

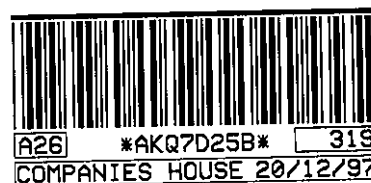


CHEADLE ROYAL HOSPITAL LIMITED

Report and Financial Statements

30 June 1997

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





REPORT AND FINANCIAL STATEMENTS 1997

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REPORT AND FINANCIAL STATEMENTS 1997

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

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

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 9 months ended 30 June 1997.

ACTIVITIES

Cheadle Royal Hospital Limited is engaged in the provision of private healthcare.

RESULTS, DIVIDENDS AND TRANSFER TO RESERVES

The company made a profit before taxation of £44,211. The retained loss after tax and dividends of £7,926 has been transferred from reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company was incorporated on 25 September 1996 but did not commence trading until 1 February 1997. The assets of Cheadle Royal Hospital were acquired on 13 February 1997. The company has traded successfully during the five month period following the acquisition and the directors are optimistic about the long term prospects for continued growth.

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	
	At date of appointment	30 June 1997	At date of appointment	30 June 1997
E D Burling (appointed 10 September 1996)	-	8	-	-
P F Batchelor (appointed 22 January 1997)	-	8	-	-
J P Ward (appointed 22 January 1997)	-	8	-	-
S P McKeown (appointed 22 January 1997)	-	8	-	-
S F Hemsley (appointed 22 January 1997)	-	8	-	-
M Barsby (appointed 13 February 1997)	-	-	-	-
R Russell (appointed 13 February 1997)	-	-	-	-

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	
	At date of appointment	30 June 1997	At date of appointment	30 June 1997
E D Burling	-	-	-	-
P F Batchelor	-	-	-	-
J P Ward	-	-	-	-
S P McKeown	-	-	-	-
S F Hemsley	-	-	-	-
M Barsby	-	-	-	-
R Russell	137,500	137,500	1,112,500	1,112,500

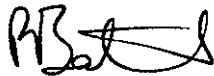
**DIRECTORS' REPORT****CHANGE OF NAME**

The company changed its name from CRH Limited to Cheadle Royal Hospital Limited on 13 February 1997.

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



12/12/97

Secretary



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

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AUDITORS' REPORT TO THE MEMBERS OF

CHEADLE ROYAL HOSPITAL LIMITED

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on page 8.

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 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

15 December 1997

PROFIT AND LOSS ACCOUNT

**Period from 25 September 1996 (date of incorporation) to 30 June 1997
 (Trading commenced 1 February 1997)**

	Note	Period to 30 June 1997 £
TURNOVER: acquisitions	2	1,706,310
Cost of sales		(1,108,148)
Gross profit		598,162
Administrative expenses		(531,206)
Distribution expenses		(9,562)
OPERATING PROFIT: acquisitions		57,394
Interest payable and similar charges	4	(13,183)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	44,211
Tax on profit on ordinary activities	6	(16,761)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		27,450
Dividends payable	7	(35,376)
LOSS TRANSFERRED FROM RESERVES	19	(7,926)

There are no recognised gains or losses for the current financial period other than as stated above.

BALANCE SHEET
As at 30 June 1997

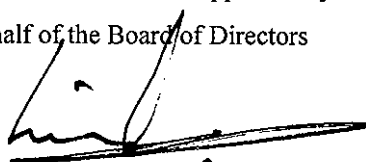
	Note	30 June 1997 £
FIXED ASSETS		
Intangible assets	8	13,879
Tangible assets	9	1,713,021
		<u>1,726,900</u>
CURRENT ASSETS		
Stocks	10	12,056
Debtors	11	333,391
Cash at bank and in hand		149,101
		<u>494,548</u>
CREDITORS: amounts falling due within one year	12	<u>(603,991)</u>
NET CURRENT LIABILITIES		<u>(109,443)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,617,457</u>
CREDITORS: amounts falling due after more than one year		
Term loan	14	(500,000)
Obligations under hire purchase contracts	14	(2,673)
		<u>(502,673)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(2,610)</u>
TOTAL NET ASSETS		<u>1,112,174</u>
CAPITAL AND RESERVES		
Called up share capital	18	907,300
Profit and loss account		(7,926)
Share premium		212,800
		<u>1,112,174</u>
Amounts attributable to equity shareholders		<u>(43,202)</u>
Amounts attributable to non equity shareholders		<u>1,155,376</u>

These financial statements were approved by the Board of Directors on

12th DEC. 1997.

Signed on behalf of the Board of Directors

Director





NOTES TO THE ACCOUNTS
Period ended 30 June 1997

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
Period ended 30 June 1997

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Period to 30 June 1997 £
Directors' emoluments (excluding pension contributions)	117,270
Directors' pension contributions	7,077
	No
Number of directors who are members of a defined contribution scheme	3
<p>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 Hospital Limited. It is not practical to allocate his total remuneration 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 Hospital Limited.</p>	
	£
Employee costs during the period:	
Wages and salaries	944,934
Social security costs	69,933
Other pension costs	8,356
	1,023,223
	No
Average number of persons employed:	
Administrative	5
Professional	60
Technical and support	15
	80



NOTES TO THE ACCOUNTS

Period ended 30 June 1997

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Period to 30 June 1997 £
Bank loan, overdrafts and other loans repayable: greater than five years	13,183

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

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

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	£
UK corporation tax at 31% based on profit for the period	14,151
Deferred taxation	2,610
	16,761

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



NOTES TO THE ACCOUNTS
Period ended 30 June 1997

7. DIVIDENDS

	£
Non Equity Shares:	
Cumulative redeemable preference dividend	35,376

8. INTANGIBLE FIXED ASSETS

Goodwill	1997
	£
Cost	
Goodwill on acquisition	14,174
At 30 June 1997	14,174
Accumulated depreciation	
Charge for the period	295
At 30 June 1997	295
Net book value	
At 30 June 1997	13,879


NOTES TO THE ACCOUNTS
Period ended 30 June 1997
9. TANGIBLE FIXED ASSETS

	Freehold Property £	Fixtures and Fittings and Motor Vehicles £	Total £
Cost			
Additions	1,529,005	191,500	1,720,505
At 30 June 1997	1,529,005	191,500	1,720,505
Accumulated Depreciation			
Charge for the period	-	7,484	7,484
	-	7,484	7,484
Net book value			
At 30 June 1997	1,529,005	184,016	1,713,021

The net book value of the company's fixed assets includes £18,705 in respect of assets held under hire purchase contracts

10. STOCKS

	1997 £
Raw materials and consumables	12,056

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £
Trade debtors	272,230
Prepayments and accrued income	38,571
Other debtors	22,590
	333,391



NOTES TO THE ACCOUNTS
Period ended 30 June 1997

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £
Trade creditors	59,352
Accruals and deferred income	386,330
Other creditors including taxation and social security (note 13)	112,242
Amounts due under hire purchase contracts	10,691
Proposed dividend	35,376
	<hr/> 603,991 <hr/>

13. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1997 £
This heading includes:	
Taxation and social security	89,182
	<hr/>

14. BORROWINGS

	1997 £
Term loan	500,000
Obligations under hire purchase contracts	13,364
	<hr/> 513,364 <hr/>
Due within one year	10,691
Due after one year	502,673
	<hr/> 513,364 <hr/>
Analysis of repayments:	
Within one year	10,691
Between one and two years	56,595
Between two and five years	176,472
Over five years	269,606
	<hr/> 513,364 <hr/>

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.

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

15. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts of the deferred taxation liability provided and unprovided in the accounts are:

	Provided 1997 £	Un- provided 1997 £
Capital allowances in excess of depreciation	2,610	-

16. PURCHASE OF BUSINESS

	1997 £
Net assets acquired:	
Tangible fixed assets	1,432,851
Revaluation of tangible fixed assets	217,149
Debtors	371,555
Cash at bank	4,690
Stock	10,907
Creditors	(437,003)
	<hr/>
Fair value to the company	1,600,149
Goodwill on acquisition	14,174
	<hr/>
	1,614,323
	<hr/>
Satisfied by:	
Cash	1,614,323

The assets and liabilities of Cheadle Royal Hospital were acquired by the company on 13 February 1997. The net book value of the assets and liabilities at the date of acquisition were considered to be their fair value, and therefore no adjustments were deemed necessary.

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £
Profit for the financial period	27,450
Dividends	(35,376)
Issue of shares	1,120,100
	<hr/>
Net addition to shareholders' funds	1,112,174
Opening shareholders' funds	-
	<hr/>
Closing shareholders' funds	1,112,174

NOTES TO THE ACCOUNTS
Period ended 30 June 1997

18. CALLED UP SHARE CAPITAL

	1997	
	No	£
Authorised		
"A" ordinary shares of £1 each	60	60
"B" ordinary shares of £1 each	40	40
Cumulative redeemable preference shares of £0.81 each	1,120,000	907,200
	<u>1,120,100</u>	<u>907,300</u>
Called up, allotted and fully paid		
"A" ordinary shares of £1 each	60	60
"B" ordinary shares of £1 each	40	40
Cumulative redeemable preference shares of £0.81 each	1,120,000	907,200
	<u>1,120,100</u>	<u>907,300</u>

On 13 February 1997 the authorised and issued share capital were increased to 1,120,100 as disclosed above. The 100 ordinary shares comprising the share capital of the company with which it was incorporated were converted to 60 "A" ordinary shares of £1 each and 40 "B" ordinary shares of £1 each.

"A" and "B" Ordinary 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.

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 among the holders of the "A" and "B" ordinary shareholders (pari passu).



NOTES TO THE ACCOUNTS
Period ended 30 June 1997

19. RESERVES

	Share Premium Account £	Profit and Loss Account £
Profit for the period	-	27,450
Shares issued	212,800	-
Dividends	-	(35,376)
	<hr/>	<hr/>
Balance as at 30 June 1997	212,800	(7,926)
	<hr/>	<hr/>

20. 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 Scheme

The assets are held separately from those of the company in an independently administered fund. The pension costs charged to the profit and loss account in the period amounted to £8,356.

21. 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 has taken advantage of paragraph 3(c) of FRS8 (Related Party Disclosures).