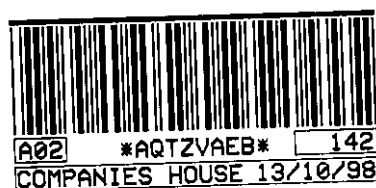


Health & Care Services (NW) Limited

Report

for the period ended 31 December 1997

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Directors and advisers

Executive directors

M A Stratford
Mrs J L Adams

Registered auditors

Coopers & Lybrand
Temple Court
35 Bull Street
Birmingham
B4 6JT

Secretary and registered office

S J Bishop
"Hillcairnie"
St Andrew's Road
Droitwich
Hereford & Worcester
WR9 8DJ

Solicitors

Simon Bishop & Partners
"Hillcairnie"
St Andrew's Road
Droitwich
Hereford & Worcester
WR9 8DJ

Bankers

National Westminster Bank plc
Cheltenham & Gloucester
Business Centre
68-70 Suffolk Road
Cheltenham
Gloucestershire
GL50 2ED

Directors' report for the period ended 31 December 1997

The directors present their report and the audited financial statements for the period ended 31 December 1997.

Principal activity

The principal activity of the company continues to be the operation of a nursing home.

Parent company

The company is a wholly owned subsidiary of Craegmoor Healthcare Company Limited. The company was acquired by Craegmoor Healthcare Company Limited on 4 February 1997 and changed its year end to 31 December in line with that company.

Review of business

Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend for the period ended 31 December 1997 (57 weeks ended 4 February 1997: £260,000), and recommend that the profit for the period ended 31 December 1997 of £283,820 (57 weeks ended 4 February 1997: Loss £158,165) be transferred to reserves.

Directors

The directors of the company during the period ended 31 December 1997 are as listed on page 1.

Directors' report for the period ended 31 December 1997

Directors' interests

All of the directors are directors of Craegmoor Healthcare Company Limited, and their share interests are shown in the directors' report of that company.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that 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 year.

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 period ended 31 December 1997. The directors also confirm 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.

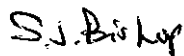
Changes in fixed assets

The movements in fixed assets during the year are set out in note 10 to the financial statements. The directors consider there to be no significant difference between the market value of the company's freehold land and buildings and their book value.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



S J Bishop

Company secretary

30 April 1998

**Report of the auditors to the members of
Health & Care Services (NW) Limited**

We have audited the financial statements on pages 5 to 18.

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.

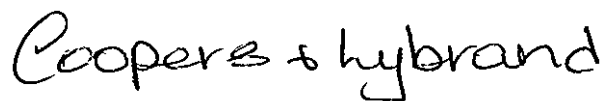
Basis of opinion

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 at 31 December 1997 and of its profit and total recognised gains for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditors

Birmingham

30 April 1998

**Profit and loss account
for the period ended 31 December 1997**

	Notes	47 weeks ended 31 December 1997 £	57 weeks ended 4 February 1997 £
Turnover - continuing operations	2	1,059,976	1,262,940
Cost of sales - continuing operations		(547,311)	(539,372)
Gross profit		512,665	723,568
Administrative expenses - continuing operations		(99,116)	(487,061)
Operating profit - continuing operations		413,549	236,507
Interest receivable and similar income	5	276	9,643
Interest payable and similar costs	6	(5)	(82,505)
Profit on ordinary activities before taxation	7	413,820	163,645
Tax on profit on ordinary activities	8	(130,000)	(61,810)
Profit on ordinary activities after taxation		283,820	101,835
Dividends	9	-	(260,000)
Retained profit/(loss) for the period	17	283,820	(158,165)

The comparative amounts have been reclassified to conform with the presentation adopted in the current year which the Directors consider to be more meaningful.

Statement of total recognised gains and losses

	Notes	47 weeks ended 31 December 1997 £	57 weeks ended 4 February 1997 £
Profit for the financial period	17	283,820	101,835
Unrealised surplus on revaluation of freehold land and buildings	17	814,734	-
Total gains and losses recognised in the period		1,098,554	101,835

Note of historical cost profits and losses

	47 weeks ended 31 December 1997 £	57 weeks ended 4 February 1997 £
Reported profits on ordinary activities before taxation	413,820	163,645
Difference between historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount.	13,835	-
Historical cost profit on ordinary activities before taxation	427,655	163,645
Historical cost profit for the period after taxation	297,655	101,835

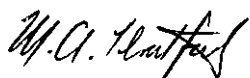
Health & Care Services (NW) Limited

7

Balance sheet at 31 December 1997

	Notes	31 December 1997	4 February 1996
		£	£
Fixed assets			
Tangible assets	10	1,707,815	919,895
Current assets			
Stocks	11	500	500
Debtors	12	462,288	35,572
Cash at bank and in hand		746	1,173
		<u>463,534</u>	<u>37,245</u>
Creditors: amounts falling due within one year	13	(1,019,060)	(643,405)
		<u>(555,526)</u>	<u>(606,160)</u>
Total assets less current liabilities		1,152,289	313,735
Creditors: amounts falling due after more than one year	14	-	(260,000)
Provisions for liabilities and charges	15	(34,000)	(34,000)
		<u>1,118,289</u>	<u>19,735</u>
Net assets		1,118,289	19,735
Capital and Reserves			
Called up share capital	16	1	1
Revaluation reserve	17	814,734	-
Profit and loss account	17	303,554	19,734
		<u>1,118,289</u>	<u>19,735</u>
Equity shareholders' funds	18	1,118,289	19,735

The financial statements on pages 5 to 18 were approved by the board of directors on 30 April 1998 and were signed on its behalf by:



M A Stratford
Director

**Notes to the financial statements
for the period ended 31 December 1997****1. Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The comparatives have been restated in order that they are in line with group treatment. A summary of the more important accounting policies, which have been applied consistently, except as indicated, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Land and buildings are stated at valuations made by directors based on valuations made by independent professionally qualified valuers on an existing use open market value basis. Land and buildings are revalued by professionally qualified valuers every five years and in the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required.

The interval for obtaining full valuations from professionally qualified valuers has been increased from three years to five years. The Directors revised this policy to be more appropriate to the circumstances of the company.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets less their estimated residual values, on the following basis:

Leasehold land and buildings	2% straight line method
Plant and machinery	15% reducing balance method

The company changed the rate of depreciation for plant and machinery from 25% reducing balance to 15% reducing balance. In the directors' opinion this rate of depreciation more accurately reflects the remaining useful lives of these assets. The effect of this change on the reported profits for the year is considered to be immaterial.

Operating Leases

Costs in respect of operating are charged on a straight line basis over the lease term.

1 Principal accounting policies (continued)

Stocks

Stocks are stated at lower of cost and net realisable value.

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 will crystallise.

Cash flow statement

The company is a wholly owned subsidiary of Craegmoor Healthcare Company Limited and its cash flows are included in the consolidated group cash flow statement of the parent company. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cash flow statement.

2 Turnover

Turnover which excludes value added tax consists entirely of fee income charged for the year in the United Kingdom.

3 Directors' emoluments

Directors' emoluments for the period ended 31 December 1997 were £Nil (57 weeks ended 4 February 1997: £Nil).

4 Employee information

The average weekly number of persons (including executive directors) employed by the company during the year was as shown below.

	47 weeks ended 31 December 1997 Number	57 weeks ended 4 February 1997 Number
Nursing, ancillary and administrative staff	51	47
	<hr/>	<hr/>
	47 weeks ended 31 December 1997 £	57 weeks ended 4 February 1997 £
Staff costs (for the above persons)		
Wages and salaries	472,595	461,200
Social security costs	28,664	30,408
	<hr/>	<hr/>
	501,259	491,608
	<hr/>	<hr/>

5 Interest receivable and similar income

	47 weeks ended 31 December 1997 £	57 weeks ended 4 February 1997 £
Bank interest received	276	9,643
	<hr/>	<hr/>

6 Interest payable and similar charges

	47 weeks ended 31 December 1997	57 weeks ended 4 February 1997
	£	£
On bank overdraft repayable within 5 years, not by instalments	5	82,505
	<u>5</u>	<u>82,505</u>
	<u><u>5</u></u>	<u><u>82,505</u></u>

7 Profit on ordinary activities before taxation

	47 weeks ended 31 December 1997	57 weeks ended 4 February 1997
	£	£
Profit on ordinary activities before taxation is stated after		
Depreciation charge for the year:		
Tangible owned fixed assets	32,878	45,655
Auditors' remuneration for:		
Audit	3,000	3,000
Operating leases	11,298	13,072
	<u><u>11,298</u></u>	<u><u>13,072</u></u>

8 Tax on profit on ordinary activities

	47 weeks ended 31 December 1997	57 weeks ended 4 February 1997
	£	£
United Kingdom corporation tax at 33% (Period ended 4 February 1997: 30.4%):		
Current	130,000	44,800
Deferred	-	17,000
Adjustment in respect of previous year's corporation tax	-	10
	<hr/>	<hr/>
	130,000	61,810
	<hr/>	<hr/>

9 Dividends

	47 weeks ended 31 December 1997	57 weeks ended 4 February 1997
	£	£
Dividends of £Nil per share (period ended 4 February 1997: £260,000 per share)	-	260,000
	<hr/>	<hr/>

10 Tangible fixed assets

	Long leasehold land and buildings £	Furniture and fittings £	Total £
	£	£	£
Cost or valuation			
At 5 February 1997	895,336	145,357	1,040,693
Additions	-	6,064	6,064
Revaluations	768,610	-	768,610
	<hr/>	<hr/>	<hr/>
At 31 December 1997	1,663,946	151,421	1,815,367
	<hr/>	<hr/>	<hr/>
Depreciation			
At 5 February 1996	46,124	74,674	120,798
Charge for year	16,414	16,464	32,878
Revaluations	(46,124)	-	(46,124)
	<hr/>	<hr/>	<hr/>
At 31 December 1997	16,414	91,138	107,552
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 1997	1,647,532	60,283	1,707,815
	<hr/>	<hr/>	<hr/>
At 31 December 1996	849,212	70,683	919,895
	<hr/>	<hr/>	<hr/>
	£	£	£
Cost or valuation at 31 December 1997			
Valuation in period	1,663,946	-	1,663,946
Cost	-	151,421	151,421
	<hr/>	<hr/>	<hr/>
	1,663,496	151,421	1,815,367
	<hr/>	<hr/>	<hr/>

The land and buildings were re-valued by the Directors based on an independent professional valuation dated 16 December 1996 using an open market value for existing use basis. This valuation was undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom by Matthews & Goodman, a firm of independent chartered surveyors.

10 Tangible fixed assets (continued)

If land and buildings had not been revalued they would have been included at the following amounts:

	1997	1996
	£	£
Cost	895,336	895,336
Aggregate depreciation based on cost	(60,897)	(46,124)
	<hr/>	<hr/>
Net book value based on cost	834,439	849,212
	<hr/> <hr/>	<hr/> <hr/>

11 Stock

	31 December 1997	4 February 1997
	£	£
Consumables	500	500
	<hr/>	<hr/>

12 Debtors

	31 December 1997	4 February 1997
	£	£
Amounts falling due within one year		
Trade debtors	13	31,312
Amounts owed by other group undertakings	375,650	-
Prepayments	86,625	4,260
	<hr/>	<hr/>
	462,288	35,572
	<hr/> <hr/>	<hr/> <hr/>

13 Creditors: amounts falling due within one year

	31 December 1997	4 February 1997
	£	£
Bank overdraft	459,947	2,709
Trade creditors	8,968	3,841
Corporation tax	130,000	44,800
Accruals and deferred income	147,847	174,570
Other creditors	11,215	128,451
Amounts due to immediate parent undertaking	261,083	289,034
	<u>1,019,060</u>	<u>643,405</u>

The bank overdraft is unsecured and has no fixed repayment terms.

14 Creditors: amounts falling due after more than one year

	£	£
Amounts owed to immediate parent company	-	260,000
	<u>-</u>	<u>260,000</u>

15 Provisions for liabilities and charges

	Deferred taxation
	£
At 5 February 1997	34,000
Transfer to the profit and loss account	-
	<u>34,000</u>
At 31 December 1997	<u>34,000</u>

15 Provisions for liabilities and charges (continued)

Deferred taxation provided in the financial statements and the amount unprovided of the total potential liability, are as follows:

	Amount provided		Amount unprovided	
	31 December 1997	4 February 1997	31 December 1997	4 February 1997
	£	£	£	£
Tax effect of timing differences because of:				
Excess capital allowances over depreciation	34,000	34,000	4,472	-
Revaluation surplus	-	-	230,000	-
	<u>34,000</u>	<u>34,000</u>	<u>234,472</u>	<u>-</u>
	<u><u>34,000</u></u>	<u><u>34,000</u></u>	<u><u>234,472</u></u>	<u><u>-</u></u>

16 Called up share capital

	31 December 1997	4 February 1997
	£	£
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
1 ordinary shares of £1 each	1	1
	<u>1</u>	<u>1</u>

17 Reserves

	Revaluation Reserve £	Profit and Loss Account £
At 5 February 1997	-	19,734
Retained profit for the period	-	283,820
Surplus on property revaluations	814,734	-
	<u>814,734</u>	<u>-</u>
At 31 December 1997	<u><u>814,734</u></u>	<u><u>303,554</u></u>

18 Reconciliation of movement in shareholders' funds

	31 December 1997	4 February 1997
	£	£
Opening shareholders' funds	19,735	177,900
Profit for the financial period	283,820	101,835
Dividends	-	(260,000)
	<hr/>	<hr/>
	303,555	19,735
Other recognised gains relating to the period	814,734	-
	<hr/>	<hr/>
Closing shareholders' funds	1,118,289	19,735
	<hr/>	<hr/>

19 Commitments under operating leases

At 31 December 1997 the company had annual commitments under non-cancellable operating leases for land and buildings as follows:

	1997	1996
	£	£
Expiring after five years	11,298	13,702
	<hr/>	<hr/>

20 Capital commitments

There were no capital commitments at 31 December 1997 (4 February 1997: £Nil).

21 Contingent liability

There is a fixed and floating charge over the property, undertaking and assets of the company in respect of a loan from Craegmoor Finance PLC to Parkcare Homes Limited under the Parkcare/Issuer Loan Agreement dated 20 December 1996. Craegmoor Finance PLC and Parkcare Homes Limited are fellow subsidiaries of the company.

22 Related party transactions

The company has taken advantage of the exemption granted under Paragraph 3(c) of FRS8 and not disclosed any transactions with group companies.

23 Immediate and ultimate parent companies

The directors regard Health & Care Services (UK) Limited, a company registered in England and Wales, as the immediate parent company and regard Craegmoor Healthcare Company Limited, a company registered in England and Wales, as the immediate parent company of Health & Care Services (UK) Limited. Copies of the Craegmoor Healthcare Company Limited's consolidated financial statements may be obtained from The Secretary, Craegmoor Healthcare Company Limited, "Hillcairnie", St Andrew's Road, Droitwich, Hereford and Worcester WR9 8DJ. The directors regard Warburg Pincus LP, a limited partnership incorporated in the United States of America, as the ultimate parent company. Copies of the ultimate parent company's financial statements are not available to the public.