



ARTHURANDERSEN

SunScript UK Limited



Financial statements for the year ended 31 December 1999
together with directors' and auditors' reports

Registered number: 3017507



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Directors' report

For the year ended 31 December 1999

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

Principal activities, business review and future prospects

The company's principal trading activity during the period was the operation of pharmacy services.

The company purchased one pharmacy during the year, at High Street, Weaverham.

On 28th February 2000, the trading assets of four pharmacies, excluding current assets and current liabilities, were transferred to another group undertaking and then subsequently sold to E Moss Directors Ltd.

On 30th April 2000, the trading assets of the remaining seven pharmacies, excluding current assets and current liabilities, were sold to Levelcrown Ltd.

On 5th May 2000 the pharmacy wholesale division was discontinued.

After 5th May 2000, the only continuing activities are the provision of high tech homecare services and the group administration function

Results and dividends

The loss for the year after taxation was £677,154 (1998 – loss of £211,975). The Directors are unable to recommend a dividend. Accordingly the loss of £677,154 (1998 - £211,975) has been deducted from reserves.

Directors

The directors of the company who served during the year and to the date of these accounts are listed below:

W C Schelling	
A L Turner	(resigned 12 December 2000)
R F Atwill	(resigned 31 March 2000)
P V Roach	
A Kerr	(appointed 4 January 1999, resigned 31 March 2000)
W H McInteer	(appointed 1 April 2000)
K C K Scott	(appointed 27 April 2000)

According to the register required to be kept under Section 325 of the Companies Act, none of the Directors had any interest in the share capital of the company.

Messrs Schelling and Turner are also directors of Sun Healthcare Group, Inc (the ultimate parent undertaking of the company) and their interests in its shares are disclosed in that company's financial statements.

Directors' report (continued)

Year 2000

The company assessed the risks to the business resulting from the date change to the Year 2000. Action plans were put in place to deal with the key risks. The Board is confident that Year 2000 compliance has been achieved and there has been no significant impact on the business as a result of the date change to the Year 2000. The cost of achieving Year 2000 compliance was not material and was absorbed within the existing budgets. The directors will continue to review this issue as part of their ongoing risk assessment procedures.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

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; and
- 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.

Directors' report

Auditors

The directors will place a resolution before the Annual General Meeting to appoint Arthur Andersen as auditors for the ensuing year.

Sun House
Woburn Road
Warrington
WA2 8UE

By order of the Board

A handwritten signature in black ink, appearing to read 'C Ford', written in a cursive style.

C Ford
Company Secretary

19 January 2001

To the shareholders of SunScript UK Limited:

We have audited the financial statements on pages 6 to 17 which have been prepared under the historical cost convention and the accounting policies set out in pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, 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 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 circumstances of the company, 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures set out in note 1a) 'Basis of accounting' relating to post balance sheet events, and the strategic review and financing of the UK holding company, Sun Healthcare Group UK Limited and its subsidiaries, including this company. In view of the significance of these matters and their potential impact on the going concern basis adopted in these accounts, we believe that they should be brought to your attention. Our opinion is not qualified in this respect.



Opinion

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

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

191 West George Street

Glasgow

G2 2LB

19 January 2001

Profit and loss account

For the year ended 31 December 1999

	Notes	1999 £	1998 £
Turnover			
Continuing operations	2	305,451	7,597,012
Discontinued operations	2	12,350,067	604,940
		<u>12,655,518</u>	<u>8,201,952</u>
Cost of sales	3	(9,969,081)	(6,026,606)
Gross profit		<u>2,686,437</u>	<u>2,175,346</u>
Administrative expenses	3	(787,657)	(703,653)
Distribution and selling expenses	3	(2,580,499)	(1,916,099)
Operating loss	4		
Continuing operations		(502,291)	(418,003)
Discontinued operations		(179,428)	(26,403)
		<u>(681,719)</u>	<u>(444,406)</u>
Profit on disposal of discontinued operations		-	200,278
Interest payable	5	(2,084)	(2,049)
Interest receivable	5	6,649	34,202
Loss on ordinary activities before and after taxation for the year		<u>(677,154)</u>	<u>(211,975)</u>

There are no recognised gains or losses in either year other than the loss for the year recorded in the profit and loss account.

The accompanying notes are an integral part of this profit and loss account.

There is no material difference between the result as disclosed in the profit and loss account and the result on a historical cost basis.

Balance sheet
31 December 1999

	Notes	1999 £	1998 £
Fixed assets			
Intangible assets	8	3,097,836	3,192,847
Tangible assets	9	995,843	730,829
Investments in subsidiaries	10	2,571,216	2,571,216
		<u>6,664,895</u>	<u>6,494,892</u>
Current assets			
Stock	11	1,399,794	845,738
Debtors	12	2,839,691	1,886,336
Cash at bank and in hand		152,874	697,222
		<u>4,392,359</u>	<u>3,429,296</u>
Creditors: Amounts falling due within one year	13	<u>(2,996,759)</u>	<u>(1,293,889)</u>
Net current assets		<u>1,395,600</u>	<u>2,135,407</u>
Total assets less current liabilities		<u>8,060,495</u>	<u>8,630,299</u>
Creditors: Amounts falling due after more than one year	14	<u>(6,860,591)</u>	<u>(6,753,241)</u>
Net assets		<u>1,199,904</u>	<u>1,877,058</u>
Capital and reserves			
Called-up equity share capital	16	3,742,000	3,742,000
Profit and loss account	17	(2,542,096)	(1,864,942)
Equity shareholders' funds		<u>1,199,904</u>	<u>1,877,058</u>

Signed on behalf of the Board


P. V. Roach
Director

19 January 2001

The accompanying notes are an integral part of this balance sheet.

Notes to the financial statements

Year ended 31 December 1999

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year are set out below.

a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

The ultimate parent entity, Sun Healthcare Group Inc., filed a voluntary petition for protection under Chapter 11 of the US Bankruptcy Code for all US operating subsidiaries on 14 October 1999. During the period of protection it is unlikely that funds will be remitted from the US parent company to its UK subsidiaries. Sun Healthcare Group UK Limited ('SHG UK') currently operates effectively on a standalone basis and has been self-financing from 14 October 1999.

In preparing the financial statements on the going concern basis the directors have considered the company's financial position. The company and SHG UK's future operational existence is dependent on the successful completion of a proposed Management Buy Out (MBO) of SHG UK and its subsidiaries and the subsequent implementation of management's business plan. Management has agreed this MBO with the shareholders of the ultimate parent entity, and is still subject to US Bankruptcy Court approval. After the MBO, management plans to implement its business plan which includes a requirement for working capital. Management has agreed, subject to the finalisation of contracts, external bank financing which will provide the necessary cash to fulfill this requirement. The directors have prepared projected cash flow information for the period extending 12 months from the date of approval of these financial statements. On the basis of this cash flow information and in knowledge of the likelihood of the successful MBO, the directors consider that the company will continue to operate within the agreed, subject to finalisation of contracts, banking facilities. However, the margin of cash resources over requirements is not large and, inherently there can be no certainty in relation to these matters.

On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from the failure of the company to meet its financial obligations.

b) Consolidation

No consolidated financial statements have been prepared as permitted by section 228 of the Companies Act 1985 since the company is a wholly owned subsidiary undertaking of Sun Healthcare Group UK Limited, which itself prepares consolidated financial statements.

c) Turnover

Turnover is the total amount receivable, excluding VAT, in the ordinary course of business for goods and services provided.

d) Leased assets

Operating lease rentals are charged to the profit and loss account as incurred.

Notes to the financial statements (continued)

1 Accounting policies (continued)

e) Goodwill

Goodwill arising on acquisitions of businesses, and representing the excess of the consideration given over the fair value of net assets acquired, is being written off on a straight line basis over its estimated useful economic life of 20 years.

f) Investments

Fixed asset investments are shown at cost less provision for impairment.

g) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment.

Depreciation is provided so as to write down the carrying value of the tangible fixed assets to their residual values evenly over their estimated useful lives as follows:

Freehold and long leasehold property	2.5%
Short leasehold property and leasehold improvements	over period of lease
Fixtures, fittings, tools and equipment	10-20%

h) Stock

Stock, comprising drugs, medical supplies and other pharmacy products held for resale, is valued at the lower of cost and net realisable value.

i) Deferred taxation

Corporation tax is provided on taxable profits at the current rate of taxation after utilising available group tax losses. Provision is made for deferred taxation using the liability on all timing differences between the recognition of income and expenditure for tax and accounting purposes to the extent that, in the opinion of the Directors, it is probable that a liability or asset will crystallise in the foreseeable future.

j) Cash flow statement

Financial Reporting Standard Number 1 (Revised) "Cash Flow Statements" exempts undertakings from the requirement to produce such a statement where they are wholly owned subsidiaries of undertakings which prepare a consolidated cash flow statement in accordance with the Standard and which includes the cash flows of the company. The company has therefore taken advantage of the exemption as this statement is prepared by the parent company.

k) Pensions costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and those actually paid are shown as either accruals or prepayments.

Notes to the financial statements (continued)

2 Turnover

No segmental information is provided as the Directors consider that the only class of business which the company engages in is the provision of pharmacy services in the United Kingdom.

3 Analysis of costs

	Continuing operations £	Discontinued operations £	1999 Total £	Continuing operations £	Discontinued operations £	1998 Total £
Cost of sales	227,662	9,741,419	9,969,081	5,575,198	451,408	6,026,606
Administrative expenses	485,511	302,146	787,657	703,653	-	703,653
Distribution and selling expenses	94,305	2,486,194	2,580,499	1,736,164	179,935	1,916,099
	<u>579,816</u>	<u>2,788,340</u>	<u>3,368,156</u>	<u>2,439,817</u>	<u>179,935</u>	<u>2,619,752</u>

4 Operating loss

The operating loss is stated after charging:

	1999 £	1998 £
Amortisation of goodwill	197,444	184,389
Depreciation of owned assets	96,580	78,306
Depreciation of leased assets	15,824	10,335
Operating lease rentals		
- plant and machinery	35,332	72,524
- other	36,967	9,159
Auditors' remuneration	<u>31,850</u>	<u>25,000</u>

During the current year the company has been charged with audit fees relating to its subsidiary companies.

Notes to the financial statements (continued)

5 Interest

	1999 £	1998 £
Payable:		
Bank loans and overdrafts	(2,084)	(2,049)
Receivable:		
Bank interest receivable	6,649	34,202

6 Directors and employees

Staff costs during the year:

	1999 £	1998 £
Wages and salaries	1,683,715	1,460,479
Social security costs	141,693	105,373
Other pensions costs	128,073	49,573
	<u>1,953,481</u>	<u>1,615,425</u>

Directors' emoluments for services as directors of the company during the year were £205,715 (1998 - £148,687).

The emoluments, excluding pension contributions, of the highest paid director were £104,000 (1998 - £58,168).

The average monthly number of employees (including executive directors) was:

	1999 Number	1998 Number
Administration	18	18
Distribution and selling	124	92
	<u>142</u>	<u>110</u>

7 Tax on profit on ordinary activities

No tax charge has arisen in the current year since there are no taxable profits (1998 - £Nil).

Notes to the financial statements (continued)

8 Intangible fixed assets

	Goodwill £
Cost	
At 1 January 1999	3,464,160
Additions	102,433
At 31 December 1999	<u>3,566,593</u>
Accumulated amortisation	
At 1 January 1999	271,313
Charge for the year	187,444
At 31 December 1999	<u>458,757</u>
Net book value	
At 31 December 1999	<u>3,097,836</u>
At 31 December 1998	<u>3,192,847</u>

Notes to the financial statements (continued)

9 Tangible fixed assets

	<u>Land and Buildings</u>				
	Freehold	Long Leasehold	Short leasehold improvements	Fixtures, Fittings tools and equipment	Total
	£	£	£	£	£
Cost					
At 1 January 1999	231,220	115,764	87,032	421,742	855,758
Additions	-	-	239,372	141,580	380,952
Disposals	-	-	-	(10,600)	(10,600)
At 31 December 1999	<u>231,220</u>	<u>115,764</u>	<u>326,404</u>	<u>552,722</u>	<u>1,226,110</u>
Depreciation					
At 1 January 1999	12,043	4,777	7,132	100,978	124,930
Charge for the year	5,781	2,945	12,879	90,799	112,404
Disposals	-	-	-	(7,067)	(7,067)
At 31 December 1999	<u>17,824</u>	<u>7,722</u>	<u>20,011</u>	<u>184,710</u>	<u>230,267</u>
Net book value					
At 31 December 1999	<u>213,396</u>	<u>108,042</u>	<u>306,393</u>	<u>368,012</u>	<u>995,843</u>
At 31 December 1998	<u>219,177</u>	<u>110,987</u>	<u>79,900</u>	<u>320,764</u>	<u>730,828</u>

10 Investments in subsidiaries

	Cost £
At 1 January 1999 and 31 December 1999	<u>2,571,216</u>

The Company owns the whole of the issued ordinary share capital of Park Chemist (Liverpool) Limited, West End Pharmacy Limited, N&J Sampson Limited and P F Young Limited, all of which are incorporated and operate in Great Britain. The principal activity of all subsidiaries is the provision of pharmacy services.

11 Stocks

	1999 £	1998 £
Shop goods, drugs and consumables	<u>1,399,794</u>	<u>845,738</u>

Notes to the financial statements (continued)

12 Debtors

	1999 £	1998 £
Trade debtors	1,574,000	694,611
Amounts due from fellow subsidiary undertakings	938,960	850,904
Amounts due from subsidiary undertakings	-	143,493
Other debtors	232,887	91,177
Prepayments and accrued income	93,844	106,151
	<u>2,839,691</u>	<u>1,886,336</u>

13 Creditors – Amounts falling due within one year

	1999 £	1998 £
Trade creditors	1,471,071	655,361
Amounts owed to fellow subsidiary undertaking	1,138,901	393,332
Taxation and social security	144,171	131,286
Accruals and deferred income	242,616	113,910
	<u>2,996,759</u>	<u>1,293,889</u>

14 Creditors – Amounts falling due after more than one year

	1999 £	1998 £
Amounts owed to ultimate parent undertaking	<u>6,860,591</u>	<u>6,753,241</u>

The amounts owed to the ultimate parent undertaking are not interest bearing and have no set repayment terms, except that the parent undertaking has agreed not to require repayment until after 31 December 2000.

15 Provisions for liabilities and charges

Deferred taxation provided was £Nil (1998 - £Nil).

Deferred taxation not provided is as follows:

	<u>Not provided</u>	
	1999	1998
	£	£
Company		
Accelerated capital allowances	-	29,980
Other timing differences	-	(109,430)
	<u>-</u>	<u>(79,450)</u>

16 Share capital

	1999	1998
	£	£
Equity shares:		
<i>Authorised:</i>		
5,000,000 ordinary shares of £1 each	<u>5,000,000</u>	<u>5,000,000</u>
<i>Allotted, called up and fully paid:</i>		
3,742,000 ordinary shares of £1 each	<u>3,742,000</u>	<u>3,742,000</u>

17 Profit and loss account

	1999	1998
	£	£
At 1 January	(1,864,942)	(1,652,967)
Loss for the year	<u>(677,154)</u>	<u>(211,975)</u>
At 31 December	<u>(2,542,096)</u>	<u>(1,864,942)</u>

18 Reconciliation of movements in shareholders' funds

	1999	1998
	£	£
Loss for the year	<u>(677,154)</u>	<u>(211,975)</u>
Net movements in equity shareholders' funds	<u>(677,154)</u>	<u>(211,975)</u>
Opening equity shareholders' funds	<u>1,877,058</u>	<u>2,089,033</u>
Closing equity shareholders' funds	<u>1,199,904</u>	<u>1,877,058</u>

Notes to the financial statements (continued)

19 Operating lease commitments

Expiry date	Land and buildings £	Other £	1999 Total £	Land and buildings £	Other £	1998 Total £
- within one year	-	69,840	69,840	-	952	952
- between two and five years	36,200	-	36,200	39,500	72,456	111,956
- after five years	158,000	-	158,000	101,650	-	101,650
	<u>194,200</u>	<u>69,840</u>	<u>264,040</u>	<u>141,150</u>	<u>73,408</u>	<u>214,558</u>

20 Related party transactions

The company, as a wholly owned subsidiary undertaking, has taken advantage of exemptions granted under Financial Reporting Standard Number 8, Related Parties, by not disclosing sales and purchases with other group companies

21 Pension arrangements

The company operates a number of defined contribution schemes for which the pension cost for the year amounted to £128,073 (1998 - £49,573).

22 Parent undertakings

The Directors consider that the ultimate parent undertaking and controlling party of the company is Sun Healthcare Group Inc, a company incorporated in the United States of America. The accounts of that company are the accounts of the largest group which are prepared including the results of the company. The accounts of the immediate UK parent undertaking, Sun Healthcare Group UK Limited, which is incorporated in Great Britain, are the group accounts of the smallest group which are prepared including the results of the company.

Group accounts may be obtained from:

Sun Healthcare Group Inc
101 Sun Avenue, NE
Albuquerque
New Mexico 87109

Sun Healthcare Group UK Limited
79 High Street
Eton
Windsor
Berkshire
SL4 6AF

Notes to the financial statements (continued)

23 Subsequent events

On 28th February 2000, the trading assets of four pharmacies excluding current assets and current liabilities, were sold to E Moss Directors Ltd.

On 30th April 2000, the trading assets of the remaining seven pharmacies excluding current assets and current liabilities, were sold to Levelcrown Ltd.

On 5th May 2000 the pharmacy wholesale division was discontinued.

After 5th May 2000, the only continuing activities are the provision of high tech homecare services and the group administration function