

BUPA FINANCE PLC

(Registered No. 2779134)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1997



BUPA FINANCE PLC

Report of the Directors

for the year ended 31 December 1997

The Directors present their annual report and consolidated accounts for the year ended 31 December 1997.

1. Principal activities

The principal activities of the Group consist of the raising of finance for the BUPA group of companies and the provision of reinsurance cover for private medical insurance business underwritten by other members of the BUPA group of companies.

2. Review of the business

The Directors consider the development of the Group during the year to be satisfactory and do not foresee any significant changes in the forthcoming year.

On 5 August 1997 the Company acquired the entire issued share capital of Goldsbrough Healthcare PLC (Goldsbrough) for a cash consideration of £78.8m.

On 31 December 1997 the Company acquired 53% of the issued share capital of Care First Group plc (Care First) and as a result the offer for Care First became unconditional. The balance of the issued share capital has been acquired subsequent to the year end.

3. Results and dividends

The profit for the year, after taxation, amounted to £23.7 million (1996 - £18.2 million).

No dividend is proposed for 1997 (1996 - £nil).

4. Directors and directors' interests

The names of persons who were directors of the Company at any time during the year are as follows:

EW Lea (Chairman)
CG Davies
JP Davies
M Ellerby
AD Walford
PA Jacobs (Appointed - 14 November 1997)

There were no directors' interests requiring disclosure under Section 234 of the Companies Act 1985.

5. Political and charitable contributions

The Company made no political contributions or charitable donations during the year.

6. Creditor payment policy

It is BUPA Group policy to pay its providers and other creditors promptly and in accordance with agreed terms and conditions. BUPA is a registered supporter of the CBI's Prompt Payers Code of Good Practice, copies of which can be obtained from BUPA's Company Secretary at its head office.

7. Corporate governance

The Company was a wholly owned subsidiary of BUPA during the year. A statement on Group corporate governance policies and the report of the remuneration committee are included in BUPA's annual report and accounts.

8. Auditors

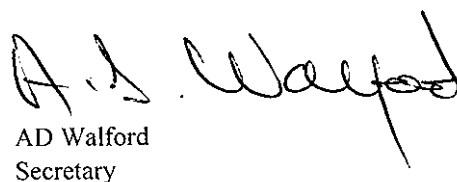
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Registered Office :

BUPA House
15-19 Bloomsbury Way
London WC1A 2BA

22 June 1998

By Order of the Board


AD Walford
Secretary

Statement of Directors' responsibilities in respect of the financial statements

The following statement, which should be read in conjunction with the auditors' report set out on page 3, is made for the purpose of clarifying the respective responsibilities of the Directors and the auditors in the preparation of the financial statements.

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 the Group and of the profit or loss of the Group 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 a going concern basis unless it is inappropriate to presume that the Company and the Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BUPA FINANCE PLC

Report of the Auditors to the members of BUPA Finance PLC

We have audited the financial statements on pages 4 to 19.

Respective responsibilities of Directors and auditors

As described on page 2, 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 financial 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 Group'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 affairs of the Company and the Group as at 31 December 1997 and of the surplus of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor, London
22 June 1998

BUPA FINANCE PLC

Consolidated profit and loss account for the year ended 31 December 1997

	Note	1997		1996	
		£m	£m	£m	£m
Income					
Reinsurance premiums written and earned		360.8		362.3	
Health provision turnover (acquisitions : £41.2m)		41.2		-	
Investment income and interest receivable	5	47.6		43.7	
			449.6		406.0
Claims incurred					
Claims paid		(304.7)		(303.4)	
Change in provision for outstanding claims		8.4		7.4	
			(296.3)		(296.0)
			153.3		110.0
 Operating expenses (acquisitions : £41.1m)		(100.2)		(68.1)	
Interest payable and finance charges	6	(30.5)		(17.8)	
			(130.7)		(85.9)
 Profit on ordinary activities before taxation			22.6		24.1
 Taxation on profit on ordinary activities	9		1.1		(5.9)
 Profit for the financial year			23.7		18.2

The operating profit, which is the same as the profit on ordinary activities before taxation, is wholly derived from continuing operations.

The notes on pages 7 to 19 form part of the financial statements.

BUPA FINANCE PLC

Balance sheets

as at 31 December 1997

		Group		Company	
		1997	1996	1997	1996
	Note	£m	£m	£m	£m
FIXED ASSETS					
Tangible assets	13	469.6	1.4	-	-
Investments					
Financial investments	11	258.4	333.5	-	-
Investments in Group undertakings	12	-	-	657.1	297.5
		258.4	333.5	657.1	297.5
		728.0	334.9	657.1	297.5
CURRENT ASSETS					
Debtors					
Debtors - amounts falling due within one year	14	376.4	7.9	29.1	-
Debtors - amounts falling due after more than one year	14	124.9	134.9	97.5	97.7
		501.3	142.8	126.6	97.7
Other assets					
Investments		-	-	-	2.6
Stocks		1.1	-	-	-
Cash at bank and in hand		5.0	1.6	0.3	0.6
		507.4	144.4	126.9	100.9
Creditors - amounts falling due within one year	15	(695.7)	(42.4)	(475.5)	(92.9)
NET CURRENT (LIABILITIES) / ASSETS		(188.3)	102.0	(348.6)	8.0
TOTAL ASSETS LESS CURRENT LIABILITIES		539.7	436.9	308.5	305.5
Creditors - amounts falling due after more than one year	16	(344.7)	(176.3)	(101.0)	(98.5)
Technical provisions	17	(42.3)	(45.3)	-	-
Provisions for other liabilities and charges	18	(18.4)	(5.9)	(0.6)	(5.9)
NET ASSETS		134.3	209.4	206.9	201.1
CAPITAL AND RESERVES					
Called-up share capital	19	200.0	200.0	200.0	200.0
Profit and loss	20	(67.6)	5.7	6.9	1.1
Revaluation reserve - investments	20	1.9	3.7	-	-
SHAREHOLDERS' FUNDS		134.3	209.4	206.9	201.1

Approved by the Board of Directors on 22 June 1998 and signed on its behalf by:


JP Davies

The notes on pages 7 to 19 form part of the financial statements.

BUPA FINANCE PLC**Consolidated statement of total recognised gains and losses**
for the year ended 31 December 1997

	1997	1996
	£m	£m
Profit for the financial year	23.7	18.2
Decrease in investment revaluation reserve	(1.8)	(1.5)
Exchange translation differences on foreign currency net investment	0.6	0.9
Total recognised gains and losses relating to the year	<u>22.5</u>	<u>17.6</u>

Reconciliation of movements in shareholders' funds
for the year ended 31 December 1997

	1997	1996
	£m	£m
Total recognised gains and losses relating to the year	22.5	17.6
Goodwill written off	(97.6)	(14.0)
New share capital subscribed	-	165.0
Movement in shareholders' funds	<u>(75.1)</u>	<u>168.6</u>
Opening shareholders' funds	209.4	40.8
Closing shareholders' funds	<u>134.3</u>	<u>209.4</u>

BUPA FINANCE PLC

Notes to the financial statements

1. Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255, and schedule 9A to, the Companies Act 1985.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of investments, hospital and care home properties.

The Company is exempt from the requirement of FRS 1 "Cash Flow Statements" (Revised) to prepare a cash flow statement as it is a wholly-owned subsidiary undertaking of The British United Provident Association Limited, and its cash flows are included within the consolidated cash flow statement of that company.

As the Company is a wholly owned subsidiary of The British United Provident Association Limited (BUPA), it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed separately transactions or balances with entities which form part of the BUPA group of companies.

2. Accounting policies

A summary of the more significant accounting policies, which have been applied consistently, is set out below.

Basis of consolidation

The Group financial statements consolidate the accounts of the parent company and its subsidiaries made up to 31 December.

Goodwill arising on consolidation (representing the excess of purchase consideration of subsidiaries over the fair value of attributable net assets acquired) is written off against reserves on acquisition. On disposal of a business any goodwill previously written off against reserves is included in determining the profit or loss on disposal.

Basis of accounting for reinsurance activities

Reinsurance activities are accounted for on an annual basis.

Premiums

Under the terms of reinsurance contracts, premiums assumed are equivalent to premiums earned over the periods of the treaties to which they relate.

Claims

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

Outstanding claims comprise provisions for the estimated cost of claims incurred up to but not paid at the balance sheet date whether reported or not, together with related claims handling expenses.

Other technical provisions

Provision is made for unexpired risks where the claims and administrative expenses likely to arise after the end of the financial year in respect of contracts commencing before that date are expected to exceed the related unearned premiums.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Investment income

Dividends on equity investments are included, together with the related tax credit, in the profit and loss account on a cash basis which is not materially different from an ex-dividend basis; other investment income is recognised on an accruals basis.

Realised gains and losses on disposal of financial investments, which are calculated as the difference between net proceeds and cost, are accounted for in the profit and loss account.

Unrealised investment gains and losses

Unrealised gains and losses on financial investments are taken directly to the revaluation reserve.

Investments

Financial investments are stated at market value.

Investments in subsidiary undertakings are carried at cost in the parent company's accounts.

Depreciation

Freehold and leasehold properties including hospital and care home properties are stated at current value; other tangible assets are stated at cost. No depreciation is provided on freehold land or properties under construction. Other tangible assets are depreciated so as to write off the cost or valuation by equal instalments over their estimated economic lives, as follows:

Freehold property	-	50 years
Leasehold property	-	term of lease
Equipment	-	3 - 10 years

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling using the prevailing exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

On consolidation, assets and liabilities of overseas subsidiaries and branches are translated into sterling using exchange rates ruling at the balance sheet date, and their results are translated at average rates. Exchange differences arising on translation are taken direct to reserves.

Turnover

Turnover represents income receivable by Health Provision for goods supplied and services rendered. Turnover excludes VAT and other sales taxes.

Taxation including deferred taxation

The charge for taxation arises on investment profits and the operating results of subsidiaries. It takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation only to the extent that it is probable that a liability will crystallise.

Notes to the financial statements (continued)

2. Accounting policies (continued)

Leases

Leasing arrangements which transfer to the group substantially all the risks and rewards of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in tangible assets and depreciated over their estimated useful lives or over the term of the lease, whichever is shorter. The capital element of the leasing commitments is included in liabilities 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 obligation, and the interest element is charged against results in proportion to the capital element outstanding.

Operating lease rentals are charged against results on a straight line basis over the term of the lease.

3. Ultimate holding company

The Company is a wholly owned subsidiary undertaking of The British United Provident Association Limited which is registered in England and Wales. A copy of the consolidated financial statements of this company are available from The Secretary, BUPA House, 15-19 Bloomsbury Way, London WC1A 2BA.

4. Segmental information

United Kingdom includes interests in Thailand which are not material.

(a) *Income*

	Financing		Reinsurance		Health Provision		Total	
	1997	1996	1997	1996	1997	1996	1997	1996
	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom	29.8	30.0	6.4	-	41.2	-	77.4	30.0
Republic of Ireland	17.8	-	354.4	375.0	-	-	372.2	375.0
Netherlands		1.0	-	-	-	-	-	1.0
	47.6	31.0	360.8	375.0	41.2	-	449.6	406.0

(b) *Operating profit / (loss)*

United Kingdom	7.8	14.6	1.4	-	(1.6)	-	7.6	14.6
Republic of Ireland	-	-	22.6	15.4	-	-	22.6	15.4
Netherlands	(7.6)	(5.9)	-	-	-	-	(7.6)	(5.9)
	0.2	8.7	24.0	15.4	(1.6)	-	22.6	24.1

(c) *Net assets / (liabilities)*

United Kingdom	(258.8)	90.5	-	-	257.9	-	(0.9)	90.5
Republic of Ireland	-	-	134.7	118.7	-	-	134.7	118.7
Netherlands	0.5	0.2	-	-	-	-	0.5	0.2
	(258.3)	90.7	134.7	118.7	257.9	-	134.3	209.4

BUPA FINANCE PLC

Notes to the financial statements (continued)

5. Investment income and interest receivable	1997	1996
	£m	£m
Income from investments		
Listed investments	7.8	9.2
Short term deposits	2.7	17.9
Realised gains on investments	8.0	2.8
Other interest receivable	29.1	13.8
	<u>47.6</u>	<u>43.7</u>
6. Interest payable and finance charges	1997	1996
	£m	£m
Bank loans, overdrafts and other loans wholly repayable other than by instalments:		
- within 5 years	9.1	7.2
- wholly or partly beyond 5 years	10.6	10.6
Other interest payable	10.8	-
	<u>30.5</u>	<u>17.8</u>
7. Profit on ordinary activities before taxation	1997	1996
	£'000	£'000
The profit on ordinary activities before tax is stated after charging :		
Auditors' remuneration :		
- audit	30.3	16.6
- other services	200.0	26.9
	<u>230.3</u>	<u>43.5</u>
8. Staff numbers and costs	1997	1996
The average number of persons employed by the Group during the year was as follows:	2,129	-
The aggregate payroll costs in respect of these persons were as follows:	1997	1996
	£m	£m
Wages and salaries	22.2	-
Social security costs	1.5	-
Other pension costs	0.2	-
	<u>23.9</u>	<u>-</u>
9. Taxation	1997	1996
	£m	£m
The taxation charge arises on investment income and on the operating results of subsidiaries as follows:		
UK corporation tax at 31.5% (1996 : 33%)	0.3	4.8
Overseas taxation	(2.5)	1.6
Deferred taxation (see note 18)	3.3	(0.5)
	<u>1.1</u>	<u>5.9</u>

BUPA FINANCE PLC**Notes to the financial statements (continued)****10. Directors' remuneration**

No remuneration was paid to any of the Directors during the year. (1996 : £nil)

11. Financial investments	Market value 1997 £m	Market value 1996 £m	Cost 1997 £m	Cost 1996 £m
Group				
Equities	1.6	0.4	1.8	0.6
Government stocks	25.4	97.5	23.5	93.8
Loan note issued by fellow subsidiary	200.1	205.0	200.1	205.0
Short term deposits	31.3	30.6	31.3	30.6
	258.4	333.5	256.7	330.0
Included in the above were investments:				
Listed on the London Stock Exchange	25.9	97.9	24.2	94.4

12. Investments in Group undertakings

	Group 1997 £m	1996 £m	Company 1997 £m	1996 £m
Cost				
At beginning of year	-	-	297.5	297.5
Additions	-	-	359.6	-
At end of year	-	-	657.1	297.5

The Company's principal subsidiaries, listed below, are incorporated in Great Britain, registered in England and Wales and are wholly owned, except where otherwise stated.

Financing activities

- * BUPA Investments Overseas Limited
- * Hospital Finance Investments Limited - (99% holding)
- Hospital Finance Limited (50% holding)
- BUPA Beheer BV - (Netherlands)
- BUPA Nederland BV - (Netherlands)

Reinsurance

- BUPA Re - (Republic of Ireland)

Health Provision

- * Care First Group PLC
- * BUPA Care Services Limited
(Formerly known as Goldsborough Healthcare PLC)
- * Direct subsidiary of the Company

Notes to the financial statements (continued)

13. Tangible assets

Group	Freehold properties £m	Long leasehold properties £m	Equipment £m	Total £m
<i>Cost or valuation</i>				
At beginning of year	-	-	1.5	1.5
Exchange adjustment	-	-	(0.3)	(0.3)
Acquisitions	373.1	13.3	80.1	466.5
Additions	-	-	2.3	2.3
At end of year	373.1	13.3	83.6	470.0
<i>Depreciation</i>				
At beginning of year	-	-	0.1	0.1
Charged in the year	-	-	0.3	0.3
At end of year	-	-	0.4	0.4
<i>Net book value</i>				
At 31 December 1997	373.1	13.3	83.2	469.6
At 31 December 1996	-	-	1.4	1.4

The freehold and leasehold interests in a sample of 23 care homes acquired as part of the acquisition of Care First were valued as at 31 December 1997 by Knight Frank, Chartered Surveyors, as External valuers, on the basis of the existing use value as fully operational concerns. The remaining homes in the Care First portfolio were valued by the directors and these valuations have been incorporated in the balance sheet.

The freehold and leasehold interests in 31 care homes acquired with Goldsborough Healthcare PLC were valued as at 28 November 1997 by Chesterton, Chartered Surveyors, on the basis of existing use value as fully operational concerns. Another property was valued as a vacant property by the same valuers.

The valuations were carried out in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors. The Group has revalued those properties as at 31 December 1997 on the basis of these valuations.

Particulars relating to revalued assets are given below:

Group	1997 £m	1996 £m
<i>Hospitals, care homes and equipment</i>		
At open market value	466.5	-
Aggregate depreciation thereon	-	-
Net book value	466.5	-
Historical cost of revalued assets	466.5	-
Aggregate depreciation based on historical cost	-	-
Historical cost net book value	466.5	-

BUPA FINANCE PLC

Notes to the financial statements (continued)

14. Debtors

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
<i>Amounts falling due within one year :</i>				
Trade debtors	13.6	-	-	-
Accrued investment income	4.4	5.7	-	-
Other debtors	5.4	-	-	-
Amounts owed by parent and fellow subsidiaries	353.0	2.2	29.1	-
	376.4	7.9	29.1	-
<i>Amounts falling due after more than one year :</i>				
Amounts owed by parent and fellow subsidiaries	97.5	98.6	97.5	97.7
Deposit with ceding undertaking (parent)	27.4	36.3	-	-
	124.9	134.9	97.5	97.7

15. Creditors - amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Amounts owed to parent and fellow subsidiaries	493.1	31.5	337.5	92.8
Bank overdrafts	18.4	-	-	-
Corporation tax payable	13.8	8.5	-	-
Health Provision trade creditors	4.9	-	-	-
Accruals	15.0	-	-	-
Other creditors	150.5	2.4	138.0	0.1
	695.7	42.4	475.5	92.9

Other creditors include £138.0m in respect of the remaining shares in Care First to be acquired.

Notes to the financial statements (continued)

16. Creditors - amounts falling due after more than one year

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Subordinated bonds 2018	98.5	98.5	98.5	98.5
Guaranteed loan notes due 1999	84.5	77.8	-	-
Bank loans	96.6	-	2.5	-
Debenture stock	65.1	-	-	-
	344.7	176.3	101.0	98.5

These debts fall due as follows:-

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
<i>Repayable other than by instalments</i>				
Between one and two years	87.0	-	2.5	-
Between two and five years	33.9	77.8	-	-
In five years or more	172.7	97.6	97.6	97.6
	293.6	175.4	100.1	97.6

Repayable by instalments

Between one and two years	49.5	-	-	-
Between two and five years	0.6	-	-	-
In five years or more	0.1	-	-	-
	50.2	-	-	-
Accrued interest	0.9	0.9	0.9	0.9
	344.7	176.3	101.0	98.5

The subordinated bonds, issued by BUPA Finance PLC, are repayable on 3 December 2018 and a call option is exercisable by the Company to redeem the bonds on 3 December 2013. The bond issue is guaranteed by The British United Provident Association Limited ("BUPA"). In the event of a winding up of BUPA Finance PLC or BUPA, the claims of the bondholders are subordinated in right of payment to the claims of other creditors of BUPA. Interest on the bonds is payable at 10.5%.

Bank loans and overdrafts are secured by fixed and floating charges over certain assets of the Group, and bear interest at commercial rates linked to LIBOR.

The 11.8% debenture stock which is repayable at par in 2014 was acquired with Care First Group plc. The stock is secured by a fixed charge over certain of the Group's assets and a first floating charge over the businesses attached thereto and a general floating charge over assets.

17. Technical provisions

	Provision for unearned premiums £m	Claims outstanding £m	Total £m
Group			
At beginning of year	-	45.3	45.3
Movement in the provision	1.5	(4.5)	(3.0)
At end of year	1.5	40.8	42.3

Notes to the financial statements (continued)

18. Provisions for other liabilities and charges

	Group		Company	
	1997	1996	1997	1996
	£m	£m	£m	£m
Deferred taxation				
At beginning of year	5.9	6.4	5.9	5.8
Charge for the year	(3.3)	(0.5)	(5.3)	0.1
Acquisitions	15.8	-	-	-
At end of year	18.4	5.9	0.6	5.9

Amounts provided for deferred taxation and the full potential liability are set out below:

Group	1997 Provided	1996 Provided	1997 Full potential liability	1996 Full potential liability
	£m	£m	£m	£m
Accelerated capital allowances	18.8	-	18.0	-
Other timing differences	(0.4)	5.9	(0.4)	5.9
	18.4	5.9	17.6	5.9

Company	1997 Provided	1996 Provided	1997 Full potential liability	1996 Full potential liability
	£m	£m	£m	£m
Timing differences	0.6	5.9	0.6	5.9

19. Called up share capital

	1997 £m	1996 £m
Authorised share capital 200,000,000 ordinary shares of £1 each	200.0	200.0
Allotted, called-up and fully paid 200,000,000 ordinary shares of £1 each	200.0	200.0

BUPA FINANCE PLC**Notes to the financial statements (continued)****20. Reserves**

Group	Profit and loss account - investments £m	Revaluation £m	Total £m
At beginning of year	5.7	3.7	9.4
Retained surplus	23.7	-	23.7
Unrealised losses on investments	-	(9.8)	(9.8)
Realised during the year	-	8.0	8.0
Exchange translation differences	0.6	-	0.6
Goodwill written off	(97.6)	-	(97.6)
At end of year	(67.6)	1.9	(65.7)

Consolidated reserves are stated after writing off accumulated goodwill of £111.1m (1996 - £13.5m).

Company	Profit and loss account - investments £m	Revaluation £m	Total £m
At beginning of year	1.1	-	1.1
Retained surplus	5.8	-	5.8
At end of year	6.9	-	6.9

As permitted by Section 230(4) of the Companies Act 1985 the Company's own profit and loss account is not presented. The profit after taxation dealt with in the financial statements of the Company was £5.8m (1996 : profit of £6.8m).

Notes to the financial statements (continued)

21. Acquisitions

On 5 August 1997 the Company acquired the entire issued share capital of Goldsbrough Healthcare PLC (Goldsbrough) for a cash consideration of £78.8m.

On 31 December 1997 the Company acquired 53% of the issued share capital of Care First Group plc (Care First) and as a result the offer for Care First became unconditional. As the balance of the issued share capital has been acquired subsequent to the year end, Care First has been consolidated as if it was 100% owned by the Company. The estimated consideration for the acquisition was £280.8m of which £138.0m is included in creditors on the balance sheet and £142.8m was cash.

The acquisition method of accounting has been adopted for all of the above acquisitions.

	Acquisition of Care First			
	Fair value adjustments			
	At book value £m	Revaluations £m	Other £m	Total at fair value £m
Care homes and equipment	383.9	2.2	-	386.1
Current assets	8.2	-	(0.1)	8.1
Creditors and provisions	(35.6)	-	0.9	(34.7)
Loans and overdrafts	(114.4)	(15.1)	-	(129.5)
	242.1	(12.9)	0.8	230.0
Cash consideration and fees				(280.8)
Goodwill				(50.8)

The fair value adjustments followed the revaluation of the freehold and leasehold interests on the basis set out in note 13 as well as the adoption of common accounting policies. In respect of the care home properties acquired as part of the Care First acquisition, this valuation is provisional due to the fact that the acquisition took place shortly before the year end and there was insufficient time to have all of the properties acquired revalued by independent professional valuers. The Governors intend that all the remaining Care First properties acquired will be revalued by independent professional valuers during the current year. Consequently an adjustment to goodwill may be necessary in the financial statements for the year ending 31 December 1998. The other fair value adjustments comprise the revaluation of debenture stock to market value (net of tax) and a release of deferred tax provisions in accordance with consistent accounting policies.

Notes to the financial statements (continued)

21. Acquisitions (continued)

	Acquisition of Goldsborough		
	Fair value adjustments		Total at fair value £m
	At book value £m	Revaluations £m	Other £m
Hospitals, care homes and equipment	94.6	(13.4)	(0.8)
Financial investments	6.4	-	(0.5)
Current assets	18.9	-	(2.1)
Creditors and provisions	(13.9)	-	(0.4)
Loans and overdrafts	(56.6)	-	(0.2)
	49.4	(13.4)	(4.0)
Cash consideration and fees			(78.8)
Goodwill			(46.8)

All hospital and care home properties have been revalued. The other fair value adjustments result from harmonisation of accounting policies, the most significant of which was in respect of bad and doubtful debts.

The results of Goldsborough which have been included in the Group result for the financial year are given below.

	£m
Turnover	41.2
Expenses	(41.1)
Operating profit	0.1

As Care First was acquired on 31 December 1997 there has been no impact on the current year result of the Group.

Goldsborough's profit after tax for the period commencing 30 September 1996 to the date of acquisition was £2.9m. In the year ended 29 September 1996 Goldsborough's profit after tax was £3.2m. There were no minority interests in either period.

The results of Care First for its financial years ended 31 December 1996 and 1997 are set out below.

	1997 £m	1996 £m
Turnover	181.7	134.5
Cost of sales (exceptional items £5.5m (1996 : £1.5m))	(159.1)	(113.2)
	22.6	21.3
Interest payable	(9.4)	(4.3)
Profit before tax	13.2	17.0
Taxation	(4.5)	(21.5)
Profit/(loss) for financial period	8.7	(4.5)

Exceptional items comprise bid defence costs and the costs of restructuring carried out by the previous management. (1996 : costs associated with cessation of new building program and Court Cavendish integration.)

There were no other recognised gains and losses in either period.

Notes to the financial statements (continued)

22. Contingent liabilities

In respect of the Guaranteed loan notes due 1999, issued during 1994, the Company has granted letters of credit totalling £50,000,000 in favour of the purchaser of the bonds.

The Company has given a guarantee and other undertakings, as part of the Group banking arrangements, in respect of the overdraft of certain other Group undertakings.

23. Post balance sheet event

On 21 January 1998, the board of the parent company, The British United Provident Association Limited, approved the guarantee of borrowings of £200m by BUPA Finance PLC by way of a syndicated facility agreement. The borrowings are to be used for financing the remaining acquisitions costs of the Care First Group Plc. At present £150m of this facility has been drawn down.