

2464270



**NORWICH
UNION**

Healthcare

Chilworth House Hampshire Corporate Park Templars Way Eastleigh Hampshire SO53 3RY

Norwich Union Healthcare Limited

Directors' Report and Financial Statements

31 December 1999



For other enquiries 0870 900 1035

Norwich Union Healthcare Limited Registered in England No 2464270 Registered Office Surrey Street Norwich NR1 3NG



Certificate No. FS 30518

Norwich Union Healthcare Limited
Directors' report and financial statements
31 December 1999

INDEX

Page

1 - 4	Directors' report
5	Auditors' report
6	Profit and loss account
7	Balance sheet
8 - 12	Notes to the financial statements

Norwich Union Healthcare Limited

Directors' report

The directors present their annual report and financial statements for the year ended 31 December 1999.

Principal activities

The company's principal activity during the year continued to be the marketing and administration of healthcare products.

Business review

A summary of the results for the year is given on page 6 of the financial statements.

Turnover for the company's period of trading ended 31 December 1999 amounted to £43,848,394 which resulted in a net profit before taxation of £130,038.

The directors consider the results achieved and the state of the company's affairs at 31 December 1999 to be satisfactory and believe that the future prospects of the company are sound.

Post balance sheet review

On 21 February 2000, the Board of Norwich Union plc announced that it had agreed terms for a proposed merger with CGU plc to create CGNU plc.

Dividends

The directors propose that no dividend be paid for the period under review. The loss for the period incurred by the company is £41,929.

Directors and directors' interests

The directors during the year were as follows:-

B McIntyre (Chairman, Appointed 1 October 1999)
P J E Smith (Chairman, Resigned 30 September 1999)
D A Allwood (Resigned 28 February 1999)
T R Baker
S W Carroll
J A Newman (Appointed 1 March 1999)
D F S Rogers
D M Siomiak
N A Smith
G J Welsh (Resigned 4 January 1999)

The interest of the company's directors at 31 December 1999 in 10p ordinary shares in the ultimate parent undertaking, Norwich Union plc, is shown below:

	Number of Shares 1999	Number of Shares 1998
T R Baker	3172	2904
S W Carroll	4670	4300
J A Newman	1131	870
D F S Rogers	229	-
D M Siomiak	1655	1354

Other than as shown above, no director held an interest in any Group undertaking during the year.

Share options in the company's ultimate parent undertaking have been awarded as follows:-

	Outstanding 1998	Granted	Outstanding 1999	Exercise Price	Earliest and date
T R Baker	3750	-	3750	260	2000
S W Carroll	6634	-	6634	260	2002
J A Newman	3750	-	3750	260	2000
D F S Rogers	6634	-	6634	260	2002
D M Siomiak	6634	-	6634	260	2002

All options are in respect of the savings-related share option scheme. The market price of shares at 31 December 1999 was 458.5 p and the range during 1999 was from 390.5 p to 489.5 p.

The interests of directors in shares conditionally awarded by the company's ultimate parent undertaking under the share participation scheme and the restricted share plan are:

	Conditional Awards at year end 1998	Conditional Awards in 1999	Conditional Awards at year end 1999	Earliest release date
	No of Shares	No of Shares	No of Shares	
T R Baker	5234	5446	10680	2001
S W Carroll	5973	5442	11415	2001
J A Newman	5879	7507	13386	2001
D F S Rogers	-	1266	1266	2002
D M Siomiak	4807	6403	11210	2001

The number of shares shown above are the maximum number of shares to which each director would become entitled if all performance criteria under the restricted share plan are met to the maximum extent.

The interests of N A Smith and B McIntyre in the share capital of, and share options in, the ultimate holding company are shown in the accounts Norwich Union Life and Pensions Limited.

Liability insurance on behalf of directors and officers of the company has been effected by Norwich Union Life and Pensions Limited.

Tim Baker resigned as a director of SinclairMontrose Healthcare plc on 30 July 1999. During the year the Norwich Union Group disposed of its minority shareholding in Sinclair Montrose Healthcare plc.

Auditors

In accordance with the provisions of Section 384 of the Companies Act 1985, a resolution for the reappointment of Ernst & Young as auditors will be proposed at the Annual General Meeting.

Year 2000

The Company's business has not been affected by the millennium date change due to the comprehensive testing of its business critical systems well in advance of 31 December 1999. The total cost invested in this important exercise is reported in the Group consolidated accounts of Norwich Union plc.

European Monetary Union

European economic and monetary union may have significant implications for the Company's operations. The Company is assessing what needs to be done to prepare for the possible entry of the United Kingdom, including managing a changeover from dealing in sterling to the euro.

Statement of directors' responsibilities

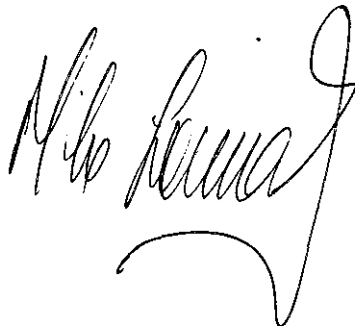
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the 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

D M Siomiak
Managing Director



18 AUGUST 2000

Norwich Union Healthcare Limited

Report of the auditors to the shareholders of Norwich Union Healthcare Limited

We have audited the accounts on pages 6 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibility, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1999 and of its loss the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Registered Auditor
Southampton
16 August 2000

Norwich Union Healthcare Limited

Profit and loss account for the year ended
31 December 1999

	<u>Note</u>	<u>1999</u> <u>£</u>	<u>1998</u> <u>£</u>
Turnover	2	43,848,394	40,575,267
Cost of sales		<u>(43,755,069)</u>	<u>(40,359,380)</u>
Operating Profit		93,325	215,887
Exceptional Item	5	<u>36,713</u>	200,000
Profit on ordinary activities before taxation	6	130,038	415,887
Taxation charge	7	<u>171,967</u>	163,618
(Loss)/ profit on ordinary activities after taxation for the financial year		(41,929)	252,269
Retained (loss) brought forward		<u>(1,529,396)</u>	<u>(1,781,665)</u>
Retained (loss) carried forward		<u>(1,571,325)</u>	<u>(1,529,396)</u>

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £41,929 in the year ended 31 December 1999 and the profit of £252,269 in the year ended 31 December 1998.

The notes on pages 8 - 12 form part of the financial statements

Norwich Union Healthcare Limited

Balance sheet as at 31 December 1999

	<u>Note</u>	<u>1999</u> £	<u>1999</u> £	<u>1998</u> £	<u>1998</u> £
Fixed assets:					
Tangible assets	8		1,757,082		2,037,333
Current assets:					
Stock	9	27,327		63,104	
Debtors & prepayments	10	71,864,731		63,666,806	
Cash at bank and in hand		49,227		201,933	
		<u>71,941,285</u>		<u>63,931,843</u>	
Creditors:					
Amounts falling due within one year	11	(73,069,692)		(65,298,572)	
Net current liabilities			<u>(1,128,407)</u>		<u>(1,366,729)</u>
Total assets less current liabilities			<u>628,675</u>		<u>670,604</u>
Provisions for liabilities and charges	12		<u>-</u>		<u>-</u>
			<u>628,675</u>		<u>670,604</u>
Capital and reserves:					
Called up share capital	13		2,200,000		2,200,000
Retained (losses)			(1,571,325)		(1,529,396)
Shareholders funds-equity interests	14		<u>628,675</u>		<u>670,604</u>

D M Siomiak

Managing Director

D F S Rogers

Finance Director

18 AUGUST

2000

The notes on pages 8 -12 form part of the financial statements

Norwich Union Healthcare Limited

Notes (Forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of accounting:

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

Cash flow statement:

The Company has not included a cash flow statement because of the exemption under Financial Reporting Standard 1 in respect of wholly owned subsidiary undertakings of a parent undertaking which itself publishes a consolidated cash flow statement.

Depreciation and amortisation:

Fixed assets are depreciated over their estimated useful economic lives as follows:-

Fixtures and fittings	- 33% per annum from date of acquisition
Computer equipment	- 33% per annum from date of acquisition
Motor vehicles	- 25% per annum from date of acquisition

Deferred taxation:

Deferred taxation is calculated using the liability method, but is only provided for where the amount is likely to become payable in the foreseeable future.

Pensions:

The cost of providing pension benefits is charged to the profit and loss account over the period benefiting from the employees services.

Stock:

Stock has been valued at the lower of cost, or net realisable value.

Foreign currencies:

Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions are converted at the exchange rate ruling at the date of the transaction. Exchange differences are taken to the profit and loss account.

2 **Turnover**

Turnover arises from one continuing activity. All turnover is derived from activities in the UK and can be analysed as follows:

	<u>1999</u>	<u>1998</u>
	£	£
Sales to group companies	43,190,106	39,997,644
Sales to third parties	658,288	577,623
	<u>43,848,394</u>	<u>40,575,267</u>

3 **Emoluments of directors**

	<u>1999</u>	<u>1998</u>
	£	£
Directors emoluments	479,203	523,756

Seven Directors are accruing pension benefits under a defined benefit scheme.

Certain of the directors are covered by private medical insurance provided by Norwich Union Insurance Limited. Payments may be made to, or on behalf of, directors, subject to the normal policy rules.

The above details include the following amounts in respect of the highest paid director:

	<u>1999</u>	<u>1998</u>
	£	£
Emoluments	147,498	133,533

Staff numbers and costs

4

There were nil persons (1998: nil) employed by the company during the year to 31 December 1999. All staff are employed by a fellow subsidiary undertaking, Norwich Union Services Limited. Disclosures relating to employees may be found in the Group consolidated accounts of Norwich Union plc.

5. **Exceptional item**

	<u>1999</u>	<u>1998</u>
	£	£
Profit on disposal of Dental business	36,713	200,000
Taxation charge (included in Note 7)	<u>11,381</u>	<u>62,000</u>

6 **Profit on ordinary activities before taxation**

Profit on ordinary activities before taxation is stated after charging the following:

	<u>1999</u> £	<u>1998</u> £
Operating lease rentals		
- Land and buildings	850,691	811,191
Auditors remuneration		
- Audit services	4,700	6,345
- Non audit services	1,762	1,762
Depreciation	1,050,997	885,890

7 **Taxation on profit on ordinary activities**

Provision for taxation on the result for the year has been made as shown below.

	<u>1999</u> £	<u>1998</u> £
Corporation tax at 30% (1998: 31%)	171,971	145,502
Adjustment in respect of prior years including deferred taxation	(4)	18,116
	<u>171,967</u>	<u>163,618</u>

8 **Tangible fixed assets**

	<u>Fixtures & fittings</u> £	<u>Computer equipment</u> £	<u>Motor Vehicles</u> £	<u>Total</u> £
Cost				
At 1 January 1999	653,245	3,412,685	28,099	4,094,029
Additions	245,726	1,196,948	-	1,442,674
Disposals	-	(860,603)	-	(860,603)
at 31 December 1999	<u>898,971</u>	<u>3,749,030</u>	<u>28,099</u>	<u>4,676,100</u>
Depreciation				
At 1 January 1999	(378,963)	(1,649,635)	(28,099)	(2,056,697)
Charge	(192,585)	(858,412)	-	(1,050,997)
Disposals	-	188,676	-	188,676
at 31 December 1999	<u>(571,548)</u>	<u>(2,319,371)</u>	<u>(28,099)</u>	<u>(2,919,018)</u>
Net book value				
at 1 January 1999	274,282	1,763,050	-	2,037,332
at 31 December 1999	<u>327,423</u>	<u>1,429,659</u>	<u>-</u>	<u>1,757,082</u>

9 **Stock**

	<u>1999</u> £	<u>1998</u> £
Merchandising gifts	26,977	61,341
Equipment/Stationery	350	1,763
	<u>27,327</u>	<u>63,104</u>

The difference between the purchase price of stocks and their replacement cost is not material.

10	<u>Debtors</u>	<u>1999</u>	<u>1998</u>
		£	£
	Trade debtors	64,003,155	56,990,948
	Other debtors and prepayments	3,549,178	2,577,809
	Due from other group members	4,312,398	4,098,049
		<u>71,864,731</u>	<u>63,666,806</u>

11	<u>Creditors: Amounts falling due within one year</u>	<u>1999</u>	<u>1998</u>
		£	£
	Trade creditors	7,157,469	7,289,228
	Other taxes and social security	2,663,581	1,508,562
	Corporation tax	97,480	196,494
	Bank overdraft	699,911	3,288,291
	Due to immediate parent undertaking	62,451,251	53,015,997
		<u>73,069,692</u>	<u>65,298,572</u>

The company agrees payment terms with its suppliers and has a policy of adhering to these terms. Creditor days for the year ended 31 December 1999 were 31 days (1998 : 31 days)

12	<u>Provisions for liabilities and charges</u>	<u>1999</u>	<u>1998</u>
		£	£
	Deferred taxation provided	-	-
		<u>-</u>	<u>-</u>

The full potential liability for deferred taxation is £Nil (1998: £Nil).

13	<u>Share capital</u>	<u>1999</u>	<u>1998</u>
		£	£
	Authorised:		
	Ordinary shares of £1	<u>4,000,000</u>	<u>4,000,000</u>
	Issued:		
	Allotted, called up and fully paid		
	Ordinary shares of £1	<u>2,200,000</u>	<u>2,200,000</u>

14	<u>Reconciliation of movement in shareholders' funds</u>	<u>1999</u>	<u>1998</u>
		£	£
	At 1 January	670,604	418,335
	Retained (loss)/ profit for the year	(41,929)	252,269
	At 31 December	<u>628,675</u>	<u>670,604</u>

15 **Ultimate parent undertaking**

The Company is a member of the Norwich Union group of companies (the Group).

The ultimate parent undertaking is CGNU plc. The accounts of the ultimate parent undertaking are available from the Registered Office, St Helens, 1 Undershaft, London, EC3P 3DQ.

The Company's immediate parent undertaking is Norwich Union Insurance Limited.

16 **Other financial commitments**

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as set out below:

	<u>Land and Buildings</u>	
	<u>1999</u>	<u>1998</u>
	£	£
Operating leases which expire in over 5 years:	<u>844,824</u>	<u>804,474</u>

17 **Related party transactions**

As permitted under Financial Reporting Standard 8, Related Party Disclosures, transactions with entities which are part of the Norwich Union plc group of companies have not been disclosed.