



TOTAL RENAL CARE (UK) LIMITED

Report and Financial Statements

Period ended 30 November 1997

**Deloitte & Touche
Hill House
1 Little New Street
London EC4A 3TR**



REPORT AND FINANCIAL STATEMENTS 1997

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**REPORT AND FINANCIAL STATEMENTS 1997****OFFICERS AND PROFESSIONAL ADVISERS****DIRECTORS**

J D C Young	(appointed 10 April 1997, resigned 19 September 1997)
I P Reynolds	(appointed 10 April 1997, resigned 27 August 1997)
J R W Ansdell	(appointed 19 September 1997)
L Frie (USA)	(appointed 19 September 1997)
V M G Chaltiel (USA)	(appointed 19 September 1997)
C J Sandham	(appointed 29 September 1997)

SECRETARY

P D A Green

REGISTERED OFFICE

Broadwater Park
Denham
Uxbridge
Middlesex UB9 5HP

BANKERS

The Royal Bank of Scotland plc
London City Office
62-63 Threadneedle Street
London EC2R 8LA

SOLICITORS

Eversheds
1 Royal Standard Place
Nottingham
NG1 6FZ

AUDITORS

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

**DIRECTORS' REPORT**

The directors present their first annual report and the audited financial statements for the period ended 30 November 1997.

PRINCIPAL ACTIVITY

The principal activity of the company is the provision of dialysis and related services to certain UK Health Authorities and Trusts.

The company was incorporated 10 April 1997 as Nottcor 32, an unlimited company. On 19 September 1997 it acquired the assets and undertakings of the Community Dialysis Services business of Priory Healthcare Limited in consideration for 910,305 "A" ordinary shares, of £1 each, and was then reregistered as Total Renal Care (UK) Limited. Simultaneously, the company entered into an agreement with Total Renal Care, Inc, an American corporation registered in California, USA, whereby Total Renal Care, Inc, will subscribe 947,460 "B" ordinary shares of £1 each and provide up to an additional £1,600,000 by way of 7% Loan Notes to fund the company as its expansion requires.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Both the level of business and the year end financial position were satisfactory. The directors continue to seek new opportunities for expansion and development of the business.

RESULTS AND DIVIDENDS

The profit for the period attributable to shareholders amounts to £5,734. The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the period ended 30 November 1997 were those listed on page 1. No director held any interests in the share capital of the company during the year.

The directors' interests in the ultimate parent company are shown in that company's financial statements.

AUDITORS

A resolution to reappoint Deloitte & Touche as auditors to the company will be proposed at the Company's first Annual General Meeting.

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

P D A Green
Secretary

30 SEP 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;
- prepare the financial statements on a 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.

By order of the Board

P D A Green
Secretary

Broadwater Park
Denham
Uxbridge
UB9 5HP

30 SEP 1998



AUDITORS' REPORT TO THE MEMBERS OF

TOTAL RENAL CARE (UK) LIMITED

We have audited the financial statements on pages 5 to 11 which have been prepared under 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 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 as at 30 November 1997 and of its profit for the period from incorporation on 10 April 1997 to 30 November 1997 and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and
Registered Auditors

30 SEP 1998

PROFIT AND LOSS ACCOUNT

Period from 10 April 1997 to 30 November 1997

	Note	Period from 10 April 1997 to 30 November 1997 £
TURNOVER	2	287,225
Cost of sales		(146,256)
GROSS PROFIT		140,969
Administrative expenses		(135,173)
OPERATING PROFIT	3	5,796
Bank interest receivable		4,179
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,975
Tax on profit on ordinary activities	5	(4,241)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		5,734
RETAINED PROFIT FOR THE PERIOD	12	5,734

All turnover and operating profit derives from operations acquired on 19 September 1997.

There are no recognised gains or losses in the current period other than the profit attributable to shareholders of the company.

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS


	Period from 10 April 1997 to 30 November 1997 £
Retained profit for the period	5,734
A shares issued in the period	910,305
B shares issued in the period	947,460
Shareholders' funds at 30 November 1997	1,863,499



BALANCE SHEET
30 November 1997

	Note	1997 £
FIXED ASSETS		
Tangible assets	6	909,084
CURRENT ASSETS		
Stocks		44,417
Debtors	7	815,401
Cash at bank and in hand		343,234
		<u>1,203,052</u>
CREDITORS: amounts falling due within one year		
Trade and other creditors	8	(229,142)
Amounts owed to holding company	9	(17,570)
		<u>(246,712)</u>
NET CURRENT ASSETS		<u>956,340</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,865,424</u>
PROVISIONS FOR LIABILITIES AND CHARGES		
Deferred taxation	10	(1,925)
TOTAL ASSETS LESS LIABILITIES		<u>1,863,499</u>
CAPITAL AND RESERVES		
Called up share capital	11	1,857,765
Profit and loss account	12	5,734
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>1,863,499</u>

These financial statements were approved by the Board of Directors on **30 SEP 1998**.
Signed on behalf of the Board of Directors


C J Sandham
Director



NOTES TO THE ACCOUNTS

Period from 10 April to 30 November 1997

1. ACCOUNTING POLICIES

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

Depreciation

The cost of fixed assets is written off by equal instalments over their expected useful lives as follows:

Leasehold improvements	7 to 25 years
Fixtures, fitting and equipment	5 to 10 years

Capital work in progress

Capital work in progress comprises expenditure on capital projects in the course of construction. On completion, each project is capitalised and depreciated in accordance with the company's depreciation policies.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing 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.

Pensions

The company operates a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. TURNOVER

Turnover comprises the invoice value of services supplied by the company excluding VAT. All services have been carried out in the United Kingdom and relate to the principal activities of the company.

3. OPERATING PROFIT

This is stated after charging:

	1997
	£
Depreciation	23,067
Auditors' remuneration	
- audit services	233
Operating lease charges	
- hire of plant and machinery	296
	<hr/>


NOTES TO THE ACCOUNTS
Period from 10 April to 30 November 1997
4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no remuneration for their services as directors of the company.

	1997 No.
Average number of persons employed:	
Medical and nursing	37
	<u>£</u>
Staff costs during the period:	
Wages and salaries	90,591
Social security costs	8,264
Pension costs	3,079
	<u>101,934</u>

5. TAXATION

	1997 £
United Kingdom corporation tax provided at 31%	2,316
Deferred taxation	1,925
	<u>4,241</u>

6. TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Fixtures and fittings £	Capital work in progress £	Total £
Cost				
At 10 April 1997	-	-	-	-
Assets acquired 19 September 1997	489,159	992,715	1,436	1,483,310
Additions	-	4,992	21,558	26,550
	<u>489,159</u>	<u>997,707</u>	<u>22,994</u>	<u>1,509,860</u>
At 30 November 1997				
Depreciation				
At 10 April 1997	-	-	-	-
Assets acquired 19 September 1997	135,460	442,249	-	577,709
Charge for the period	3,874	19,193	-	23,067
	<u>139,334</u>	<u>461,442</u>	<u>-</u>	<u>600,776</u>
At 30 November 1997				
Net book value				
At 30 November 1997	<u>349,825</u>	<u>536,265</u>	<u>22,994</u>	<u>909,084</u>
At 10 April 1997	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>



NOTES TO THE ACCOUNTS

Period from 10 April to 30 November 1997

7. DEBTORS

	1997 £
Trade debtors	160,605
Prepayments and accrued income	7,338
Called up share capital not paid	647,458
	<u>815,401</u>

8. TRADE AND OTHER CREDITORS

	1997 £
Trade creditors	202,125
Corporation tax payable	2,316
Taxation and social security	24,701
	<u>229,142</u>

9. AMOUNTS OWED TO HOLDING COMPANY AND FELLOW SUBSIDIARIES

	1997 £
Amounts owed to ultimate parent company	<u>17,570</u>

10. DEFERRED TAXATION

Deferred taxation is in respect of timing differences resulting from accelerated capital allowances as follows:

	1997 £
At incorporation	-
Current year charge	1,925
At 30 November	<u>1,925</u>



NOTES TO THE ACCOUNTS

Period from 10 April to 30 November 1997

11. CALLED UP SHARE CAPITAL

	1997 £
Authorised share capital:	
910,305 "A" ordinary shares of £1 each	910,305
947,460 "B" ordinary shares of £1 each	947,460
	<u>1,857,765</u>
Issued share capital:	
<i>Called up, allotted and fully paid</i>	
910,305 "A" ordinary shares of £1 each	910,305
<i>Called up, allotted and partly paid</i>	
947,460 "B" ordinary shares of £1 each	947,460
	<u>1,857,765</u>

The "A" ordinary shares were issued at par on the 19 September 1997 and were fully paid. The "B" ordinary shares of £1 each were issued at par in the period and were partly paid. At the 30 November 1997 £300,002 had been paid. At the date of signing these financial statements, the "B" ordinary shares of £1 each were fully paid.

12. RESERVES

	Profit and loss account 1997 £
At incorporation	-
Retained profit for the period	5,734
At 30 November	<u>5,734</u>

13. FINANCIAL COMMITMENTS

At 30 November the following capital expenditure has been authorised:

	1997 £
Contracted	<u>935,000</u>

14. PENSION COMMITMENTS

The company operates a defined contribution pension scheme for its employees. The assets of this scheme are held separately from those of the company in an independently administered fund.

15. CASH FLOW

The company has taken advantage of the exemption granted by FRS1 (revised) as a wholly owned subsidiary undertaking of Total Renal Care Holdings, Inc. a company incorporated in the United States of America, whose consolidated financial statements are publicly available.

**NOTES TO THE ACCOUNTS****Period from 10 April to 30 November 1997****16. RELATED PARTY TRANSACTIONS****Transactions with shareholders**

On 19 September 1997 the company acquired the assets and undertakings of the Community Dialysis Services business of Priory Healthcare Limited in consideration for 910,305 "A" ordinary shares of £1 each.

On the same day the company entered into an agreement with Total Renal Care, Inc, an American corporation registered in California, USA whereby Total Renal Care, Inc, will subscribe for £947,460 "B" ordinary shares of £1 each and provide up to an additional £1,600,000 by way of 7% Loan Notes to fund the company as its expansion requires.

At the year end the 947,460 "B" ordinary shares of £1 each were fully paid.

17. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling entity is Total Renal Care Holdings, Inc, a company incorporated in the United States of America. Copies of the group accounts can be obtained from its registered office at:

21259 Hawthorne Boulevard
Suite 500
Torrance
California 90503
United States of America.