



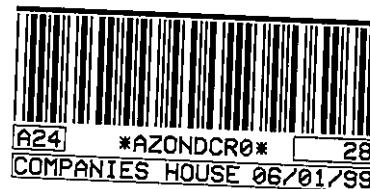
**CHEADLE ROYAL HEALTHCARE
LIMITED**

(Formerly Cheadle Royal Hospital Limited)

Report and Financial Statements

30 June 1998

**Deloitte & Touche
Chartered Accountants
66 Queen's Road
Aberdeen
AB15 4YE**



**REPORT AND FINANCIAL STATEMENTS 1998**

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Cashflow statement	8
Notes to the cashflow statement	9
Notes to the accounts	10



REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M Barsby (Chairman)
P F Batchelor
E D Burling
S F Hemsley
S P McKeown
R Russell
J P Ward

SECRETARY

P F Batchelor

REGISTERED OFFICE

100 Wilmslow Road
Cheadle
Cheshire

SOLICITORS

Hammond Suddards
Trinity Court
16 John Dalton Street
Manchester

AUDITORS

Deloitte & Touche
Chartered Accountants
66 Queen's Road
Aberdeen



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 1998.

ACTIVITIES

Cheadle Royal Healthcare Limited is engaged in the provision of private healthcare. The company changed its name from Cheadle Royal Hospital Limited on 26 January 1998.

RESULTS, DIVIDENDS AND TRANSFER TO RESERVES

The company made a profit before taxation of £123,968 (1997: £44,211). The retained loss after tax and dividends of £10,484 (1997: loss £7,926) has been transferred from reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company has traded successfully during the year and the directors are optimistic about the long term prospects for continued growth.

YEAR 2000

A group of senior managers, reporting regularly to the Board of Directors, has carried out an assessment of the potential effect of this issue on our business. Consideration has been given to the effect on our relationships with our customers and suppliers as well as our internal operations. This assessment has identified areas where it is necessary to carry out risk reduction measures and draw up contingency plans to deal with any potential interruption to our services. The scope and cost of these measures has not yet been ascertained.

DIRECTORS

The present membership of the Board is set out on page 1. Their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each		Cumulative Preference Shares of £1 each	
	30 June 1998	30 June 1997	30 June 1998	30 June 1997
M Barsby	-	-	-	-
P F Batchelor	8	8	-	-
E D Burling	8	8	-	-
S F Hemsley	8	8	-	-
S P McKeown	8	8	-	-
R Russell	-	-	-	-
J P Ward	8	8	-	-

The directors' beneficial interests in the parent company, Healthcare Scotland Limited were as follows:

	Ordinary Shares of £1 each		Cumulative Preference Shares of £1 each	
	30 June 1998	30 June 1997	30 June 1998	30 June 1997
M Barsby	-	-	-	-
P F Batchelor	-	-	-	-
E D Burling	-	-	-	-
S F Hemsley	-	-	-	-
S P McKeown	-	-	-	-
R Russell	137,500	137,500	1,112,500	1,112,500
J P Ward	-	-	-	-



DIRECTORS' REPORT

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

Secretary

4 November 1998

**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 as at the end of the financial year 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;
- 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. 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.



Chartered Accountants

Deloitte & Touche
66 Queen's Road
Aberdeen AB15 4YE

Telephone: National 01224 325375
International + 44 1224 325375
Telecopier (Gp. 3): 01224 313611

AUDITORS' REPORT TO THE MEMBERS OF

CHEADLE ROYAL HEALTHCARE LIMITED

(formerly Cheadle Royal Hospital Limited)

We have audited the financial statements on pages 6 to 19 which have been prepared under the accounting policies set out on page 10.

Respective responsibilities of directors and auditors

As described on page 4 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 30 June 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

9 November 1998


PROFIT AND LOSS ACCOUNT
Year ended 30 June 1998

	Note	1998 £	5 months to 30 June 1997 £
TURNOVER: continuing operations	2	4,467,179	1,706,310
Cost of sales		(2,949,746)	(1,108,148)
Gross profit		1,517,433	598,162
Administrative expenses		(1,342,383)	(540,768)
OPERATING PROFIT: continuing operations		175,050	57,394
Interest receivable and similar items		9,128	-
Interest payable and similar charges	4	(60,210)	(13,183)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	123,968	44,211
Tax on profit on ordinary activities	6	(54,357)	(16,761)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		69,611	27,450
Dividends payable	7	(80,095)	(35,376)
LOSS TRANSFERRED FROM RESERVES	18	(10,484)	(7,926)

There are no recognised gains or losses for the current or previous financial period other than the profit for the year.


**BALANCE SHEET
30 June 1998**

	Note	1998 £	1997 £
FIXED ASSETS			
Intangible assets	8	13,170	13,879
Tangible assets	9	2,064,630	1,713,021
Investments	10	2	-
		<u>2,077,802</u>	<u>1,726,900</u>
CURRENT ASSETS			
Stocks	11	10,615	12,056
Debtors	12	514,385	333,391
Cash at bank and in hand		-	149,101
		<u>525,000</u>	<u>494,548</u>
CREDITORS: amounts falling due within one year	13	<u>(651,102)</u>	<u>(568,615)</u>
NET CURRENT LIABILITIES		<u>(126,102)</u>	<u>(74,067)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,951,700</u>	<u>1,652,833</u>
CREDITORS: amounts falling due after more than one year	16	(756,550)	(538,049)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(93,460)</u>	<u>(2,610)</u>
TOTAL NET ASSETS		<u>1,101,690</u>	<u>1,112,174</u>
CAPITAL AND RESERVES			
Called up share capital	19	907,300	907,300
Profit and loss account	20	(18,410)	(7,926)
Share premium		212,800	212,800
		<u>1,101,690</u>	<u>1,112,174</u>
SHAREHOLDERS' FUNDS			
Amounts attributable to equity shareholders		(18,310)	(7,826)
Amounts attributable to non equity shareholders		<u>1,120,000</u>	<u>1,120,000</u>

These financial statements were approved by the Board of Directors on

November 4 1998

Signed on behalf of the Board of Directors

Director


CASH FLOW STATEMENT
Year ended 30 June 1998

	Note	1998 £	5 months to 30 June 1997 £
Net cash inflow from operating activities	1	74,366	263,499
Returns on investments and servicing of finance			
Interest received		9,000	-
Interest paid		(60,082)	(13,183)
Net cash outflow from returns on investments and servicing of finance		<u>(51,082)</u>	<u>(13,183)</u>
Taxation		<u>-</u>	<u>-</u>
Capital Expenditure			
Purchase of intangible assets		-	(14,174)
Purchase of tangible fixed assets		(406,949)	(1,720,505)
Net cash outflow from capital expenditure		<u>(406,949)</u>	<u>(1,734,679)</u>
Net cash inflow (outflow) before the use of liquid resources and financing		<u>(383,665)</u>	<u>(1,484,363)</u>
Financing			
Issue of shares		-	1,120,100
New finance leases		-	13,364
Repayment of capital element of finance leases		(13,364)	-
New borrowings		247,000	500,000
Net cash inflow		<u>233,636</u>	<u>1,633,464</u>
Net cash (decrease) / increase in cash		<u>(150,029)</u>	<u>149,101</u>
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period		(150,029)	149,101
Capital element of finance lease repayments		13,364	-
New finance leases		-	(13,364)
Cash inflow increase in debt		(247,000)	(500,000)
		<u>(383,665)</u>	<u>(364,263)</u>
Net debt at 1 July		<u>(364,263)</u>	<u>-</u>
Net debt at 30 June		<u>(747,928)</u>	<u>(364,263)</u>



NOTES TO THE CASH FLOW STATEMENT

Year ended 30 June 1998

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £	1997 £
Operating profit	175,050	57,394
Depreciation charges	56,049	7,779
Decrease/(increase) in stocks	1,441	(12,056)
Increase in debtors	(180,996)	(333,391)
(Decrease)/increase in creditors	22,822	543,773
Net cash inflow from operating activities	74,366	263,499

2. ANALYSIS OF CHANGES IN NET DEBT

	At 1 July 1997 £	Cashflow £	At 30 June 1998 £
Cash at bank and in hand	149,101	(149,101)	-
Bank overdraft	-	(928)	(928)
	<u>149,101</u>	<u>(150,029)</u>	<u>(928)</u>
Bank loans	(500,000)	(247,000)	(747,000)
Finance leases	(13,364)	13,364	-
	<u>(364,263)</u>	<u>(383,665)</u>	<u>(747,928)</u>

**NOTES TO THE ACCOUNTS****Year ended 30 June 1998****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Goodwill

Goodwill arising on acquisition of trade and assets is amortised over 20 years, being the estimated useful economic life of that asset.

Tangible fixed assets

Depreciation is not provided on freehold property. The directors consider that the economic lives and the residual value of these properties are such that depreciation is not significant because they are maintained in a continual state of good repair. On other assets it is provided on cost or revalued amounts in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Fixtures, fittings and motor vehicles over 7 years

Stocks

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

Deferred taxation

Deferred taxation is provided at the anticipated tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Pension costs

The company operates both defined benefit and defined contribution schemes. Pension costs charged to the profit and loss account represent amounts payable by the company to the defined contribution schemes

2. TURNOVER

Turnover and profit on activities before taxation are attributable to one activity, the provision of hospital services. Turnover is all derived from work done in the United Kingdom.


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 £	5 months to 30 June 1997 £
Directors' emoluments (excluding pension contributions)	329,317	117,270
Directors' pension contributions	13,835	7,077
	<u>343,152</u>	<u>124,347</u>
	No	No
Number of directors who are members of a defined benefit scheme	<u>1</u>	<u>1</u>
Number of directors who are members of private pension scheme	<u>3</u>	<u>3</u>
	£	£
Highest paid director Remuneration	83,210	31,514
Pension contributions	<u>7,572</u>	<u>3,183</u>

R Russell is a director of the holding company, Healthcare Scotland Limited and is also a director of Albyn Hospital Limited, Fernbrae Hospital Limited, UK Private Healthcare Limited and Cheadle Royal Healthcare Limited. It is not practical to allocate his total remuneration of for the year, which was received from Healthcare Scotland Limited, between his services as a director of Healthcare Scotland Limited and of Albyn Hospital Limited, Fernbrae Hospital Limited, UK Private Healthcare Limited and Cheadle Royal Healthcare Limited, and Cheadle Royal Hospital Limited.

	£	£
Employee costs during the period:		
Wages and salaries	2,421,952	944,934
Social security costs	186,232	69,933
Other pension costs	19,870	8,356
	<u>2,628,054</u>	<u>1,023,223</u>
	No	No
Average number of persons employed:		
Administrative	22	5
Professional	142	60
Technical and support	29	15
	<u>193</u>	<u>80</u>


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
4. INTEREST PAYABLE AND SIMILAR CHARGES

	1998	5 months to 30 June 1997
	£	£
Bank loan, overdrafts and other loans	60,210	13,183

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998	5 months to 30 June 1997
	£	£
Profit on ordinary activities before taxation is after charging:		
Depreciation		
Own assets	55,340	5,870
Assets held under hire purchase contracts	-	1,614
Auditors' remuneration	3,000	3,000
Goodwill amortisation	709	295

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998	Period to 30 June 1997
	£	£
UK corporation tax at 31% (1997: 31%) based on profit for the year	22,283	14,151
Prior year adjustment	(8,776)	
Deferred taxation		
Current year	35,824	2,610
Prior year adjustment	5,026	-
	40,850	2,610
	54,357	16,761

The current year disproportionate tax rate arises mainly due to the incidence of certain items of disallowable expenditure and fixed asset additions which do not qualify for capital allowances.

The 1997 disproportionate tax rate arises mainly due to the incidence of certain items of disallowable expenditure.



NOTES TO THE ACCOUNTS
Year ended 30 June 1998

7. DIVIDENDS

	1998 £	Period to 30 June 1997 £
Non Equity Shares:		
Cumulative redeemable preference dividend	80,095	35,376

8. INTANGIBLE FIXED ASSETS

Goodwill	1998 £
Cost	
At 1 July 1997 and at 30 June 1998	14,174
Accumulated depreciation	
At 1 July 1997	295
Charge for the year	709
At 30 June 1998	1004
Net book value	
At 30 June 1998	13,170
At 1 July 1997	13,879


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
11. STOCKS

	1998	1997
	£	£
Raw materials and consumables	10,615	12,056

12. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998	1997
	£	£
Trade debtors	459,736	272,230
Prepayments and accrued income	32,117	38,571
Other debtors	22,532	22,590
	514,385	333,391

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998	1997
	£	£
Bank overdraft (Note 14)	928	-
Bank loans (Note 14)	105,922	-
Obligations under finance leases and hire purchase contracts (Note 14)	-	10,691
Trade creditors	121,910	59,352
Other creditors including taxation and social security (Note 13)	84,808	112,242
Corporation tax	9,877	-
Accruals and deferred income	309,876	386,330
Amounts due to Group Companies	17,781	-
	651,102	568,615

14. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1998	1997
	£	£
This heading includes:		
Taxation and social security	84,808	89,182


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
15. BORROWINGS

	1998	1997
	£	£
Bank loans	747,928	500,000
Obligations under hire purchase contracts	-	13,364
	<u>747,928</u>	<u>513,364</u>
Due within one year	106,850	10,691
Due after one year	641,078	502,673
	<u>747,928</u>	<u>513,364</u>
Analysis of repayments:		
Within one year	106,850	10,691
Between one and two years	110,824	56,595
Between two and five years	319,471	176,472
Over five years	210,783	269,606
	<u>747,928</u>	<u>513,364</u>

The bank loans and overdraft are secured by a bond and floating charge over the assets of the company. The term loan bears interest at 1.5% above the bank's base rate.

16. CREDITORS FALLING DUE IN MORE THAN ONE YEAR

	1998	1997
	£	£
Bank loans and overdraft	641,078	500,000
Obligations under hire purchase contracts	-	2,673
Proposed dividend	115,472	35,376
	<u>756,550</u>	<u>538,049</u>


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
17. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Tax	Other £
Deferred taxation		
At 1 July 1997	2,610	-
Profit and Loss account charge for the year	35,824	50,000
Adjustment in respect of prior years	5,026	-
	<hr/>	<hr/>
At 30 June 1998	43,460	50,000
	<hr/>	<hr/>

The amounts of the deferred taxation liability provided and the total potential liability:

	1998 £	1997 £
Capital allowances in excess of depreciation	35,603	2,610
Other timing differences	7,857	-
	<hr/>	<hr/>
	43,460	2,610
	<hr/>	<hr/>

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit for the financial period	69,611	27,450
Dividends	(80,095)	(35,376)
Issue of shares	-	1,120,100
	<hr/>	<hr/>
Net (reduction in)/addition to shareholders' funds	(10,484)	1,112,174
Opening shareholders' funds	1,112,174	-
	<hr/>	<hr/>
Closing shareholders' funds	1,101,690	1,112,174
	<hr/>	<hr/>


NOTES TO THE ACCOUNTS
Year ended 30 June 1998
19. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised		
60 "A" ordinary shares of £1 each	60	60
40 "B" ordinary shares of £1 each	40	40
1,120,000 Cumulative redeemable preference shares of £0.81 each	907,200	907,200
	<u>907,300</u>	<u>907,300</u>
Called up, allotted and fully paid		
60 "A" ordinary shares of £1 each	60	60
40 "B" ordinary shares of £1 each	40	40
1,120,000 Cumulative redeemable preference shares of £0.81 each	907,200	907,200
	<u>907,300</u>	<u>907,300</u>

"A" and "B" Preference Shares

Holders of "A" and "B" ordinary shares rank *pari passu* in respect of distributions of profit.

Cumulative Redeemable Preference Shares

The Cumulative Redeemable Preference Shares of £0.81 each entitle the holder to receive a cumulative preference dividend at the rate of 6.15% per annum on the subscription price accruing from 1 July 1998 and payable half yearly on 30 June and 31 December in each year. In addition the Cumulative Redeemable Preference Shares entitle the holder to a special preference dividend of 7.466% per annum on the subscription price per preference share (£1.00) accruing from the date of subscription to 1 July 1998 and payable on 30 June 2000. The Cumulative Redeemable Preference Shares of £0.81 are redeemable at £1 per share in four tranches of £273,333 on 31 December 2000, £273,333 on 31 December 2001, £273,334 on 31 December 2002 and £300,000 on 30 June 2004.

Non equity shareholders' funds excludes dividends proposed and provided in liabilities.

Voting Rights

The "A" Ordinary Shares entitle the holders to one vote per share. The "B" Ordinary Shares entitle the holders to one vote per share on limited matters such as termination of the holder's directorship or employment with the company or amendment to the rights of the holder of such shares. The Cumulative Redeemable Preference Shares carry no voting rights.

Winding Up

On winding up, the assets of the company shall be applied firstly to the Cumulative Redeemable Preference Shareholders. The balance of the assets shall be distributed amongst the holders of the "A" and "B" Ordinary Shares (*pari passu*).

NOTES TO THE ACCOUNTS
Year ended 30 June 1998
20. RESERVES

	Share Premium Account £	Profit and Loss Account £
Balance as at 1 July 1997	212,800	(7,926)
Profit for the year	-	69,611
Dividends	-	(80,095)
	<hr/>	<hr/>
Balance as at 30 June 1998	<u>212,800</u>	<u>(18,410)</u>

21. PENSION SCHEMES
Defined Benefit Scheme

The company operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company in a trustee administered fund. The scheme is closed to new members.

At the date of the latest actuarial valuation, 31 March 1995, the market value of the assets of the scheme was £17,600,000. The actuarial value of the assets was sufficient to cover 133% of the value of benefits which had accrued to members, after allowing for future increases in earnings and pensions.

The scheme's independent actuary had assessed the excess of the amount funded over the accumulated pension cost using the Attained Age Method. Taking into account the actuary's advice and assessment of the excess, the company did not make any contributions during the period.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments, the rate of equity dividend growth, and the rates of increase of salaries and pensions. It was assumed (a) the return on investments would exceed the annual increase in earnings by 2% (b) a rate of future pension increase of 5% per annum and (c) a rate of equity dividend growth of 4% per annum.

Defined Contribution Schemes

The assets of these schemes are held separately from those of the company in independently administered funds. The pension costs charged to the profit and loss account in the period in respect of private pension schemes amounted to £19,870 (1997: £8,356).

22. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Healthcare Scotland Limited a company incorporated in Scotland. Copies of the financial statements of the parent company may be obtained from Healthcare Scotland Limited, 33 Queen's Road, Aberdeen, AB15 4ZN.

The Company had no related party transactions for the year ended 30 June 1998.