	730,477
Administrative expenses		<u>(518,263)</u>	<u>(328,050)</u>
Trading profit	2 - 4	847,445	402,427
Other operating income		20,266	18,310
Other interest receivables and similar income	5	<u>3,364</u>	<u>19,360</u>
		871,075	440,097
Interest payable and similar charges	6	<u>(660,052)</u>	<u>(343,291)</u>
Profit on ordinary activities before taxation		211,023	96,806
Tax on profit on ordinary activities	7	<u>-</u>	<u>-</u>
Profit on ordinary activities after taxation and retained for the financial year		211,023	96,806
Balance brought forward		<u>60,314</u>	<u>(36,492)</u>
Balance carried forward		<u>£ 271,337</u> =====	<u>£ 60,314</u> =====

The notes on pages 4 and 8 to 12 form part of these financial statements.

BALANCE SHEETAs at 31 May 1988

	<u>Notes</u>	<u>1988</u>	<u>1987</u>
FIXED ASSETS			
Tangible assets	8	£ 10,776,818	£ 9,235,662
Investment	9	<u>2</u>	<u>2</u>
		10,776,820	9,255,665
CURRENT ASSETS			
Stocks	10	£ 32,910	23,297
Debtors	11	375,978	228,558
Cash at bank and in hand		<u>3,787</u>	<u>820</u>
		412,675	257,675
CREDITORS: Amounts falling due within one year:			
Home acquisitions		-	(718,061)
Other	12	<u>(647,783)</u>	<u>(744,465)</u>
			(1,462,526)
NET CURRENT LIABILITIES		<u>(235,108)</u>	<u>(1,204,851)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		10,541,712	8,050,814
CREDITORS: Amounts falling due after more than one year			
	13	<u>(9,270,375)</u>	<u>(6,990,500)</u>
		<u>£ 1,271,337</u>	<u>£ 1,060,314</u>
CAPITAL AND RESERVES			
Called up share capital	14	£ 1,000,000	£ 1,000,000
Profit and loss account		<u>271,337</u>	<u>60,314</u>
		<u>£ 1,271,337</u>	<u>£ 1,060,314</u>

Approved by the board
and signed by

Managers & Overseers
M. H. Broadbent) Directors

The notes on pages 4 and 8 to 12 form part of these financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDSFor the year ended 31 May 1988

	<u>1988</u>	<u>1987</u>
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	£ 211,023	£ 96,806
Adjustment for items not involving the movement of funds:		
Depreciation	205,103	86,673
Profit on sale of fixed assets	(20,266)	(29,420)
Write off of capitalised costs	10,641	-
Total generated from operations	406,501	154,059
Loans received	2,219,875	5,834,500
Disposal of fixed assets	347,795	285,006
Total sources	3,034,171	6,273,565
APPLICATION OF FUNDS		
Purchase of fixed assets	(2,064,428)	(7,279,217)
	£ 969,743	£(1,006,352)
	=====	=====
INCREASE/(DECREASE) IN WORKING CAPITAL		
Stocks	£ 4,613	£ 28,047
Debtors	147,420	90,305
Creditors	830,172	(995,402)
Movement in net liquid funds:	982,205	(877,050)
Cash at bank and in hand	(12,462)	(129,302)
	£ 969,743	£(1,006,352)
	=====	=====

The notes on pages 4 and 8 to 12 form part of these financial statements.

NOTES(forming part of the financial statements)

1 ANALYSIS OF TURNOVER AND RESULTS BEFORE TAXATION

The company's turnover and results before taxation arises from its sole activity of owning and operating nursing and residential homes. The turnover arises solely in the United Kingdom.

2 TRADING PROFIT

Trading results are stated after charging:

	<u>1988</u>	<u>1987</u>
Depreciation	£ 205,103	£ 86,673
Auditors' remuneration (including expenses)	12,000	8,000
Operating lease charges	59,847	39,795
	<u>£ 276,950</u>	<u>£ 134,468</u>

3 STAFF COSTS

	<u>1988</u>	<u>1987</u>
Average number of employees	641	291
	<u>641</u>	<u>291</u>

	<u>1988</u>	<u>1987</u>
Employee costs:		
Wages and salaries	£ 2,266,237	£ 1,135,354
Social security costs	128,426	71,182
	<u>£ 2,394,663</u>	<u>£ 1,206,536</u>

No employees received emoluments in excess of £30,000.

4 DIRECTORS' EMOLUMENTS

	<u>1988</u>	<u>1987</u>
Directors' emoluments (including pension contributions)	£ 143,025	£ 128,270
	<u>£ 143,025</u>	<u>£ 128,270</u>

The emoluments, excluding pension contributions, of the chairman amounted to £Nil and of the highest paid director, amounted to £80,000.

The number of other directors whose emoluments, excluding pension contributions, fell in each £5,000 bracket was as follows:

	<u>1988</u>	<u>1987</u>
£Nil	6	5
£35,001 - £40,000	1	1
	<u>7</u>	<u>6</u>

NOTES (continued)

5 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>1988</u>	<u>1987</u>
Income from short-term bank deposits	£ 3,364	£ 19,360
	=====	=====

6 INTEREST PAYABLE AND SIMILAR CHARGES

	<u>1988</u>	<u>1987</u>
Interest on bank and other loans repayable within five years	£ 660,052	£ 230,815
Interest on all other loans	-	112,476
	=====	=====
	£ 660,052	£ 343,291

7 TAXATION

No corporation taxation is payable in respect of the profit for the year because of the utilisation of tax losses brought forward.

Deferred tax has not been provided at 31 May 1988 as it is anticipated that group losses will be available to offset the crystallisation of timing difference reversals. At 31 May 1988, potential deferred tax at 35% amounted to an estimated £115,000 for which no provision had been made.

WESTMINSTER HEALTH CARE LIMITEDNOTES (continued)8 FIXED TANGIBLE ASSETS

	<u>Land and buildings</u>	<u>Assets in course of construction</u>	<u>Fixtures and fittings</u>	<u>Motor vehicles</u>	<u>Total</u>
<u>Cost:</u>					
At 1 June 1987	£ 8,204,039	£ 419,675	£ 676,632	£ 47,193	£ 9,347,539
Additions	267,271	1,540,355	220,918	35,884	2,064,428
Disposals	(332,328)	-	(1,939)	(5,984)	(340,251)
Transfers	63,121	(63,121)	-	-	-
At 31 May 1988	<u>8,202,103</u>	<u>1,896,909</u>	<u>895,611</u>	<u>77,093</u>	<u>11,071,716</u>
<u>Depreciation:</u>					
At 1 June 1987	51,580	-	31,203	9,093	91,876
Charge for the year	113,584	-	74,010	17,509	205,103
Disposals	-	-	(291)	(1,790)	(2,081)
At 31 May 1988	<u>165,164</u>	<u>-</u>	<u>104,922</u>	<u>24,812</u>	<u>294,898</u>
<u>Net book value:</u>					
At 31 May 1988	£ 8,036,939	£ 1,896,909	£ 790,689	£ 52,281	£ 10,776,818
At 31 May 1987	£ 8,152,459	£ 419,675	£ 645,429	£ 38,100	£ 9,255,663

Interest capitalised in fixed assets above is £104,479.

9 FIXED ASSET INVESTMENT

	<u>Subsidiary company - unlisted</u>
<u>Share at cost</u>	
At 1 June 1987 and 31 May 1988	£ 2

Details of the company's subsidiary are as follows:

<u>Name</u>	<u>Country of Registration</u>	<u>Principal Activity</u>	<u>Class and percentage of shares held</u>
Westminster Health Care (Properties) Limited	England	Dormant	Ordinary shares - 100%

10 STOCKS

	<u>1988</u>	<u>1987</u>
Consumable supplies	£ 32,910	£ 28,297

WESTMINSTER HEALTH CARE LIMITEDNOTES (continued)

11 DEBTORS

	<u>Due within one year</u>	
	<u>1988</u>	<u>1987</u>
Trade debtors	£ 329,773	£ 195,124
Prepayments and accrued income	<u>46,205</u>	<u>33,434</u>
	<u>£ 375,978</u>	<u>£ 228,558</u>

12 CREDITORS: Amounts falling due within one year

	<u>1988</u>	<u>1987</u>
Bank overdraft	£ 57,973	£ 42,544
Trade creditors	286,085	114,044
Amounts owed to group companies	378	197,474
Other creditors including taxation and social security	40,409	43,367
Accruals and deferred income	<u>262,938</u>	<u>347,036</u>
	<u>£ 647,783</u>	<u>£ 744,465</u>

13 CREDITORS: Amounts falling due after more than one year

	<u>1988</u>	<u>1987</u>
Unsecured loan stock	£ 1,000,000	£ 1,000,000
Bank loan	3,367,875	-
Amounts owed to group companies:		
Holding company	4,640,000	-
Subsidiary	-	5,718,000
Creditor for home acquisition	230,000	230,000
Refundable deposits	<u>32,500</u>	<u>42,500</u>
	<u>£ 9,270,375</u>	<u>£ 6,990,500</u>
<u>Analysis</u>		
Repayable within five years	£ 9,270,375	£ 5,990,500
Repayable after five years	<u>-</u>	<u>1,000,000</u>
	<u>£ 9,270,375</u>	<u>£ 6,990,500</u>

The loan stock is unsecured and repayable at par in October 1992, bearing interest at a floating rate.

The bank loan is a rollover facility initially repayable by 22 November 1988, and is secured by a first legal mortgage over the freehold land and buildings which are financed by the loan.

Interest for both loans is payable at a rate based upon the sterling deposit rates offered in the London Inter-Bank Market.

NOTES (continued)

14 CALLED UP SHARE CAPITAL

	<u>Authorised</u>	<u>Allotted, called up and fully paid Number</u>
At 1 June 1987 and 31 May 1988	£ 1,000,000	1,000,000 £ 1,000,000

15 COMMITMENTS

	<u>1988</u>	<u>1987</u>
Capital commitments are:		
Contracted for but not provided	£ 1,959,346	£ 310,000
Authorised but not contracted for	£ 5,325,490	£ 1,343,000

Operating Leases

Commitments in respect of operating lease obligations expiring in the following years are:

Year ending 31 May:

1989	£ 31,679
1990 - 1993	126,716
After 1993	<u>63,358</u>
	£ 221,753

16 HOLDING COMPANY

The ultimate holding company is National Medical Enterprises Inc., incorporated in the State of Nevada, USA.