

**HEALTH CARE PROJECTS HOLDINGS
LIMITED**

ANNUAL REPORT AND ACCOUNTS

for the year ended

31 DECEMBER 1997



HEALTH CARE PROJECTS HOLDINGS LIMITED

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HEALTH CARE PROJECTS HOLDINGS LIMITED

DIRECTORS

R J H Brook
N W Smith (resigned 12 February 1998)
G N V Green (appointed 17 March 1997)
T Pearson (appointed 17 March 1997)
Sir Derek Boorman (appointed 24 September 1997)

SECRETARY

R J H Brook

REGISTERED OFFICE

3 Cobden Court
Wimpole Close
Bromley
Kent BR2 9JF

AUDITORS

Smith & Williamson
Chartered Accountants
No 1 Riding House Street
London W1A 3AS

COMPANY'S REGISTERED NUMBER

3209169

HEALTH CARE PROJECTS HOLDINGS LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 31 December 1997.

Activities

The company owns 100% of the share capital in Health Care Projects Limited and Health Care Projects (Warrington) Limited.

Directors and their interests

The directors of the company at during the period are listed below:

R J H Brook
N W Smith (resigned 12 February 1998)
T Pearson (appointed 17 March 1997)
G N V Green (appointed 17 March 1997)
Sir Derek Boorman (appointed 24 September 1997)

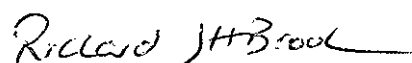
According to the Register required to be kept under Section 325 of the Companies Act 1985, the following directors had interests in the shares of the Company:-

	"B" Ordinary shares of £0.01 each	
	1997	1996
R J H Brook	10,333	10,333
N W Smith	3,000	3,000
G N V Green	6,667	6,667
T Pearson	-	-
Sir Derek Boorman	-	-

Auditors

A resolution to re-appoint Smith & Williamson as auditors will be proposed at the next Annual General Meeting.

APPROVED BY THE BOARD OF DIRECTORS
AND SIGNED ON BEHALF OF THE BOARD.



R J H Brook
SECRETARY

HEALTH CARE PROJECTS HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts 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 accounts 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.

AUDITORS' REPORT TO THE SHAREHOLDERS OF HEALTH CARE PROJECTS HOLDINGS LIMITED

We have audited the accounts on pages 5 to 9 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 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 financial statements give a true and fair view of the state of the company's affairs at 31 December 1997 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Smith & Williamson

SMITH & WILLIAMSON
Chartered Accountants
Registered Auditors

No 1 Riding House Street
London W1A 3AS

30 October 1998

HEALTH CARE PROJECTS HOLDINGS LIMITED**PROFIT AND LOSS ACCOUNT for the year ended 31 DECEMBER 1997**

	Notes	1997	1996
		£	£
Turnover		-	-
Operating costs		(10,385)	-
		<u> </u>	<u> </u>
		(10,385)	-
		<u> </u>	<u> </u>
Operating loss	2	(10,385)	-
Interest payable		(21,678)	-
		<u> </u>	<u> </u>
Loss on ordinary activities before taxation		(32,063)	-
Taxation		-	-
		<u> </u>	<u> </u>
Loss on ordinary activities after taxation		(32,063)	-
		<u> </u>	<u> </u>
Retained loss for the financial year		(32,063)	-
Balance brought forward		-	-
		<u> </u>	<u> </u>
Balance carried forward		<u>£(32,063)</u>	<u> </u>

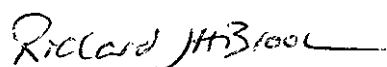
There were no recognised gains or losses in either year other than those included in the above profit and loss account. All the activities of the company are classed as continuing.

HEALTH CARE PROJECTS HOLDINGS LIMITED

BALANCE SHEET as at 31 DECEMBER 1997

	Notes	1997 £	1996 £
Fixed assets			
Investments	3	2,115,228	124,200
Current assets			
Cash		117,885	6,667
Creditors: amounts falling due within one year	4	(8,500)	(100)
Net current assets		109,385	6,567
Total assets less current liabilities		2,224,613	130,767
Creditors: amounts falling due after more than one year			
Loan notes	5	(2,156,876)	(110,967)
		67,737	19,600
Capital and reserves			
Called up share capital	6	1,000	200
Share premium	6	98,800	19,600
Profit and loss account		(32,063)	-
Shareholders' Funds	7	67,737	19,800

The financial statements were approved by the Board of Directors on 30 October 1998 and were signed on its behalf by:



R J H Brook

Director

HEALTH CARE PROJECTS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 DECEMBER 1997

1. Accounting policies

The accounts have been prepared in accordance with applicable accounting standards. The more important accounting policies adopted are described below.

Basis of accounting

The accounts have been prepared under the historical cost convention and on a going concern basis.

Cash flow

The accounts do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under Financial Reporting Statement 1 "Cash Flow Statements".

Consolidation

The company and its subsidiaries comprise a small group. The company has therefore taken advantage of the exemption provided by section 248 of the Companies Act 1985 not to prepare group accounts.

The major economic activity of the group during the year arose in the company's subsidiaries, Health Care Projects Limited and Health Care Projects (Warrington) Limited. Further details can be found in the accounts of those subsidiaries.

2. Operating loss

	1997	1996
	£	£
Operating loss is arrived at after charging:		
Audit fees	2,180	-
	<u> </u>	<u> </u>

3. Investments

The investment in subsidiary undertakings comprises a holding of 100% of the issued ordinary "B" share capital of Health Care Projects Limited at a cost of £124,100 and 100% of the ordinary share capital of Health Care Projects (Warrington) Limited at a cost of £100. Both companies are registered in England and Wales. The balance of the investment in subsidiary undertakings is represented by long-term loans, repayable after one year.

At 31 December 1997, Health Care Projects Limited had net liabilities of £589,750, and had incurred a loss for the year ended on that date of £598,525. At the same date, Health Care Projects (Warrington) Limited had net liabilities of £400, and had incurred a loss for the year ended on that date of £500.

	£	£
4. Creditors: amounts falling due within one year		
Other creditors and accruals	8,500	100
	<u> </u>	<u> </u>

HEALTH CARE PROJECTS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 DECEMBER 1997 (continued)

5. Creditors: amounts falling due after more than one year	1997	1996
	£	£
"A" Loan notes 2021	1,845,063	-
"B" Loan notes 2021	311,813	110,967
	<hr/>	<hr/>
	2,156,876	110,967
	<hr/>	<hr/>

The loan notes rank at all times at least pari passu with all other future unsecured obligations of the company, except for those obligations as may be preferred by law.

The annual interest rate on the notes is:

- up to and including 31 December 2000, 12%
- thereafter 16%.

The notes are redeemable at par plus accrued interest at the earlier of 31 December 2021, on a Business Sale, Sale or Listing.

6. Share capital	1997	1996
	£	£
Authorised:		
80,000 "A" Ordinary shares of £0.01 each	800	800
20,000 "B" Ordinary shares of £0.01 each	200	200
	<hr/>	<hr/>
	1,000	1,000
	<hr/>	<hr/>
Allotted, called up and fully paid :		
80,000 "A" ordinary shares of £0.01 each	800	-
20,000 "B" ordinary shares of £0.01 each	200	200
	<hr/>	<hr/>
	1,000	200
	<hr/>	<hr/>

The "A" and "B" Ordinary shares rank pari passu, but constitute two separate classes of shares.

The "B" ordinary shares are not transferable except:

- with the written consent of the "A" shareholders
- on or after a listing
- under certain circumstances when transfer is compulsory
- to the trustees of a trust of which the only beneficiaries are the "B" shareholders.

HEALTH CARE PROJECTS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS for the year ended 31 DECEMBER 1997 (continued)

6. Share capital (continued)

Up to 50,000 of the "A" Ordinary shares are redeemable according to the provisions of Article 18 of the Company's Articles.

On 19 March 1997 the following share capital changes occurred:

- 80,000 "A" Ordinary shares of £0.01 each were subscribed at £1 each for a cash consideration of £80,000.

The share premium account was increased by £79,200 resulting from the differences between nominal value and subscription values of the transaction outlined above.

7 Reconciliation of movements in shareholders funds

	1997 £	1996 £
Opening shareholders funds	19,800	-
Loss for the financial year	(32,063)	-
New share capital subscribed	800	200
Transfers to share premium account	79,200	19,600
	<hr/>	<hr/>
Closing shareholders' funds	<u>67,737</u>	<u>19,800</u>

8 Holding company

The company is a subsidiary of Innisfree Partners Limited in its capacity as General Partner of the Innisfree PFI Fund LP, a Limited Partnership incorporated in Great Britain and registered in England and Wales.