

HCA INTERNATIONAL LIMITED

Report and Accounts

31 December 2000

 ERNST & YOUNG



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HCA International Limited

Registered No. 3020522

DIRECTORS

J Loyal
M Neeb
J Kausch

SECRETARY

J Loyal

AUDITORS

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

Barclays Bank PLC
St Johns Wood & Swiss Cottage Branch
PO Box 2764
London NW3 6JD

REGISTERED OFFICE

4 Connaught Place
London W2 2ET

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2000.

RESULTS AND DIVIDENDS

The retained loss for the financial year amounted to £4,470,000 (1999 – profit of £4,612,000).

An interim dividend of £11,017,000 was paid (1999 – £nil). The directors do not recommend the payment of a final dividend (1999 – £nil).

PRINCIPAL ACTIVITIES

The company's principal activities continue to be the provision of healthcare services. The company is engaged in the operation of the following private hospitals:

Harley Street Clinic
The Portland Hospital
The Princess Grace Hospital
The Wellington Hospital

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company has had a successful year, and the year end financial position remains satisfactory. Through increases in volume, productivity and efficiency, the company should improve profitability over the coming year.

FIXED ASSETS

The movements in fixed assets during the year are set out in Notes 7 and 8 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

M A Kopser	(resigned 2 May 2000)
J Kausch	
J Loyal	(appointed 2 May 2000)
M Neeb	(appointed 3 July 2000)

The directors listed above do not have any interests in shares of the company.

EMPLOYEE INVOLVEMENT

The company strongly believes in the importance of good employee communications and encourages participation at all levels. To encourage employee participation the company has regular meetings to discuss topics of employee concern and to inform staff of the financial and economic factors affecting the performance of the company.

DIRECTORS' REPORT

DISABLED PERSONS

In the company's employee recruitment practices, full consideration is given to job applications from disabled persons. Candidates are selected and appointed on the basis of their ability to perform the duties of the job. Encouragement is given in training, career development and promotion of all employees according to the opportunities available, organisational requirements and individual aptitudes and abilities. This policy includes disabled employees, for whom any further necessary training is arranged taking account of their particular needs and the resources required to meet them.

CHARITABLE DONATIONS

The charitable donations for the year were £10,420 (1999 - £4,520); no individual donation was greater than £5,000.

AUDITORS

On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board



Director

31 JAN 2002

HCA International Limited

STATEMENT OF DIRECTORS' REPOSNSIBILITIES 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 or 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HCA INTERNATIONAL LIMITED

We have audited the company's accounts for the year ended 31 December 2000 which comprise the Profit and Loss Account, Balance Sheet, Reconciliation of Shareholders' Funds and the related notes 1 to 21. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

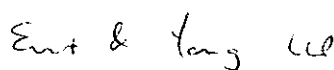
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 accounts give a true and fair view of the state of affairs of the company as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

31 January 2002

HCA International Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
TURNOVER	2	122,552	106,205
Operating charges and other operating income		(111,829)	(96,608)
OPERATING PROFIT	3	10,723	9,597
Profit on disposal of tangible fixed assets		20	-
		10,743	9,597
Interest receivable and similar income		128	63
Interest payable on finance leases		(68)	(100)
Interest payable to group undertakings		(13)	(144)
Interest payable to parent undertaking		(166)	-
Interest payable and other similar charges		(1,128)	(2,499)
		(1,247)	(2,680)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,496	6,917
Tax on profit on ordinary activities	6	(2,949)	(2,305)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,547	4,612
Dividend – interim ordinary paid		(11,017)	-
RETAINED (LOSS)/PROFIT FOR THE YEAR	16	(4,470)	4,612

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the retained loss of £4,470,000 (1999 – profit of £4,612,000) for the year included above.

A reconciliation of movements in shareholders' funds is detailed in note 16.

HCA International Limited

BALANCE SHEET at 31 December 2000

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Tangible assets	7	122,325	122,123
Investments	8	—	—
		<u>122,325</u>	<u>122,123</u>
CURRENT ASSETS			
Stocks	9	2,925	2,779
Debtors	10	78,146	32,982
Cash at bank and in hand		8,764	1,221
		<u>89,835</u>	<u>36,982</u>
CREDITORS: amounts falling due within one year	11	(64,428)	(60,500)
		<u>25,407</u>	<u>(23,518)</u>
NET CURRENT ASSETS/(LIABILITIES)			
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>147,732</u>	<u>98,605</u>
CREDITORS: amounts falling due after more than one year	12	(15,165)	(1,568)
PROVISIONS FOR LIABILITIES AND CHARGES	14	—	—
		<u>132,567</u>	<u>97,037</u>
EQUITY SHAREHOLDERS' FUNDS			
CAPITAL AND RESERVES			
Called up share capital	14,15,16	40,755	755
Share premium account	16	114,603	114,603
Profit and loss account	16	(22,791)	(18,321)
		<u>132,567</u>	<u>97,037</u>
EQUITY SHAREHOLDERS' FUNDS		<u>132,567</u>	<u>97,037</u>


Director

31 JAN 2002

NOTES TO THE ACCOUNTS
at 31 December 2000

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards.

Tangible fixed assets

Tangible fixed assets are stated at their purchase price together with any incidental expenses of acquisition.

Provision for depreciation is made so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the fixed assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	-	2%
Equipment, furniture and fittings	-	between 5% and 25%

Leasehold land and buildings are amortised over 50 years, or the period of the lease, whichever is less. Freehold land is not depreciated.

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks, which consist mainly of drugs and consumable stores, are stated at the lower of invoiced cost and net realisable value. Net realisable value is the price at which stocks can be sold in the normal course of business. Provision is made where necessary for obsolete, slow moving and defective stocks.

Deferred taxation

Provision is made for deferred tax using the liability method on all material timing differences to the extent that it is probable that a liability or asset will crystallise. Full provision is made for deferred taxation on timing differences arising from the provision of employee pensions.

Turnover

Turnover, which excludes value added tax and is net of discounts, represents the invoiced value of goods and services supplied.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rates ruling when the transaction was entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange gains and losses are included in operating profit.

1. ACCOUNTING POLICIES (continued)

Pension scheme arrangements

The company operates a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years, the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

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

The company provides no other post retirement benefits to its employees.

Leasing commitments

Assets held under finance leases, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged on a straight line basis over the lease term.

Goodwill

The company adopted a policy of capitalisation and amortisation of goodwill. The carrying value of goodwill is written off through the profit and loss account during the course of its useful life. In accordance with FRS 10, the company has elected that goodwill arising prior to 31 December 1998 previously eliminated against reserves will not be re-instated.

2. TURNOVER

Turnover is attributable to continuing operations and was derived from the provision of hospital services within the United Kingdom.

In accordance with FRS 1, these accounts do not include a cash flow statement, as the company is a wholly owned subsidiary of a parent undertaking whose accounts include a consolidated cash flow statement and are publicly available.

HCA International Limited

NOTES TO THE ACCOUNTS at 31 December 2000

3. OPERATING PROFIT

This is stated after charging/(crediting):

	2000 £000	1999 £000
Auditors' remuneration:		
Audit services	65	44
Non-audit services	—	116
Hire of plant and machinery	—	510
Depreciation of owned fixed assets	6,500	6,289
Depreciation of fixed assets held under finance leases	335	338
Property rental income	(544)	(513)
	<u> </u>	<u> </u>

4. DIRECTORS' REMUNERATION

	2000 £000	1999 £000
Emoluments (excluding pension contributions)	1,126	811
	<u> </u>	<u> </u>
	£	£
Highest paid director:		
Emoluments (excluding pension contributions)	644,810	506,859
	<u> </u>	<u> </u>

5. STAFF COSTS

The average number of persons employed by the company (including executive directors) during the year is analysed below:

	2000 No.	1999 No.
Harley Street Clinic	286	298
The Portland Hospital	337	378
The Princess Grace Hospital	276	280
The Wellington Hospital	623	610
Central Administration and Laboratory staff	127	—
	<u>1,649</u>	<u>1,566</u>

HCA International Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

5. STAFF COSTS (continued)

The company also employs agency and medical ancillary staff on a temporary basis when required.

Employment costs of all employees included above comprised:

	2000	1999
	£000	£000
Gross wages and salaries	45,307	37,115
Employer's national insurance and state pension contributions	3,843	3,453
Employer's pension contributions under the group pension scheme	785	1,082
	<u>49,935</u>	<u>41,650</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2000	1999
	£000	£000
Corporation tax	2,949	1,832
Deferred tax underprovided in previous year	—	473
	<u>2,949</u>	<u>2,305</u>

The principal factor giving rise to the reduction in the effective rate of corporation tax compared with the statutory rate for the current year is unprovided deferred tax.

7. TANGIBLE FIXED ASSETS

	Land	Buildings	Equipment furniture and fittings	Assets held under construction	Total
	£000	£000	£000	£000	£000
Cost:					
At 31 December 1999	30,136	39,911	40,282	34,849	145,178
Additions	—	7	3,810	4,100	7,917
Disposals	—	—	(880)	—	(880)
Transfers	—	20,632	5,410	(26,042)	—
At 31 December 2000	<u>30,136</u>	<u>60,550</u>	<u>48,622</u>	<u>12,907</u>	<u>152,215</u>
Depreciation:					
At 31 December 1999	—	7,359	15,696	—	23,055
Provided during the year	—	2,108	4,727	—	6,835
At 31 December 2000	<u>—</u>	<u>9,467</u>	<u>20,423</u>	<u>—</u>	<u>29,890</u>
Net book value:					
At 31 December 2000	<u>30,136</u>	<u>51,083</u>	<u>28,199</u>	<u>12,907</u>	<u>122,325</u>
At 31 December 1999	<u>30,136</u>	<u>32,552</u>	<u>24,586</u>	<u>34,849</u>	<u>122,123</u>

HCA International Limited

NOTES TO THE ACCOUNTS at 31 December 2000

7. TANGIBLE FIXED ASSETS (continued)

Equipment held under finance leases with a net book value of £944,704 (1999 – £1,279,288) is included above.

8. INVESTMENTS

	<i>Subsidiary undertaking</i>
	£
Cost:	
At 1 January 2000 and 31 December 2000	6

The company acquired 100% of HCA Staffing Limited on 22 June 1996 for £2. HCA Staffing Limited is registered in Great Britain and was formed to acquire premises at 40 Nottingham Place in London. Since 31 December 1996 HCA Staffing Limited has acted as the employer of temporary staff. At 31 December 2000 the net liabilities of HCA Staffing Limited amounted to £113,979 (1999 – net liabilities £89,919) and the loss on ordinary activities after taxation amounted to £24,058 (1999 – loss of £24,058).

The company acquired 100% of HCA UK Limited on 19 December 1997 for £2. HCA UK Limited is registered in Great Britain and leases equipment in return for income. At 31 December 2000 the net assets of HCA UK Limited amounted to £398,607 (1999 – £257,845) and the profit on ordinary activities after taxation amounted to £140,764 (1999 – £10,957).

The company acquired 100% of London Radiography and Radiotherapy Services Limited on 24 August 1998 for £2. London Radiography and Radiotherapy Services Limited is registered in Great Britain and was formerly a supplier of Radiography and Radiotherapy Services to group companies. The trade was transferred to HCA UK Limited for £1 during 1999 and the company has been dormant since. At 31 December 2000 the net assets of London Radiography and Radiotherapy Services Limited were £3 (1999 – £3) and the profit on ordinary activities after taxation amounted to £nil (1999 – £nil).

9. STOCKS

	<i>2000</i>	<i>1999</i>
	£000	£000
Drugs and consumables	2,925	2,779

HCA International Limited

NOTES TO THE ACCOUNTS at 31 December 2000

10. DEBTORS

	2000 £000	1999 £000
ACT recoverable	–	1,721
UK corporation tax receivable	477	–
Trade debtors	20,257	15,220
Other debtors	654	2,036
Prepayments and accrued income	1,618	1,231
Amounts due from parent undertaking	–	6,361
Amounts due from subsidiary undertaking	–	5,713
Amounts due from other group undertakings	55,140	700
	<u>78,146</u>	<u>32,982</u>

11. CREDITORS: amounts falling due within one year

	2000 £000	1999 £000
Bank loan	–	40,000
Bank overdraft (unsecured)	3,053	1,416
Trade creditors	2,738	1,089
Amounts owed to parent undertaking	–	3,998
Amounts owed to subsidiary undertaking	–	264
Amounts owed to other group undertakings	44,600	5,039
Other creditors, accruals and deferred income	11,119	4,279
UK corporation tax payable	–	2,514
Taxation and social security	1,075	1,058
Accrued pension expense	794	791
Obligations under finance leases (note 13)	1,049	52
	<u>64,428</u>	<u>60,500</u>

12. CREDITORS: amounts falling due after more than one year

	2000 £000	1999 £000
Long term loan	11,239	–
Loan from group undertaking	3,433	–
Obligation under finance leases (note 13)	493	1,568
	<u>15,165</u>	<u>1,568</u>

NOTES TO THE ACCOUNTS
at 31 December 2000

13. OBLIGATIONS UNDER FINANCE LEASES

The maturity of these accounts is as follows:

	2000	1999
	£000	£000
Amounts due:		
within one year	1,049	52
within two to five years	493	1,568
	<u>1,542</u>	<u>1,620</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	<i>Provided</i>		<i>Not provided</i>	
	2000	1999	2000	1999
	£000	£000	£000	£000
Tax effect of timing differences because of:				
Excess of capital allowances over depreciation	-	-	6,471	5,305
Capital gains rolled over	-	-	130	130
Short term timing difference	-	-	(244)	(244)
	<u>-</u>	<u>-</u>	<u>6,357</u>	<u>5,191</u>

The company's medium term plan shows that the amount of tax allowances in respect of eligible new and existing plant and machinery will continue to be in excess of the charge for depreciation. Accordingly deferred tax is not expected to reverse in the foreseeable future.

15. SHARE CAPITAL

	2000	1999
	£	£
Authorised, allotted, called up and fully paid:		
40,000,000 Ordinary shares at £1 each	40,000,000	-
75,000 Deferred 'A' shares at £9 each	675,000	675,000
37,500 Deferred 'B' shares at £1 each	37,500	37,500
37,500 Deferred 'C' shares at £1 each	37,500	37,500
75,000 'A' Ordinary shares at US\$0.01 each	4,412	4,412
37,500 'B' Ordinary shares at US\$0.01 each	245	245
37,500 'C' Ordinary shares at US\$0.01 each	245	245
1 Preference share at £1 each	1	1
	<u>40,754,903</u>	<u>754,903</u>

NOTES TO THE ACCOUNTS

at 31 December 2000

15. SHARE CAPITAL (continued)

The deferred shareholders are not entitled to the profits of the company and are only entitled to the assets of the company after the holders of every other class of share have received the sum of £10,000,000 in respect of each share held.

The deferred shareholders are not entitled to receive notice of or attend and vote at any general meeting of the company.

The company has the power and authority at any time to repurchase the deferred shares for an aggregate consideration of £1.

The preference shareholder has waived their right to preference dividends for the year.

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT IN RESERVES

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1 January 1999	755	114,603	(22,933)	92,425
Retained profit for the year	–	–	4,612	4,612
At 1 January 2000	755	114,603	(18,321)	97,037
Increase in share capital	40,000	–	–	40,000
Retained loss for the year	–	–	(4,470)	(4,470)
At 31 December 2000	40,755	114,603	(22,791)	132,567

The cumulative amount of goodwill that remains eliminated against reserves at 31 December 2000 is £32,401,000.

17. COMMITMENTS AND CONTINGENT LIABILITIES

	2000 £000	1999 £000
Capital expenditure:		
Expenditure contracted for but not provided for	500	5,000
	<u>500</u>	<u>5,000</u>
	2000 £000	1999 £000
Commitments under operating leases expiring within two to five years:		
Other	30	–
	<u>30</u>	<u>–</u>

18. PENSION COMMITMENTS

The company operates a defined benefit pension scheme. This is set up under a separate trust fund and the assets of the scheme are therefore held separately from those of the company.

The pension cost charged to the profit and loss account is calculated by an independent qualified actuary so as to spread the cost of pensions over the employees' working lives with the company.

NOTES TO THE ACCOUNTS
at 31 December 2000

18. PENSION COMMITMENTS (continued)

The pension costs are based on the most recently complete actuarial valuation, which was at 31 March 2000. The ongoing funding level was 178%. The actuarial method used in the 2000 valuation was the projected unit method. The most significant assumptions for their overall effect on pension cost were.

Investment return: 6.5% per annum

Salary increase: 4.3% per annum

Increase to pensions in excess of the GMP: 2.8% per annum

The actuary is not an employee or officer of the company.

The company also has a defined contribution scheme. Death benefits are secured by a group life policy.

19. GROUP ACCOUNTS

The company is exempt from the obligation to prepare and deliver group accounts by virtue of section 228 of the Companies Act 1985. Its results are included in the consolidated accounts of HCA UK Holdings Limited, registered in Great Britain. Copies of HCA UK Holdings Limited's accounts can be obtained from 4 Connaught Place, London W2 2ET.

20. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under FRS 8 not to disclose transactions with entities that are part of the group, where 90% or more of the voting rights of those entities are controlled within the group.

21. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is HCA – The Healthcare Company, which is incorporated in the United State of America. Copies of the parent's consolidated accounts may be obtained from Investor Relations, One Park Plaza, PO Box 550, Nashville, TN 37202-0550 USA.