

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

ALLIED HEALTHCARE INTERNATIONAL INC

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SIC: **8082** Home health care services

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Quarterly Period Ended June 30, 2004

OR

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

From the transition period from _____ to _____

Commission File Number **1-11570**

ALLIED HEALTHCARE INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-3098275
(I.R.S. Employer Identification No.)

555 Madison Avenue, New York, New York 10022

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(212) 750-0064**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock

Outstanding at August 9, 2004
44,464,954 Shares

PART I

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Forward-Looking Statements: The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. This Quarterly Report contains certain forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to management. The statements contained in this Quarterly Report relating to matters that are not historical facts are forward-looking statements that involve risks and uncertainties, including, but not limited to, future demand for the company's products and services, general economic conditions, government regulation, competition and customer strategies, capital deployment, the impact of pricing and reimbursement and other risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected.

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PART I

ITEM 1.

FINANCIAL STATEMENTS (UNAUDITED)

The condensed consolidated financial statements of Allied Healthcare International Inc. (the "Company") begin on page 4.

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ALLIED HEALTHCARE INTERNATIONAL INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands, except per share data)

	June 30, 2004 (Unaudited)	September 30, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$14,962	\$21,691
Restricted cash	1,807	37,693
Accounts receivable, less allowance for doubtful accounts of \$2,049 and \$3,346, respectively	32,959	35,745
Unbilled accounts receivable	8,824	11,278
Inventories	431	431
Prepaid expenses and other current assets	2,543	1,772

Total current assets	61,526	108,610
Property and equipment, net	15,640	10,326
Restricted cash	2,996	3,008
Goodwill	205,976	183,703
Other intangible assets, net	2,453	2,019
Deferred financing costs and other assets	3,943	4,002
Derivative asset	837	—
Total assets	<u>\$293,371</u>	<u>\$311,668</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Notes payable	\$1,807	\$37,693
Current portion of long-term debt	12,294	9,005
Dividends payable	7,322	4,464
Liabilities of discontinued operations	690	690
Accounts payable	1,977	2,676
Accrued expenses	25,673	24,969
Taxes payable	<u>2,912</u>	<u>4,332</u>
Total current liabilities	52,675	83,829
Long-term debt	116,829	118,680
Derivative liability	—	211
Deferred income taxes and other long-term liabilities	<u>1,069</u>	<u>634</u>
Total liabilities	<u>170,573</u>	<u>203,354</u>
Commitments and contingencies		
Redeemable convertible Series A preferred stock, \$.01 par value; authorized 8,000 shares, 7,774 shares issued and outstanding (liquidation value \$35,213)	<u>33,509</u>	<u>33,151</u>
Shareholders' equity:		
Preferred stock, \$.01 par value; authorized 2,000 shares, issued and outstanding — none	—	—
Common stock, \$.01 par value; authorized 62,000 shares, issued 22,776 and 22,689 shares, respectively	228	227
Additional paid-in capital	140,081	142,897
Accumulated other comprehensive income	12,384	3,140
Accumulated deficit	<u>(61,110)</u>	<u>(68,814)</u>
	91,583	77,450
Less notes receivable from officers	—	(1,002)
Less cost of treasury stock (585 and 408 shares, respectively)	<u>(2,294)</u>	<u>(1,285)</u>
Total shareholders' equity	<u>89,289</u>	<u>75,163</u>
Total liabilities and shareholders' equity	<u>\$293,371</u>	<u>\$311,668</u>

See notes to condensed consolidated financial statements.

ALLIED HEALTHCARE INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Revenues:				
Net patient services	\$79,888	\$73,652	\$234,885	\$210,291
Net respiratory, medical equipment and supplies	<u>2,026</u>	<u>1,622</u>	<u>5,739</u>	<u>4,667</u>
Total revenues	<u>81,914</u>	<u>75,274</u>	<u>240,624</u>	<u>214,958</u>
Cost of revenues:				
Patient services	57,202	53,750	168,934	153,084
Respiratory, medical equipment and supplies	<u>1,126</u>	<u>929</u>	<u>3,261</u>	<u>2,756</u>
Total cost of revenues	<u>58,328</u>	<u>54,679</u>	<u>172,195</u>	<u>155,840</u>
Gross profit	23,586	20,595	68,429	59,118
Selling, general and administrative expenses	<u>15,429</u>	<u>13,663</u>	<u>47,998</u>	<u>38,050</u>
Operating Income	8,157	6,932	20,431	21,068
Interest income	(258)	(491)	(680)	(1,575)
Interest expense	2,808	3,853	8,433	11,479
Foreign exchange loss	<u>17</u>	<u>3</u>	<u>46</u>	<u>14</u>
Income before provision for income taxes and discontinued operations	5,590	3,567	12,632	11,150
Provision for income taxes	<u>2,291</u>	<u>1,828</u>	<u>4,928</u>	<u>3,704</u>

Income from continuing operations	3,299	1,739	7,704	7,446
Discontinued operations:				
Loss from discontinued operations	—	(138)	—	(16)
Gain on disposal of subsidiaries, net of taxes of \$775	—	519	—	519
	<u>—</u>	<u>381</u>	<u>—</u>	<u>503</u>
Net income	3,299	2,120	7,704	7,949
Redeemable preferred dividends and accretion	1,091	1,003	3,216	2,971
Net income available to common shareholders	<u>\$2,208</u>	<u>\$1,117</u>	<u>\$4,488</u>	<u>\$4,978</u>
Basic income per share of common stock from:				
Income from continuing operations	\$0.10	\$0.03	\$0.20	\$0.21
Income from discontinued operations	—	0.02	—	0.02
Net income available to common shareholders	<u>\$0.10</u>	<u>\$0.05</u>	<u>\$0.20</u>	<u>\$0.23</u>
Diluted income per share of common stock from:				
Income from continuing operations	\$0.10	\$0.03	\$0.20	\$0.20
Income from discontinued operations	—	0.02	—	0.02
Net income available to common shareholders	<u>\$0.10</u>	<u>\$0.05</u>	<u>\$0.20</u>	<u>\$0.22</u>
Weighted average number of common shares outstanding:				
Basic	22,191	22,239	22,183	21,885
Diluted	22,818	22,557	22,953	22,245

See notes to condensed consolidated financial statements.

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ALLIED HEALTHCARE INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	June 30, 2004	June 30, 2003
Cash flows from operating activities:		
Net income	\$7,704	\$7,949
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	—	(503)
Depreciation and amortization	1,774	1,290
Amortization of intangible assets	443	—
Amortization of debt issuance costs and warrants	1,445	1,443
Write-off of debt discount	—	611
(Reversal of) provision for allowance for doubtful accounts	(1,055)	713
Interest accrued on loans to officers	(7)	(33)
Interest in kind	537	485
Loss (gain) on sale of fixed assets	3	(54)
Deferred income taxes	183	—
Changes in operating assets and liabilities, excluding the effect of businesses acquired and sold:		
Decrease (increase) in accounts receivable	7,141	(1,684)
Decrease in inventories	36	64
Decrease (increase) in prepaid expenses and other assets	2,160	(2,452)
(Decrease) increase in accounts payable and other liabilities	(5,407)	202
Net cash provided by continuing operations	14,957	8,031
Net cash provided by discontinued operations	—	546
Net cash provided by operating activities	<u>14,957</u>	<u>8,577</u>
Cash flows from investing activities:		
Capital expenditures	(6,180)	(2,983)
Proceeds from sale of property and equipment	29	141
Proceeds from sale of discontinued operations	—	8,355
Payments on acquisition payable	(1,309)	(4,734)
Payments for acquisitions – net of cash acquired	(6,229)	(8,274)
Proceeds limited to future acquisitions	38,807	25,677
Net cash provided by investing activities	<u>25,118</u>	<u>18,182</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(9,989)	(6,713)
Payments on notes payable	(38,545)	(19,322)
Payments for treasury shares acquired	—	(572)
Proceeds from exercise of stock options	401	53
Payments for stock issuance costs	—	(20)

Net cash used in financing activities	(48,133)	(26,574)
Effect of exchange rate on cash	1,329	792
(Decrease) increase in cash	(6,729)	977
Cash and cash equivalents, beginning of period	21,691	18,278
Cash and cash equivalents, end of period	<u>\$14,962</u>	<u>\$19,255</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$8,267</u>	<u>\$8,051</u>
Cash paid for income taxes, net of refunds	<u>\$6,654</u>	<u>\$4,914</u>
Supplemental disclosure of investing and financing activities:		
Details of business acquired in purchase transactions:		
Fair value of assets acquired	<u>\$7,067</u>	<u>\$10,991</u>
Liabilities assumed or incurred	<u>\$377</u>	<u>\$2,403</u>
Cash paid for acquisitions (including related expenses)	\$6,690	\$8,588
Cash acquired	461	314
Net cash paid for acquisitions	<u>\$6,229</u>	<u>\$8,274</u>
Issuance of notes payable		<u>\$35,663</u>
Issuance of common stock		<u>\$6,360</u>

See notes to condensed consolidated financial statements.

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ALLIED HEALTHCARE INTERNATIONAL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)
(Unaudited)

1. Basis of Presentation:

Allied Healthcare International Inc. and its subsidiaries (the "Company") is a leading provider of flexible, or temporary, healthcare staffing to the United Kingdom ("U.K.") healthcare industry as measured by revenues, market share and number of staff. At June 30, 2004, the Company operated an integrated network of 122 branches throughout most of the U.K. The Company's healthcare staff consists principally of nurses, nurses aides and home health aides (known as carers in the U.K.). The Company focuses on placing its staff on a per diem basis in hospitals, nursing homes, care homes (which provide assisted living without medical services) and private homes. The Company maintains a pool of over 30,000 nurses, nurses aides and home health aides. The Company also supplies medical-grade oxygen for use in respiratory therapy to the U.K. pharmacy market and to private patients in Northern Ireland.

The Condensed Consolidated Financial Statements presented herein are unaudited and include all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations of the interim periods pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.") have been condensed or omitted. The balance sheet at September 30, 2003 has been derived from the audited consolidated balance sheet at that date, but does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These condensed financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Company's Form 8-K dated July 15, 2004. Although the Company's operations are not highly seasonal, the results of operations for the three and nine months ended June 30, 2004 are not necessarily indicative of operating results for the full year.

2. Stock-Based Compensation:

In accordance with Statement of Financial Accounting Standards ("FAS") No. 123, "Accounting for Stock-Based Compensation" ("FAS No. 123"), the Company continues to apply APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized for its stock option plans. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

Had compensation costs for the Company's stock options been determined consistent with the fair value method prescribed by FAS No. 123, the Company's net income and related per share amounts would have been adjusted to the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2004	2003	2004	2003
Net income available to common shareholders, as reported	\$2,208	\$1,117	\$4,488	\$4,978
Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(336)	(88)	(3,563)	(473)
Pro forma net income available to common shareholders	<u>\$1,872</u>	<u>\$1,029</u>	<u>\$925</u>	<u>\$4,505</u>
Net income per share:				
Basic – as reported	\$0.10	\$0.05	\$0.20	\$0.23
Basic – pro forma	\$0.08	\$0.05	\$0.04	\$0.21
Net income per share:				

ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued)
(In thousands, except per share data)
(Unaudited)

3. Restricted Cash:

Restricted cash represents proceeds limited to future acquisitions. The proceeds refer to amounts advanced to the Company under its senior collateralized term and revolving credit facility (the "Senior Credit Facility") that may only be used by the Company to fund acquisitions permitted thereunder, including paying additional contingent consideration.

The current portion of restricted cash represents the amount on deposit, as required by the senior credit lender, for the sole purpose of repaying the notes payable issued in connection with the acquisition of certain U.K. flexible staffing agencies. In general, the Company may not repay these notes on or before three years after the date of issuance. However, such notes may be redeemed by the holders on any interest payment due date falling not less than one year from the date such note was originally issued upon giving not less than sixty days written notice. Any amounts that may be redeemed upon not less than sixty days written notice are included in the current portion of restricted cash.

On July 19, 2004, the Company's U.K. subsidiary, Allied Healthcare Holdings Limited ("Allied Holdings"), formerly known as Transworld Healthcare (UK) Limited, obtained financing denominated in pounds sterling consisting of a £50,000 multicurrency new senior credit facility (the "New Senior Credit Facility"). Under the New Senior Credit Facility, there will be no loan proceeds limited to future acquisitions. The proceeds from the New Senior Credit Facility were used to repay the Senior Credit Facility. See Note 17(c).

4. Intangible Assets:

Intangible assets, consisting principally of goodwill, are carried at cost, net of accumulated amortization.

In accordance with FAS No. 142, "Goodwill and Other Intangible Assets", all goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization but are subject to annual impairment tests. The Company completed its annual impairment test required under FAS No. 142 during the fourth quarter of fiscal 2003 and determined there was no impairment to its recorded goodwill balance.

The following table presents the changes in the carrying amount of goodwill for the nine months ended June 30, 2004:

	Nine Months Ended June 30, 2004		
	U.K. Operations	U.S. Corporate	Total
Balance at September 30, 2003	\$181,403	\$2,300	\$183,703
Goodwill acquired during the period, net	7,433	—	7,433
Goodwill adjustments during the period	(407)	—	(407)
Foreign exchange effect	15,247	—	15,247
Balance at June 30, 2004	<u>\$203,676</u>	<u>\$2,300</u>	<u>\$205,976</u>

The goodwill associated with the acquisitions during the prior twelve months is subject to revision based on the finalization of the determination of the fair values of assets acquired and liabilities assumed. Goodwill adjustments for the nine months ended June 30, 2004 mainly relate to re-allocations of net excess purchase price to assets acquired and liabilities assumed in connection with prior year acquisitions. In addition, goodwill is not deductible for tax purposes.

ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued)
(In thousands, except per share data)
(Unaudited)

Intangible assets subject to amortization are being amortized on the straight-line method and consist of the following:

	Range Of Lives	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5 – 12	\$2,831	\$521	\$2,310
Trade names	3	186	98	88
Non-compete agreements	2 – 3	98	53	45
Favorable leasehold interests	2 – 5	21	11	10
Total		<u>\$3,136</u>	<u>\$683</u>	<u>\$2,453</u>

	Range Of Lives	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
September 30, 2003				
Customer relationships	10	\$1,996	\$150	\$1,846
Trade names	3	175	49	126
Non-compete agreements	2 – 3	43	11	32
Favorable leasehold interests	2 – 5	20	5	15
Total		<u>\$2,234</u>	<u>\$215</u>	<u>\$2,019</u>

Amortization expense for other intangible assets still subject to amortization was \$155 and \$443 for the three and nine months ended June 30, 2004, respectively. At June 30, 2004, estimated future amortization expense of other intangible assets still subject to amortization is as follows: approximately \$114 for the three months ending September 30, 2004 and \$450, \$375, \$358 and \$252 for the fiscal years ending September 30, 2005, 2006, 2007 and 2008, respectively.

5. Notes Payable:

During the quarter ended December 31, 2003, the Company repaid, through its U.K. subsidiary, notes payable of \$38,545 issued in connection with the acquisition of certain staffing agencies. Of this amount, \$35,663 was issued during the quarter ended December 31, 2002. During the quarter ended December 31, 2002, the Company repaid, through its U.K. subsidiary, notes payable of \$19,322 issued in connection with the acquisition of certain staffing agencies and wrote-off \$611 of related debt discount.

At June 30, 2004, the Company has one remaining note payable that is secured by the Company's senior credit lender which requires the Company to keep an amount on deposit for the sole purpose of repaying the note payable. The Company may not redeem the note on or before September 27, 2004. However, such note may be redeemed by the holder on any interest payment due date falling not less than one year from the date such note was originally issued upon giving not less than sixty days written notice.

At June 30, 2004, the note payable of \$1,807, bearing interest at a rate of 5.25%, and the related cash restricted to the payment of such note are classified as current in the accompanying condensed consolidated balance sheet.

ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued) (In thousands, except per share data) (Unaudited)

6. Accrued Expenses:

Accrued expenses consist of the following at:

	June 30, 2004	September 30, 2003
Payroll and related expenses	\$20,903	\$17,927
Other	4,770	7,042
	<u>\$25,673</u>	<u>\$24,969</u>

7. Shareholders' Equity:

On December 2, 2003, Mr. Aitken, the Company's Executive Chairman, and Ms. Eames, the Company's Chief Executive Officer, repaid in full the principal and accrued interest on the promissory notes issued by them to the Company in connection with the reorganization in fiscal 2002. The principal and accrued interest repaid aggregated \$591 and \$419, respectively. The loans were repaid by delivery to the Company of 104 and 73 shares of the Company's common stock held by Mr. Aitken and Ms. Eames, respectively, valued at \$5.70 per share, the closing price on the day prior to the repayment date. The shares delivered by Mr. Aitken and Ms. Eames are held by the Company as treasury shares. The Company also agreed to reimburse Mr. Aitken and Ms. Eames for the taxes incurred by them on the disposition of the shares to the Company, which were \$83 and \$51, respectively.

8. Warrants:

In the fourth quarter of fiscal 2003, in connection with the execution of an agreement with an unaffiliated third party pursuant to which such third party agreed to provide the Company with consulting services related to corporate finance and investment banking matters, the Company issued to such third party warrants to purchase up to an aggregate of 350 shares of its common stock. Of the 350 warrants issued, 100 of the warrants are exercisable at \$4.75 per share, 175 of the warrants are exercisable at \$5.50 per share and 75 of the warrants are exercisable at a price of \$6.00 per share. The warrants expire on August 13, 2007. At issuance, the fair value of the warrants of \$603 was recorded as a deferred cost and is being amortized over the two year life of the agreement. For the three and nine months ended June 30, 2004, the Company recorded \$75 and \$226, respectively, in amortization related to such warrants.

9. Business Combinations and Dispositions:

Combinations:

On June 30, 2004, the Company completed its acquisition of certain assets of the business of Friends Homecare Services, a supplier of home health aides to social service providers in the Aberdeenshire areas of Scotland. The consideration included an initial payment of \$949 in cash and additional contingent cash consideration of up to a further \$1,310 dependent upon future earnings of the acquired business over the next 24 months.

On June 1, 2004, the Company completed its acquisition of certain assets of the business of Able Care & Perth Private Nursing, a supplier of health aides to nursing homes and private individuals in Scotland. The consideration included an initial payment of \$824 in cash and additional contingent cash consideration of up to a further \$1,898 dependent upon future earnings of the acquired business over the next 24 months.

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ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued) (In thousands, except per share data) (Unaudited)

On May 31, 2004, the Company completed its acquisition of certain assets of the business of A-One Homecare, a supplier of home health aides to social service providers and private individuals in the Sussex area of the U.K. The consideration included an initial payment of \$991 in cash and additional contingent cash consideration of up to a further \$1,735 dependent upon future earnings of the acquired business over the next 12 months.

On April 8, 2004, the Company completed its acquisition of certain assets of the business of Kingston Care & Yorkshire Care, a supplier of home health aides to social service providers in the Yorkshire area of the U.K. The consideration included an initial payment of \$1,196 in cash and additional contingent cash consideration of up to a further \$1,988 dependent upon future earnings of the acquired business over the next 12 months.

On December 24, 2003, the Company completed its acquisition of Primary Care Agency Limited, a supplier of nursing staff and home health aides to NHS hospitals and nursing homes and staff for a learning disabilities trust for supported living in the Norwich area of Norfolk in the U.K. The consideration included payments of \$2,457 in cash and additional contingent cash consideration of \$1,467 dependent upon future earnings of the acquired entity.

The acquisitions have been accounted for as purchase business combinations and the pro-forma results of operations and related per share information have not been presented as the amounts are considered immaterial.

In the third quarter of fiscal 2004, the Company completed its purchase price allocation of the Cynon Health Agency, Carewise Nursing Agency and First Force Medical Recruitments Limited acquisitions completed in fiscal 2003. Accordingly, tangible assets, identifiable intangible assets and liabilities were assigned values of approximately \$379, \$504 and \$369, respectively, with the remaining portion of \$3,346 attributable to goodwill.

In the second quarter of fiscal 2004, the Company completed its purchase price allocation of the Ablecare Oxfordshire, Ablecare Northamptonshire and Yorkshire Careline acquisitions completed in fiscal 2003. Accordingly, identifiable intangible assets were assigned a value of approximately \$1,001 with the remaining portion of \$2,501 attributable to goodwill.

In the first quarter of fiscal 2004, the Company completed its purchase price allocation of the Dalesway Nursing Services acquisition completed in fiscal 2003. Accordingly, identifiable intangible assets were assigned a value of approximately \$116 with the remaining portion of \$234 attributable to goodwill.

The preliminary purchase price allocations for the remaining fiscal 2004 acquisitions are subject to adjustments and will be finalized once additional information concerning asset and liability valuations are obtained. Accordingly, final asset and liability fair values may differ from those set forth on the accompanying condensed consolidated balance sheet at June 30, 2004; however, the changes are not expected to have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

Dispositions:

In the third quarter of fiscal 2003, the Company sold all of the issued and outstanding capital stock of two of its subsidiaries, The PromptCare Companies, Inc. and Steri-Pharm, Inc., collectively referred to as "Home Healthcare" for approximately \$8,500 in cash. Home Healthcare, which comprised the Company's U.S. operations, was concentrated in New York and New Jersey, and supplied infusion therapy, respiratory therapy and home medical equipment. In accordance with the provisions of FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS

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ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued)
(In thousands, except per share data)
(Unaudited)

No. 144"), the Company has accounted for Home Healthcare as a discontinued operation. The condensed consolidated financial statements reflect the liabilities of the discontinued operations, and the operations for the prior periods are reported in discontinued operations.

The following table presents the financial results of the discontinued operations:

	Three Months Ended June 30, 2003	Nine Months Ended June 30, 2003
Revenues:		
Net infusion services	\$396	\$6,685
Net respiratory, medical equipment and supplies	121	2,479
Total revenues	<u>517</u>	<u>9,164</u>
Cost of revenues:		
Infusion services	355	5,159
Respiratory, medical equipment and supplies	111	1,438
Total cost of revenues	<u>466</u>	<u>6,597</u>
Selling, general and administrative expenses	189	2,583
Gain on sale of subsidiaries	(1,294)	(1,294)
Tax on gain on sale of subsidiaries	775	775
Income from discontinued operations	<u>\$381</u>	<u>\$503</u>
Diluted income per share from discontinued operations	<u>\$0.02</u>	<u>\$0.02</u>

At June 30, 2004 and September 30, 2003, liabilities of discontinued operations of \$690 relate to certain tax contingencies.

10. Derivative Instrument:

On March 20, 2003, upon the expiration of the Company's prior Rate Cap and Floor Agreement, the Company entered into a Rate Cap and Floor Collar Agreement that caps its interest rate at LIBOR of 5.50% and its interest floor at LIBOR of 4.47%, subject to special provisions, on approximately \$90,370 of the Company's floating rate debt under a contract which expires March 20, 2008. In accordance with FAS No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as amended by FAS No. 138 and related implementation guidance, the Company has calculated the fair value of the interest cap and floor derivative to be an asset of \$837 at June 30, 2004. In addition, changes in the value from period to period of the interest cap and floor derivative are recorded as an adjustment to interest expense.

11. Income Taxes:

The provision for income taxes from continuing operations for the three and nine months ended June 30, 2004 was \$2,291 and \$4,928, respectively. The provision for income taxes from continuing operations for the three and nine months ended June 30, 2003 was \$1,828 and \$3,704, respectively. In the second quarter of fiscal 2003, the Company recorded a \$1,874 benefit related to the reversal of an estimated income tax liability for a business that was previously discontinued and no longer had any tax liabilities.

12. Earnings Per Share:

Basic earnings per share ("EPS") is computed using the weighted average number of common shares outstanding. Diluted EPS adjusts basic EPS for the effects of stock options, warrants and

ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued)
(In thousands, except per share data)
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redeemable convertible stock only when such effect is dilutive. In future periods, the impact of the conversion of the 7,774 of redeemable convertible preferred stock will dilute basic EPS (See Note 17(a)). At June 30, 2004, the Company had outstanding stock options and warrants to purchase 575 shares of common stock ranging in price from \$6.00 to \$7.25 per share, respectively, that were not included in the computation of diluted EPS because the exercise price was greater than the average market price of the common shares for the third quarter of fiscal 2004. At June 30, 2003, the Company had outstanding stock options to purchase 1,350 shares of common stock ranging in price from \$4.00 to \$7.25 per share, respectively, that were not included in the computation of diluted EPS because the exercise price was greater than the average market price of the common shares for the third quarter of fiscal 2003.

The weighted average number of shares used in the basic and diluted earnings per share computations for the three and nine months ended June 30, 2004 and 2003 are as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Weighted average number of common shares outstanding as used in computation of basic EPS	22,191	22,239	22,183	21,885
Effect of dilutive securities – stock options and warrants	627	318	770	360
Shares used in computation of diluted EPS	<u>22,818</u>	<u>22,557</u>	<u>22,953</u>	<u>22,245</u>

13. Comprehensive Income:

Components of comprehensive income include net income and all other non-owner changes in equity, such as the change in the cumulative translation adjustment, which is the only item of other comprehensive income impacting the Company. The following table displays comprehensive income for the three and nine months ended June 30, 2004 and 2003:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net income	\$3,299	\$2,120	\$7,704	\$7,949
Change in cumulative translation adjustment, net of income taxes	(1,261)	4,540	9,244	5,017
Comprehensive income, net of income taxes	<u>\$2,038</u>	<u>\$6,660</u>	<u>\$16,948</u>	<u>\$12,966</u>

14. Commitments and Contingencies:

Acquisition Agreements:

Related to the Company's acquisitions of certain flexible staffing agencies, the Company has entered into agreements to pay additional amounts, payable in cash and shares of the Company's stock, of up to \$17,978 at June 30, 2004 in contingent consideration dependent upon future earnings of such acquired entities.

Guarantees:

The Company's U.K. subsidiaries guarantee the debt and other obligations of certain wholly-owned U.K. subsidiaries under the senior credit facility, the mezzanine indebtedness (the

ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued) (In thousands, except per share data) (Unaudited)

"Mezzanine Loan") and various notes issued in connection with the acquisition of certain U.K. flexible staffing agencies. At June 30, 2004 and September 30, 2003, the amounts guaranteed, which approximates the amounts outstanding, totaled \$132,172 and \$166,772, respectively.

The New Senior Credit Facility is secured by a first priority lien on the assets of the Allied Healthcare Group Limited and certain of its subsidiaries. Together with Allied Healthcare Group Limited and certain of its subsidiaries, the Company is guaranteeing the debt and other obligations of certain wholly-owned U.K. subsidiaries under the New Senior Credit Facility.

Litigation:

On April 13, 1998, one of the Company's shareholders, purporting to sue derivatively on its behalf, commenced a derivative suit in the Supreme Court of the State of New York, County of New York, entitled Kevin Mak, derivatively and on behalf of Transworld Healthcare, Inc., Plaintiff, vs. Timothy Aitken, Scott A. Shay, Lewis S. Ranieri, Wayne Palladino and Hyperion Partners II L.P., Defendants, and Transworld Healthcare, Inc., Nominal Defendant, Index No. 98-106401. The suit alleges that certain of the Company's officers and directors, and Hyperion Partners II L.P., breached fiduciary duties owed to the Company and its shareholders, in connection with a transaction, approved by a vote of the Company's shareholders on March 17, 1998, in which the Company was to issue certain shares of stock to Hyperion Partners II L.P. in exchange for certain receivables due from Health Management, Inc. ("HMI"). The action seeks injunctive relief against this transaction, and damages, costs and attorneys' fees in unspecified amounts. The transaction subsequently closed and the plaintiff has, on numerous occasions, stipulated to extend the defendants' time to respond to this suit.

Contingencies:

Some of the Company's subsidiaries were Medicare Part B suppliers who submitted claims to the designated carrier who is the government's claims processing administrator. From time to time, the carrier may request an audit of Medicare Part B claims on a prepayment or postpayment basis. Some of the Company's subsidiaries currently have pending such audits. If the outcome of any audit results in a denial or a finding of an overpayment, then the affected subsidiary has appeal rights. Under postpayment audit procedures, the supplier generally pays the alleged overpayment and can pursue appeal rights for a refund of any paid overpayment incorrectly assessed

against the supplier. Some of the subsidiaries currently are responding to these audits and pursuing appeal rights in certain circumstances.

The Company believes that it is substantially in compliance, in all material respects, with the applicable provisions of the Federal statutes, regulations and laws, and applicable state laws, together with all applicable laws and regulations of other countries in which the Company operates. Due to the broad and sometimes vague nature of these laws, there can be no assurance that an enforcement action will not be brought against the Company, or that the Company will not be found to be in violation of one or more of these provisions. At present, the Company cannot anticipate what impact, if any, subsequent administrative or judicial interpretation of the applicable Federal, state and foreign laws and regulations may have on the Company's consolidated financial position, cash flows or results of operations.

The Company is involved in various other legal proceedings and claims incidental to its normal business activities. The Company is vigorously defending its position in all such proceedings and has recorded an accrual of approximately \$494 to cover its estimate for exposure related to these matters. Management believes these matters, including the derivative suit, should not have a material adverse impact on its consolidated financial position, cash flows or results of operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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15. Operations by Business Segments and Geographic Areas:

As disclosed in Note 9, the Company sold all of the issued and outstanding capital stock of its Home Healthcare operations on April 16, 2003 and the Home Healthcare results of operations have been classified as discontinued operations. As a result of this transaction, the Company no longer operates in the U.S. Home Healthcare segment. Accordingly, during the three and nine months ended June 30, 2004 and 2003, the Company's continuing operations were in the U.K. The U.K. operations derive its revenues from flexible healthcare services, principally nursing and ancillary services, and provision of respiratory therapy products to patients throughout most of the U.K.

The Company evaluates performance and allocates resources based on profit and loss from operations before corporate expenses, interest and income taxes. The accounting policies of the business segment are the same as those described for the Company.

The following tables present certain financial information by reportable business segment and geographic area of operations for the three and nine months ended June 30, 2004 and 2003.

	<u>Three Months Ended June 30, 2004</u>	
	U.K.	
	<u>Operations</u>	<u>Total</u>
Net patient services	\$79,888	
Net respiratory, medical equipment and supplies	<u>2,026</u>	
Total revenues to unaffiliated customers	<u>\$81,914</u>	<u>\$81,914</u>
Segment operating profit	<u>\$9,028</u>	<u>\$9,028</u>
Corporate expenses		(871)
Interest expense, net		(2,550)
Foreign exchange loss		(17)
Income before income taxes		<u>\$5,590</u>

	<u>Three Months Ended June 30, 2003</u>	
	U.K.	
	<u>Operations</u>	<u>Total</u>
Net patient services	\$73,652	
Net respiratory, medical equipment and supplies	<u>1,622</u>	
Total revenues to unaffiliated customers	<u>\$75,274</u>	<u>\$75,274</u>
Segment operating profit	<u>\$7,747</u>	<u>\$7,747</u>
Corporate expenses		(815)
Interest expense, net		(3,362)
Foreign exchange loss		(3)
Income before income taxes and discontinued operations		<u>\$3,567</u>

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued)
(In thousands, except per share data)
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	Nine Months Ended June 30, 2004	
	U.K. Operations	Total
Net patient services	\$234,885	
Net respiratory, medical equipment and supplies	5,739	
Total revenues to unaffiliated customers	\$240,624	\$240,624
Segment operating profit	\$23,600	\$23,600
Corporate expenses		(3,169)
Interest expense, net		(7,753)
Foreign exchange loss		(46)
Income before income taxes		\$12,632
Depreciation and amortization	\$1,769	\$1,769
Corporate depreciation and amortization		5
Total depreciation and amortization		\$1,774
Identifiable assets, June 30, 2004	\$288,069	\$288,069
Corporate assets		5,302
Total assets, June 30, 2004		\$293,371
Capital expenditures	\$6,180	\$6,180
Corporate capital expenditures		—
Total capital expenditures		\$6,180

	Nine Months Ended June 30, 2003	
	U.K. Operations	Total
Net patient services	\$210,291	
Net respiratory, medical equipment and supplies	4,667	
Total revenues to unaffiliated customers	\$214,958	\$214,958
Segment operating profit	\$23,680	\$23,680
Corporate expenses		(2,612)
Interest expense, net		(9,904)
Foreign exchange loss		(14)
Income before income taxes and discontinued operations		\$11,150
Depreciation	\$1,284	\$1,284
Corporate depreciation		6
Total depreciation		\$1,290
Identifiable assets, June 30, 2003	\$294,387	\$294,387
Corporate assets		9,318
Total assets, June 30, 2003		\$303,705
Capital expenditures	\$2,977	\$2,977
Corporate capital expenditures		6
Total capital expenditures		\$2,983

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued)
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16. Impact of Recent Accounting Standards:

The Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46") in January 2003 and a revised interpretation of FIN 46 ("FIN 46R") in December 2003. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. For all arrangements entered into after January 31, 2003, the Company is required to continue to apply FIN 46 through the end of the first quarter of fiscal 2004. The Company was required to adopt the provisions of FIN 46R, for those arrangements entered into prior to February

1, 2003, in the second quarter of fiscal 2004. As the Company does not have any variable interest entities, the adoptions of FIN 46 and FIN 46R did not have a material impact on the Company's consolidated financial position or results of operations.

In December 2003, the FASB revised FAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("FAS No. 132"), to require additional disclosures to those in the original FAS No. 132 about assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans and other defined benefit postretirement plans. The year-end provisions of FAS No. 132 will be effective for the Company for the year ending September 30, 2004. In accordance with the interim disclosure requirements of FAS No. 132, the Company maintains a defined contribution plan, pursuant to Section 401(k) of the Internal Revenue Code, covering all U.S. employees who meet certain requirements. In addition to the U.S. plan, the Company's U.K. subsidiaries also sponsor personal pension plans that operate as salary reduction plans. The Company expects to contribute \$98 to such plans in fiscal 2004. The Company believes that the adoption of the year-end disclosure requirements of FAS No. 132 will not have a material impact on its consolidated financial position or results of operations.

17. Subsequent Events:

(a) On July 1, 2004, the Securities and Exchange Commission declared a registration statement on Form S-1 filed by the Company effective and, on July 7, 2004, the Company issued 14,500 shares of its common stock pursuant to the registration statement (the "Offering"). Each share was sold to the public at a price of \$4.90 per share. The Company realized approximately \$65,850 in net proceeds from the sale of its shares of common stock. This amount, together with the initial borrowings available under the New Senior Credit Facility were used (1) to repay the Senior Credit Facility and the Mezzanine Loan; (2) to pay accrued but unpaid dividends on the Series A preferred stock; and (3) to pay a conversion fee to the holders of the Series A preferred stock. Any remaining amounts from the initial borrowings will be used for general corporate purposes and acquisitions.

Prior to the consummation of the Offering, the Company entered into conversion agreements (the "Conversion Agreements") with all of the holders of its Series A preferred stock. Such holders (who collectively owned 7,774 shares of Series A preferred stock) agreed to convert their shares into a like number of shares of common stock upon the consummation of the offering contemplated by the registration statement in return for the payment of accrued but unpaid dividends and a conversion fee in the aggregate amount of \$2,034. The Conversion Agreements provide that if, at any time during the six-month period beginning on the effective date of the registration statement, the shares of the Company's common stock trade at \$11.32 for ten days during any period of thirty consecutive trading days (such tenth day being the "Threshold Date"), then the holders shall repay a portion of their conversion fee to the Company. The portion of the conversion fee to be repaid to the Company shall be equal to the product of the conversion fee and a fraction, the numerator of which shall be the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued) (In thousands, except per share data) (Unaudited)

number of days remaining in the six-month period after the Threshold Date and the denominator of which shall be 180. Pursuant to the Conversion Agreements, on July 7, 2004, all 7,774 outstanding shares of Series A preferred stock were converted into a like number of shares of common stock. In addition, upon the completion of the Offering, the Company paid an aggregate of \$9,422 for accrued dividends and conversion fees.

On July 20, 2004, the Company filed a certificate of amendment to its certificate of incorporation that eliminated all references in its certificate of incorporation to the Series A preferred stock, of which there were 8 million authorized shares. Pursuant to such certificate of amendment, the Series A preferred stock was returned to the status of authorized but unissued shares of "blank check" preferred stock.

(b) On July 2, 2004, the Company completed its acquisition of the entire share capital of the business of Winsom Nursing & Care Agency Ltd., a supplier of home health aides to social service providers in the Scottish capital. The consideration included an initial payment of \$1,365 in cash and additional contingent cash consideration of up to a further \$1,365 dependent upon future earnings of the acquired business over the next 13 weeks.

(c) On July 19, 2004, the Company's U.K. subsidiary obtained a New Senior Credit Facility. Additionally, subject to the terms of the New Senior Credit Facility, ancillary facilities, in the form of an additional facility or financial accommodation (including interest rate swap, cap, or other arrangement for the hedging or fixing of interest) are available up to a maximum of £15 million.

The New Senior Credit Facility (together with approximately \$65,850 of the net proceeds of the Company's recently completed public offering) refinanced its existing Senior Credit Facility and the Mezzanine Loan which had been entered into on December 17, 1999. The New Senior Credit Facility is secured by a first priority lien on the assets of Allied Healthcare Group Limited and certain of its subsidiaries. Together with Allied Healthcare Group Limited and certain of its Subsidiaries, the Company is guaranteeing the debt and other obligations of certain wholly-owned U.K. subsidiaries under the New Senior Credit Facility.

The New Senior Credit Facility consists of the following:

- £30,000 term loan A, maturing June 19, 2009; and
- £20,000 revolving loan B maturing June 19, 2009 which may be drawn upon until August 18, 2004.

Repayment of the term loan A commences on December 19, 2004 and continues semi-annually until final maturity. Repayment of loan B shall be on the last day of its interest period. Both A and B loans bear interest at rates equal to LIBOR (if sterling) or EURIBOR (if euros) plus any bank mandatory costs (if applicable) plus 0.70% to 0.90% per annum (depending on consolidated debt to consolidated profit ratios). As of July 31, 2004,

the Company had outstanding borrowings of \$54,642 and \$18,214 relating to term loan A and revolving loan B, respectively, under the New Senior Credit Facility, that bore interest at a rate of 5.30%.

The New Senior Credit Facility agreement is based on the U.K.'s Loan Markets Association Multicurrency Term and Revolving Facilities agreement which is a standard form designed to be commercially acceptable to the corporate lending market.

Subject to certain exceptions, the New Senior Credit Facility prohibits or restricts the following:

- incurring liens/ granting security;
- incurring additional indebtedness;

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ALLIED HEALTHCARE INTERNATIONAL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (continued) (In thousands, except per share data) (Unaudited)

- making certain fundamental corporate changes;
- paying dividends (including paying dividends to the Company);
- making specified investments, acquisitions or disposals; and
- entering into certain transactions with affiliates.

The New Senior Credit Facility contains affirmative and negative financial covenants customarily found in agreements of this kind, including the maintenance of certain financial ratios, such as debt to earnings (including amounts provided for depreciation and amortization), earnings (before interest and taxes) to interest expense, minimum net worth, maximum ancillary facilities indebtedness and the prohibition of off balance sheet funding. The Company is also obligated to ensure that the guarantors of the New Senior Credit Facility must not at any time represent less than 90% of the consolidated gross assets, turnover or earnings before interest and taxes of the U.K. subsidiaries. As of July 31, 2004, the Company was in compliance with such covenants.

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion and analysis should be read in conjunction with the information contained in the Condensed Consolidated Financial Statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. This discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainty. Our actual results could differ materially from the results discussed in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed on page 2 in this Quarterly Report on Form 10-Q under "Forward-Looking Statements."

We are a leading provider of flexible, or temporary, healthcare staffing to the United Kingdom ("U.K.") healthcare industry as measured by revenues, market share and number of staff. At June 30, 2004, we operated an integrated network of 122 branches throughout most of the U.K. Our healthcare staff consists principally of nurses, nurses aides and home health aides (known as carers in the U.K.). We focus on placing our staff on a per diem basis in hospitals, nursing homes, care homes (which provide assisted living without medical services) and private homes. We maintain a pool of over 30,000 nurses, nurses aides and home health aides. We also supply medical-grade oxygen for use in respiratory therapy to the U.K. pharmacy market and to private patients in Northern Ireland.

Current Developments

On July 1, 2004, the Securities and Exchange Commission declared a registration statement on Form S-1 filed by the Company effective and, on July 7, 2004, the Company issued 14,500,000 shares of its common stock pursuant to the registration statement (the "Offering"). Each share was sold to the public at a price of \$4.90 per share. The Company realized approximately \$65.9 million in net proceeds from the sale of its shares of common stock. This amount, together with the initial borrowings available under the new senior credit facility, described below, were used (1) to repay amounts advanced to us under our senior collateralized term and revolving credit facility (the "Senior Credit Facility") and the mezzanine indebtedness (the "Mezzanine Loan"); (2) to pay accrued but unpaid dividends on the Series A preferred stock; and (3) to pay a conversion fee to the holders of the Series

A preferred stock. Any remaining amounts from the initial borrowings will be used for general corporate purposes and acquisitions.

Prior to the consummation of the Offering, we entered into conversion agreements (the "Conversion Agreements") with all of the holders of our Series A preferred stock. Such holders (who collectively owned 7,773,660 of Series A preferred stock) agreed to convert their shares into a like number of shares of common stock upon the consummation of the offering contemplated by the registration statement in return for the payment of accrued but unpaid dividends and a conversion fee in the aggregate amount of \$2.0 million. The Conversion Agreements provide that if, at any time during the six-month period beginning on the effective date of the registration statement, the shares of our common stock trade at \$11.32 for ten days during any period of thirty consecutive trading days (such tenth day being the "Threshold Date"), then the holders shall repay a portion of their conversion fee to us. The portion of the conversion fee to be repaid to us shall be equal to the product of the conversion fee and a fraction, the numerator of which shall be the number of days remaining in the six-month period after the Threshold Date and the denominator of which shall be 180. Pursuant to the Conversion Agreements, on July 7, 2004, all 7,773,660 outstanding shares of Series A preferred stock were converted into a like number of shares of common stock. In addition, upon the completion of the Offering, the Company paid an aggregate of \$9.4 million for accrued dividends and conversion fees.

On July 19, 2004, our U.K. subsidiary, Allied Healthcare Holdings Limited ("Allied Holdings"), formerly known as Transworld Healthcare (UK) Limited, obtained financing denominated in pounds

sterling consisting of a £50 million multicurrency new senior credit facility (the "New Senior Credit Facility"). Additionally, subject to the terms of the New Senior Credit Facility, ancillary facilities, in the form of an additional facility or financial accommodation (including interest rate swap, cap, or other arrangement for the hedging or fixing of interest) are available up to a maximum of £15 million.

This New Senior Credit Facility (together with approximately \$65.9 million of the net proceeds of our recently completed public offering) refinanced our existing Senior Credit Facility and the Mezzanine Loan which had been entered into on December 17, 1999. The New Senior Credit Facility is secured by a first priority lien on the assets of the Allied Healthcare Group Limited and certain of its subsidiaries, as well as our guarantee of the debt and other obligations of certain wholly-owned U.K. subsidiaries under the New Senior Credit Facility.

The New Senior Credit Facility consists of the following:

- £30 million term loan A, maturing June 19, 2009; and
- £20 million revolving loan B maturing June 19, 2009 which may be drawn upon until August 18, 2004.

Repayment of the term loan A commences on December 19, 2004 and continues semi-annually until final maturity. Repayment of loan B shall be on the last day of its interest period. Both A and B loans bear interest at rates equal to LIBOR (if sterling) or EURIBOR (if euros) plus any bank mandatory costs (if applicable) plus 0.70% to 0.90% per annum (depending on consolidated debt to consolidated profit ratios). As of July 31, 2004, we have outstanding borrowings of \$54.6 million and \$18.2 million relating to term loan A and revolving loan B, respectively, under the New Senior Credit Facility, that bore interest at a rate of 5.30%.

The New Senior Credit Facility agreement is based on the U.K.'s Loan Markets Association Multicurrency Term and Revolving Facilities agreement which is a standard form designed to be commercially acceptable to the corporate lending market.

Subject to certain exceptions, the New Senior Credit Facility prohibits or restricts the following:

- incurring liens/ granting security;
- incurring additional indebtedness;
- making certain fundamental corporate changes;
- paying dividends (including paying dividends to us);
- making specified investments, acquisitions or disposals; and
- entering into certain transactions with affiliates.

The New Senior Credit Facility contains affirmative and negative financial covenants customarily found in agreements of this kind, including the maintenance of certain financial ratios, such as debt to earnings (including amounts provided for depreciation and amortization), earnings (before interest and taxes) to interest expense, minimum net worth, maximum ancillary facilities indebtedness and the prohibition of off balance sheet funding. We are also obligated to ensure that the guarantors of the New Senior Credit Facility must not at any time represent less than 90% of the consolidated gross assets, turnover or earnings before interest and taxes of the U.K. subsidiaries. As of July 31, 2004, we were in compliance with such covenants.

Critical Accounting Policies

Accounts Receivable

We are required to estimate the collectibility of our accounts receivable, which requires a considerable amount of judgment in assessing the ultimate realization of these receivables, including the current credit-worthiness of each customer. Significant changes in required reserves may occur in the future as we continue to expand our business and as conditions in the marketplace change.

Intangible Assets

We have significant amounts of goodwill. The determination of whether or not goodwill has become impaired involves a significant amount of judgment. Changes in strategy and/or market conditions could significantly impact these judgments and require adjustments to recorded amounts of goodwill. We have recorded goodwill and intangibles resulting from our acquisitions through June 30, 2004. Goodwill is tested for impairment annually in the fourth quarter of each fiscal year. A more frequent evaluation will be performed if indicators of impairment are present. The calculation of fair value used for an impairment test includes a number of estimates and assumptions, including future income and cash flow projections, the identification of appropriate market multiples and the choice of an appropriate discount rate. If we are required to record an impairment charge in the future, it could have an adverse impact on our consolidated financial position or results of operations.

Deferred Income Taxes

We account for deferred income taxes based upon differences between the financial reporting and income tax bases of our assets and liabilities. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. The determination of whether or not valuation allowances are required to be recorded involves significant estimates regarding the future profitability of our company, as well as potential tax strategies for the utilization of net loss and operating loss carryforwards.

Contingencies

Related to our acquisitions of certain flexible staffing agencies, we have entered into agreements to pay additional amounts, payable in cash and/or shares of our company's stock, in contingent consideration dependent upon future earnings of such acquired entities. See Note 14 of the Notes to Condensed Consolidated Financial Statements.

Also, we are involved in various legal proceedings and claims incidental to our normal business activities. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

Revenue Recognition

Patient services and respiratory therapy revenues are recognized when services are performed and substantiated by proper documentation. For patient services, which are billed at fixed rates and account for over 95% of our company's business, revenue is recognized upon completion of timesheets that also require the signature of the recipient of services. Revenues from the rental of home medical equipment (including respiratory equipment) are recognized over the rental period (typically on a month-to-month basis). Revenues from the sale of oxygen and supplies for use in respiratory therapy are recognized when products are shipped, a contractual arrangement exists, the sales price is either fixed or determinable and collection is reasonably assured.

We receive a majority of our revenue from the National Health Services (the "NHS") and other U.K. governmental payors. Certain revenues are subject to review by third-party payors and adjustments, if any, are recorded when determined.

Purchase Accounting

We account for our acquisitions as purchase business combinations. At acquisition, preliminary values and useful lives are allocated based upon fair values that have been determined for assets acquired and liabilities assumed and management's best estimates for values that have not yet been finalized. We obtain a third-party valuation in order to complete our purchase price allocations. Accordingly, final asset and liability fair values as well as useful lives may differ from management's original estimates and could have an adverse impact on our consolidated financial position or results of operations.

Results of Operations

Three Months Ended June 30, 2004 vs. Three Months Ended June 30, 2003

Revenues

Total revenues for the three months ended June 30, 2004 and 2003 were \$81.9 million and \$75.3 million, respectively, an increase of \$6.6 million or 8.8%. This increase was mainly due to the favorable effects of changes in foreign exchange of \$8.6 million, the growth of our staffing operations as a result of acquisitions and internal growth in our respiratory, medical equipment and supplies operations of \$2.0 million. This increase was partially offset by a decrease in revenues of \$4.0 million due to the expansion of the NHS Professionals to encompass more healthcare workers. NHS Professionals is an internal agency of the NHS that seeks to provide a temporary staffing service for NHS hospitals. There can be no assurance that the continued expansion of the NHS Professionals may not adversely affect our revenues in future periods.

Gross Profit

Total gross profit increased by \$3.0 million to \$23.6 million for the three months ended June 30, 2004 from \$20.6 million for the three months ended June 30, 2003. The favorable effects of changes in foreign exchange accounted for \$2.5 million of the increase. As a percentage of total revenue, gross profit for the three months ended June 30, 2004 increased to 28.8% from 27.4% for the comparable prior period. Gross margins for patient services increased (28.4% for the three months ended June 30, 2004 versus 27.0% for the comparable prior period) mainly due to managements focus on supplying healthcare staff to our higher margin customers. Gross margins in the respiratory, medical equipment and supplies sales increased (44.4% for the three months ended June 30, 2004 versus 42.7% for the comparable prior period) mainly due to an increased focus on sales of portable oxygen therapy equipment and a steady increase in the number of patients in Northern Ireland, while keeping costs static.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses for the three months ended June 30, 2004 and 2003 were \$15.4 million and \$13.7 million, respectively, an increase of \$1.7 million or 12.9%. Changes in foreign exchange accounted for \$1.5 million of this increase. The remaining increase was mainly a result of acquisitions.

Interest Income

Total interest income for the three months ended June 30, 2004 was \$0.3 million compared to \$0.5 million for the three months ended June 30, 2003, which represents a decrease of \$0.2 million. This decrease was principally attributable to lower levels of funds invested.

Interest Expense

Total interest expense for the three months ended June 30, 2004 was \$2.8 million compared to \$3.9 million for the three months ended June 30, 2003, which represents a decrease of \$1.1 million. This decrease was principally attributable to reduced bank debt and the recording of a \$0.4 million benefit related to the change in the fair value of our company's interest rate cap and floor collar agreement. This decrease was partially offset by the increase of \$0.3 million due to changes in foreign exchange.

Provision for Income Taxes

We recorded a provision for income taxes amounting to \$2.3 million or 41.0% of income before income taxes for the three months ended June 30, 2004 compared to a provision of \$1.8 million or 51.2% of income before income taxes and discontinued operations for the three months ended June

30, 2003. The difference in the effective tax rate from the three months ended June 30, 2003 to the three months ended June 30, 2004 is mainly due to the ratio of U.S. pre-tax losses to consolidated pre-tax income as our company does not provide a tax benefit for U.S. pre-tax losses as it is more likely than not that we will not utilize its net operating losses in the U.S. and permanent differences in the U.K.

Loss From Discontinued Operations

In the third quarter of fiscal 2003, we sold all of the issued and outstanding capital stock of The PromptCare Companies, Inc. and Steri-Pharm, Inc. for approximately \$8.5 million in cash. These two subsidiaries constituted our U.S. home healthcare operations segment. In accordance with the provisions of Statement of Financial Accounting Standards ("FAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS No. 144"), we have accounted for our home healthcare operations as a discontinued operation.

Discontinued operations resulted in income of \$0.4 million for the three months ended June 30, 2003. The following table presents the financial results of the discontinued operation for the three months ended June 30, 2003 (dollars in thousands):

Revenues:	
Net infusion services	\$396
Net respiratory, medical equipment and supplies	121
Total revenues	<u>517</u>
Cost of revenues:	
Infusion services	355
Respiratory, medical equipment and supplies	111
Total cost of revenues	<u>466</u>
Selling, general and administrative expenses	189
Gain on sale of subsidiaries	(1,294)
Tax on gain on sale of subsidiaries	775
Income from discontinued operations	<u>\$381</u>
Diluted income per share from discontinued operations	<u>\$0.02</u>

Net Income

As a result of the foregoing, we recorded net income of \$3.3 million for the three months ended June 30, 2004 compared to net income of \$2.1 million for the three months ended June 30, 2003.

Series A Preferred Stock

For the three months ended June 30, 2004 and 2003, we accrued \$1.0 and \$0.9 million, respectively, of dividends for the Series A preferred stock issued in connection with the exchange of equity investments and subordinated debt investments in our U.K. subsidiaries for shares of our common stock and shares of our Series A preferred stock in fiscal 2002 (the "Reorganization") and accreted \$0.1 million, in each period, of costs related to the issuance of our Series A preferred stock.

Revenues

Total revenues for the nine months ended June 30, 2004 and 2003 were \$240.6 million and \$215.0 million, respectively, an increase of \$25.6 million or 11.9%. This increase was mainly due to the favorable effects of changes in foreign exchange (\$25.0 million), the growth of our staffing operations as a result of internal growth and acquisitions and internal growth in our respiratory, medical

equipment and supplies operations (\$14.0 million). This increase was partially offset by a decrease in revenues of \$13.4 million due to changes to NHS quality standards, causing fewer of our workers to be available for placement with the NHS while the necessary training certificates, immunizations and criminal record checks required by these standards were obtained, and the expansion of the NHS Professionals to encompass more healthcare workers. There can be no assurance that the continued expansion of the NHS Professionals may not adversely affect our revenues in future periods.

Gross Profit

Total gross profit increased by \$9.3 million to \$68.4 million for the nine months ended June 30, 2004 from \$59.1 million for the nine months ended June 30, 2003. The favorable effects of changes in foreign exchange accounted for \$7.1 million of the increase. As a percentage of total revenue, gross profit for the nine months ended June 30, 2004 increased to 28.4% from 27.5% for the comparable prior period. Gross margins for patient services increased (28.1% for the nine months ended June 30, 2004 versus 27.2% for the comparable prior period) mainly due to managements focus on supplying healthcare staff to our higher margin customers. Gross margins in the respiratory, medical equipment and supplies sales increased (43.2% for the nine months ended June 30, 2004 versus 40.9% for the comparable prior period) mainly due to an increased focus on sales of portable oxygen therapy equipment and a steady increase in the number of patients in Northern Ireland, while keeping costs static.

Selling, General and Administrative Expenses

Total selling, general and administrative expenses for the nine months ended June 30, 2004 and 2003 were \$48.0 million and \$38.1 million, respectively, an increase of \$9.9 million or 26.1%. Changes in foreign exchange accounted for \$4.7 million of this increase. The remaining increase was mainly a result of higher levels of overhead costs due principally to increased expenditures on quality assurance audit programs to ensure compliance with changes to legislation (\$1.2 million), internal growth and acquisitions (\$3.0 million), compensation payments to key executives to complete the reimbursement of tax liabilities and to resolve other consequences incurred by them in connection with the fiscal 2002 Reorganization (\$0.9 million) and fees associated with migrating the trading of our shares of common stock from the American Stock Exchange to the Nasdaq National Market (\$0.1 million). We do not anticipate incurring further compensation expense related to the Reorganization.

Interest Income

Total interest income for the nine months ended June 30, 2004 was \$0.7 million compared to \$1.6 million for the nine months ended June 30, 2003, which represents a decrease of \$0.9 million. This decrease was principally attributable to lower levels of funds invested and was partially offset by favorable effects of changes in foreign exchange.

Interest Expense

Total interest expense for the nine months ended June 30, 2004 was \$8.4 million compared to \$11.4 million for the nine months ended June 30, 2003, which represents a decrease of \$3.0 million. This decrease was principally attributable to the recording of a \$1.1 million benefit related to the change in the fair value of our company's interest rate cap and floor collar agreement and reduced bank debt in the nine months ended June 30, 2004 and the write-off of debt discount of \$0.6 million associated with the repayment of loan notes in the nine months ended June 30, 2003. Partially offsetting this decrease is a \$0.9 million increase due to the effect of foreign exchange.

Provision for Income Taxes

We recorded a provision for income taxes amounting to \$4.9 million or 39.0% of income before income taxes for the nine months ended June 30, 2004 compared to a provision of \$3.7 million or 33.2% of income before income taxes and discontinued operations for the nine months ended June 30,

2003. Included in the tax provision for the nine months ended June 30, 2003 is a benefit related to the reversal of an estimated income tax liability (\$1.9 million) for a business that was previously discontinued and no longer had any tax liabilities. Excluding this benefit, the provision for income taxes would have been \$5.6 million or 50.0% of income before income taxes and discontinued operations for the nine months ended June 30, 2003. The difference in the effective tax rate from the period ended June 30, 2003 to the period ended June 30, 2004 is mainly due to the ratio of U.S. pre-tax losses to consolidated pre-tax income as our company does not provide a tax benefit for U.S. pre-tax losses as it is more likely than not that we will not utilize its net operating losses in the U.S. and permanent differences in the U.K.

Income From Discontinued Operations

Discontinued operations resulted in income of \$0.5 million for the nine months ended June 30, 2003. The following table presents the financial results of the discontinued operation for the nine months ended June 30, 2003 (dollars in thousands):

Revenues:	
Net infusion services	\$ 6,685
Net respiratory, medical equipment and supplies	<u>2,479</u>
Total revenues	<u>9,164</u>
Cost of revenues:	
Infusion services	5,159
Respiratory, medical equipment and supplies	<u>1,438</u>
Total cost of revenues	<u>6,597</u>
Selling, general and administrative expenses	2,583
Gain on sale of subsidiaries	(1,294)
Tax on gain on sale of subsidiaries	<u>775</u>
Income from discontinued operations	<u>\$ 503</u>
Diluted income per share from discontinued operations	<u>\$ 0.02</u>

Net Income

As a result of the foregoing, we recorded net income of \$7.7 million for the nine months ended June 30, 2004 compared to net income of \$7.9 million for the nine months ended June 30, 2003.

Series A Preferred Stock

For the nine months ended June 30, 2004, we accrued \$2.9 million of dividends for the Series A preferred stock issued in connection with the Reorganization and accreted \$0.3 million of costs related to the issuance of our Series A preferred stock. For the nine months ended June 30, 2003, we accrued \$2.6 million of dividends for the Series A preferred stock issued in connection with the Reorganization and accreted \$0.4 million of costs related to the issuance of our Series A preferred stock.

Liquidity and Capital Resources

General

For the nine months ended June 30, 2004, we generated \$15.0 million of cash from operating activities. Cash requirements for the nine months ended June 30, 2004 for capital expenditures (\$6.2 million), payments for acquisitions and acquisitions payable (\$7.5 million), payments on notes payable (\$38.5 million) and payments on long-term debt (\$10.0 million), were met through operating cash flows, restricted cash and cash on hand.

In January 2001, we initiated a stock repurchase program, whereby we may purchase up to approximately \$1.0 million of our outstanding shares of common stock in open-market transactions or

in privately-negotiated transactions. In May 2003, we initiated a second stock repurchase program, pursuant to which we may purchase up to an additional \$3.0 million of our outstanding shares of common stock in open-market transactions or in privately-negotiated transactions. As of June 30, 2004, we had acquired 407,700 shares of our common stock for an aggregate purchase price of \$1.3 million pursuant to our stock repurchase programs, which are reflected as treasury stock in the condensed consolidated balance sheet at June 30, 2004.

On December 2, 2003, Mr. Aitken, our company's Executive Chairman, and Ms. Eames, our company's Chief Executive Officer, repaid in full the principal and accrued interest on the promissory notes issued by them to our company in connection with the Reorganization in fiscal 2002. The principal and accrued interest repaid aggregated \$0.6 million and \$0.4 million, respectively. The loans were repaid by delivery to our company of 103,596 and 73,459 shares of our company's common stock held by Mr. Aitken and Ms. Eames, respectively, valued at \$5.70 per share, the closing price on the day prior to the repayment date. The shares delivered by Mr. Aitken and Ms. Eames are held by our company as treasury shares. Our company also agreed to reimburse Mr. Aitken and Ms. Eames for the taxes incurred by them on the disposition of the shares to our company, which were less than \$0.2 million in the aggregate.

As further described above under "Current Developments," on July 19, 2004, our company's U.K. subsidiary, Allied Holdings, obtained financing denominated in pounds sterling consisting of a £50,000 multicurrency New Senior Credit Facility.

We believe the existing capital resources and those generated from operating activities and available under existing borrowing arrangements will be adequate to conduct our operations for the next twelve months.

Restricted Cash

Restricted cash represents proceeds limited to future acquisitions. The proceeds refer to amounts advanced to us under our Senior Credit Facility that may only be used by us to fund acquisitions permitted thereunder, including paying additional contingent consideration.

The current portion of restricted cash represents the amount on deposit, as required by the senior credit lender, for the sole purpose of repaying the notes payable issued in connection with the acquisitions of certain U.K. flexible staffing agencies. In general, we may not repay these notes on or before three years after the date of issuance; however, such notes may be redeemed by the holders on any interest payment due date falling not less than one year from the date such notes were originally issued upon giving not less than sixty days written notice. Any amounts that may be redeemed upon not less than sixty days written notice are included in the current portion of restricted cash. The proceeds from the New Senior Credit Facility were used to repay the Senior Credit Facility.

Under the New Senior Credit Facility, there will be no loan proceeds limited to future acquisitions.

Accounts Receivable

We maintain a cash management program that focuses on the reimbursement function, as growth in accounts receivable has been the main operating use of cash historically. At June 30, 2004 and September 30, 2003, \$33.0 million (11.2%) and \$35.7 million (11.5%), respectively, of our total assets consisted of accounts receivable. The decrease in the accounts receivable from fiscal year end is mainly due to timing of cash collections and to improvements in credit controls to ensure cash collections on a timely basis.

Our goal is to maintain accounts receivable levels equal to or less than industry average, which would tend to mitigate the risk of negative cash flows from operations by reducing the required investment in accounts receivable and thereby increasing cash flows from operations. Days sales outstanding ("DSOs") is a measure of the average number of days taken by our company to collect its accounts receivable, calculated from the date services are rendered. At June 30, 2004 and September 30, 2003, our average DSOs were 36 and 41, respectively.

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Borrowings

General

On December 17, 1999, as amended on September 27, 2001, our company's U.K. subsidiary, Allied Holdings, and its subsidiary obtained new financing denominated in pounds sterling, which aggregates availability of approximately \$193.6 million at June 30, 2004. The financing consists of a \$172.6 million Senior Credit Facility and a \$21.0 million Mezzanine Loan. As of June 30, 2004, we had outstanding borrowings of \$109.3 million under the Senior Credit Facility that bore interest at rates ranging from 6.73% to 7.98%. As of June 30, 2004, we had outstanding borrowings under the Mezzanine Loan of \$19.8 million, which bore interest at a rate of 11.48%.

As further described above under "Current Developments," on July 19, 2004, our company's U.K. subsidiary, Allied Holdings, obtained financing denominated in pounds sterling consisting of a £50,000 multicurrency New Senior Credit Facility.

Notes with Warrants

In connection with the Reorganization, the notes with warrants, issued by one of our U.K. subsidiaries, were settled by the issuance of 890,000 shares of our common stock in the first quarter of fiscal 2003.

Notes Due in Connection with Acquisitions

During the quarter ended December 31, 2003, we repaid, through our U.K. subsidiary, notes payable of \$38.5 million issued in connection with the acquisition of certain U.K. flexible staffing agencies. Of this amount, \$35.7 million was issued during the quarter ended December 31, 2002. During the quarter ended December 31, 2002, we repaid, through our U.K. subsidiary, notes payable of \$19.3 million issued in connection with the acquisition of certain U.K. flexible staffing agencies and wrote-off \$0.6 million of related debt discount.

At June 30, 2004, we had one remaining note payable that is secured by our senior credit lender which requires us to keep an amount on deposit for the sole purpose of repaying the note payable. We may not redeem the note on or before three years after the date of issuance, September 27, 2004. However, such note may be redeemed by the holder on any interest payment due date falling not less than one year from the date such note was originally issued upon giving not less than sixty days written notice.

At June 30, 2004, the note payable of \$1.8 million, bearing interest at a rate of 5.25%, and the related cash restricted to the payment of such note are classified as current in the accompanying Condensed Consolidated Balance Sheet.

Guarantees

Our U.K. subsidiaries guarantee the debt and other obligations of certain wholly-owned U.K. subsidiaries under the Senior Credit Facility, the Mezzanine Loan and various notes issued in connection with the acquisition of certain U.K. flexible staffing agencies. At June 30, 2004 and September 30, 2003, the amounts guaranteed, which approximates the amounts outstanding, totaled approximately \$132.2 million and \$166.8 million, respectively.

The New Senior Credit Facility is secured by a first priority lien on the assets of the Allied Healthcare Group Limited and certain of its subsidiaries. Together with Allied Healthcare Group Limited and certain of its subsidiaries, our company is guaranteeing the debt and other obligations of certain wholly-owned U.K. subsidiaries under the New Senior Credit Facility.

Derivative Instrument

On March 20, 2003, upon the expiration of our prior Rate Cap and Floor Collar Agreement, we entered into a new Rate Cap and Floor Collar Agreement that caps our interest rate at LIBOR of

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5.50% and our interest floor at LIBOR of 4.47%, subject to special provisions, on approximately \$90.4 million of our floating rate debt under a contract that expires March 20, 2008. In accordance with FAS No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as amended by FAS No. 138 and related implementation guidance, we have calculated the fair value of the interest cap and floor derivative to be an asset of \$0.8 million at June 30, 2004. In addition, changes in the value from period to period of the interest cap and floor derivative are recorded as an adjustment to interest expense.

Series A Preferred Stock

In the Reorganization, we issued 7,773,660 shares of our Series A preferred stock with an aggregate liquidation preference of £22.3 million (\$35.2 million at the fixed exchange rate of \$1.58 set forth in an amendment to our certificate of incorporation defining the rights of the Series A preferred stock). The shares of

Series A preferred stock were issued to certain equity investors in Allied Holdings in exchange for 22,286,869 ordinary shares of Allied Holdings. Such ordinary shares were issued to such investors upon exercise of the warrants that had been issued to them in connection with the sale to them in 1999 of Notes of Allied Healthcare Group Limited ("Allied Healthcare (UK)"). The Series A preferred stock has been recorded net of issuance costs, which were being accreted using the interest rate method through December 17, 2007.

We have entered into conversion agreements (the "Conversion Agreements") with all of the holders of our Series A preferred stock. Pursuant to the Conversion Agreements, such holders agreed to convert their shares into a like number of shares of common stock upon the consummation of our public offering in return for the payment of accrued but unpaid dividends and a conversion fee in the aggregate amount of \$2.0 million. The Conversion Agreements provide that if, at any time during the six-month period beginning on the effective date of the registration statement, the shares of our common stock trade at \$11.32 for ten days during any period of thirty consecutive trading days (such tenth day being the "Threshold Date"), then the holders shall repay a portion of their conversion fee to us. The portion of the conversion fee to be repaid to us shall be equal to the product of the conversion fee and a fraction, the numerator of which shall be the number of days remaining in the six-month period after the Threshold Date and the denominator of which shall be 180. Pursuant to the Conversion Agreements, on July 7, 2004, all 7,773,660 outstanding shares of Series A preferred stock were converted into a like number of shares of common stock. We paid to the holders of the Series A preferred stock an aggregate of \$7.4 million in accrued and unpaid dividends and \$2.0 million in conversion fees in connection with the conversion.

The following table presents the changes in the carrying amount of the Series A preferred stock for the nine months ended June 30, 2004 and 2003 (dollars in thousands):

	Nine Months Ended June 30,	
	2004	2003
Balance at October 1, 2003 and 2002, respectively	\$33,151	\$32,254
Accretion of issuance costs	358	364
Foreign exchange effect	—	415
Balance at June 30, 2004 and 2003, respectively	<u>\$33,509</u>	<u>\$33,033</u>

Commitments

Acquisition Agreements

Related to our acquisitions of flexible staffing agencies, we have entered into agreements to pay additional amounts, payable in cash and/or shares of our company's stock, of up to \$18.0 million, as of June 30, 2004, in contingent consideration dependent upon future earnings of such acquired entities.

Employment Agreements

We have three employment agreements with our Executive Chairman, Chief Executive Officer and Chief Financial Officer that provide for minimum aggregate annual compensation of \$0.9 million

in fiscal 2004. Our employment agreements with each of our Executive Chairman and Chief Executive Officer contain, among other things, customary confidentiality and termination provisions and also provides that in the event of the termination of the executive following a "change of control" of our company (as defined in such agreements), or a significant change in his or her responsibilities, such person will be entitled to receive a cash payment of up to 2.9 times his or her average annual base salary during the preceding 12 months. Our Executive Chairman and Chief Executive Officer have agreed not to compete with us for a period of twelve months following termination of employment without our prior written consent. Each employment agreement with our Executive Chairman and Chief Executive Officer expires on September 24, 2004; however, each employment agreement shall be automatically renewed on such date, and on each anniversary of such date, for an additional period of one-year, unless our company or the executive gives notice to the other of its intent to terminate the employment agreement within 90 days of the then applicable termination date.

Further, the employment arrangement with our Executive Chairman also provides that in the event of a change of control of our company during fiscal 2004, his salary would be reinstated to the amount in effect immediately prior to his resignation, in January 2004, as Chief Executive Officer. If such an event were to occur, the minimum aggregate annual compensation would increase to \$1.2 million for these three executives.

Our employment agreement with our Chief Financial Officer is terminable by either party on nine-months notice and provides that such officer will not compete against us for a period of twelve months following his termination of employment.

Operating Leases

The Company has entered into various operating lease agreements for office space and equipment. Certain of these leases provide for renewal options.

Contractual Cash Obligations

As described under "Borrowings," "Acquisition Agreements," and "Operating Leases" above, the following table summarizes our contractual cash obligations as of June 30, 2004 (dollars in thousands):

Fiscal	Total Debt Obligations	Total Lease Obligations	Total Other Obligations	Total Obligations
2004	\$1,449	\$699	\$4,203	\$6,351

2005	12,652	1,801	16,272	30,725
2006	33,437	1,600	2,348	37,385
2007	63,259	1,370	—	64,629
2008	20,133	944	—	21,077
Thereafter	—	2,799	—	2,799
	<u>\$130,930</u>	<u>\$9,213</u>	<u>\$22,823</u>	<u>\$162,966</u>

Lease obligations reflect future minimum rental commitments required under operating leases that have non-cancelable lease terms as of June 30, 2004. Other obligations reflect contingent consideration related to our acquisitions of certain flexible staffing agencies, third-party fees for the implementation of financial software and the conversion fee related to the Conversion Agreements.

See "Current Developments" above for discussion on the New Senior Credit Facility.

Litigation

On April 13, 1998, one of our shareholders, purporting to sue derivatively on our behalf, commenced a derivative suit in the Supreme Court of the State of New York, County of New York, entitled Kevin Mak, derivatively and on behalf of Transworld Healthcare, Inc., Plaintiff, vs. Timothy Aitken, Scott A. Shay, Lewis S. Ranieri, Wayne Palladino and Hyperion Partners II L.P., Defendants, and Transworld Healthcare, Inc., Nominal Defendant, Index No. 98-106401. The suit alleges that certain of our officers and directors, and Hyperion Partners II L.P. ("HPII"), breached fiduciary duties

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owed to us and our shareholders, in connection with a transaction, approved by a vote of our shareholders on March 17, 1998, in which we were to issue certain shares of stock to Hyperion Partners II L.P. in exchange for certain receivables due from Health Management, Inc. ("HMI"). The action seeks injunctive relief against this transaction, and damages, costs and attorneys' fees in unspecified amounts. The transaction subsequently closed and the plaintiff has, on numerous occasions, stipulated to extend the defendants' time to respond to this suit.

Contingencies

Some of our subsidiaries were Medicare Part B suppliers who submitted claims to the designated carrier who is the government's claims processing administrator. From time to time, the carrier may request an audit of Medicare Part B claims on a prepayment or postpayment basis. If the outcome of any audit results in a denial or a finding of an overpayment, then the affected subsidiary has appeal rights. Under postpayment audit procedures, the supplier generally pays the alleged overpayment and can pursue appeal rights for a refund of any paid overpayment incorrectly assessed against the supplier. Some of these subsidiaries are currently responding to these audits and pursuing appeal rights in certain circumstances.

We believe that we are substantially in compliance, in all material respects, with all applicable provisions of the Federal statutes, regulations and laws, and applicable state laws, together with all applicable laws and regulations of other countries in which the Company operates. Due to the broad and sometimes vague nature of these laws and regulations, there can be no assurance that an enforcement action will not be brought against us, or that we will not be found to be in violation of one or more of these provisions. At present, we cannot anticipate what impact, if any, subsequent administrative or judicial interpretations of applicable Federal, state and foreign laws and regulations may have on our financial position, cash flows and results of operations.

We are involved in various legal proceedings and claims incidental to our normal business activities. We are vigorously defending our position in all such proceedings and, at June 30, 2004, have recorded an accrual of \$0.5 million to cover our estimated exposure related to these matters. We believe that these matters, including the derivative suit, should not have a material adverse impact on our consolidated financial position, cash flows or results of operations.

Impact of Recent Accounting Standards

The Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46") in January 2003 and a revised interpretation of FIN 46 ("FIN 46R") in December 2003. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. For all arrangements entered into after January 31, 2003, we are required to continue to apply FIN 46 through the end of the first quarter of fiscal 2004. We were required to adopt the provisions of FIN 46R, for those arrangements entered into prior to February 1, 2003, in the second quarter of fiscal 2004. As we do not have any variable interest entities, the adoptions of FIN 46 and FIN 46R did not have a material impact on our company's consolidated financial position or results of operations.

In December 2003, the FASB revised FAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* ("FAS No. 132"), to require additional disclosures to those in the original FAS No. 132 about assets, obligations, cash flows and net periodic benefit costs of defined benefit pension plans and other defined benefit postretirement plans. The year-end provisions of FAS No. 132 will be effective for us for the year ending September 30, 2004. In accordance with the interim disclosure requirements of FAS No. 132, we maintain a defined contribution plan, pursuant to Section 401(k) of the Internal Revenue Code, covering all U.S. employees who meet certain requirements. In addition to the U.S. plan, our U.K. subsidiaries also sponsor personal pension plans that operate as salary reduction plans. We expect to contribute \$0.1 million to such plans in fiscal 2004. We believe that the adoption of the year-end disclosure requirements of FAS No. 132 will not have a material impact on our consolidated financial position or results of operations.

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ITEM 3.**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Foreign Currency Exchange**

We face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our consolidated financial results. Our primary exposures relate to non-U.S. dollar denominated sales in the U.K. where the principal currency is Pounds Sterling and to the Pounds Sterling debt denominated obligations. See "Interest Rate Risk" for debt obligations principal cash flows and related weighted average interest rates by expected maturity dates. Currently, we do not hedge foreign currency exchange rate exposures.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relate primarily to our cash equivalents and the U.K. subsidiaries' December 17, 1999 refinancing which includes the Senior Credit Facility and Mezzanine Loan. Our cash equivalents include highly liquid short-term investments purchased with initial maturities of 90 days or less. We are subject to fluctuating interest rates that may impact, adversely or otherwise, our consolidated results of operations or cash flows for our variable rate Senior Credit Facility, Mezzanine Loan and cash equivalents. In accordance with provisions of the 1999 refinancing, on January 25, 2000, we capped our interest rate (LIBOR cap of 9%) on approximately \$41.9 million of our floating rate debt in a contract that expired on June 30, 2003.

On March 20, 2003, we entered into a Rate Cap Floor Collar Agreement that caps our interest rate at LIBOR of 5.50% and our interest floor at LIBOR of 4.47%, subject to special provisions, on approximately \$91.3 million of our floating rate debt under a contract that expires March 20, 2008. In accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," as amended by Statement of Financial Accounting Standards No. 138 and related implementation guidance, we have calculated the fair value of the interest cap and floor derivative to be an asset of \$0.8 million as of June 30, 2004. In addition, changes in the value from period to period of the interest cap and floor derivative will be recorded as an adjustment to interest expense.

As of June 30, 2004, our Series A preferred stock (with an aggregate liquidation preference of \$35.2 million) bears dividends at the per share rate of 9.375% of \$4.53 per annum. In addition, we had a note payable of \$1.8 million, which was issued in connection with the acquisition of a U.K. flexible staffing agency. The note payable is redeemable, at the holder's option, in fiscal 2004 and bears interest at 5.25% per annum at June 30, 2004. The table below represents the expected maturity of our variable rate debt and their weighted average interest rates at June 30, 2004 (dollars in thousands).

Fiscal	Expected Maturity	Weighted Average Rate
2004	\$—	—
2005	12,294	LIBOR +1.85 %
2006	33,437	LIBOR +3.22 %
2007	63,259	LIBOR +3.50 %
2008	20,133	LIBOR +7.00 %
Thereafter	—	—
	\$129,123	LIBOR +3.82 %

The aggregate fair value of the our debt was estimated based on quoted market prices for the same or similar issues and approximated \$132.2 million as of June 30, 2004.

ITEM 4.**CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures. Our company's management, with the participation of our chief executive officer and our chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2004.

Under the rules of the Securities and Exchange Commission, "disclosure controls and procedures" are controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the rules of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of June 30, 2004, our disclosure controls and procedures were effective to ensure that the information we are required to disclose in reports that we file or submit to the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified under the rules and forms of the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting. There have not been any changes in our "internal control over financial reporting" (as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of

PART II

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

(b) On July 7, 2004, pursuant to the Conversion Agreements, the holders of all of our outstanding shares of Series A preferred stock, who held an aggregate of 7,773,660 shares of Series A preferred stock, converted all of their shares of Series A preferred stock into a like number of shares of our common stock. On July 20, 2004, we filed a certificate of amendment to our certificate of incorporation that eliminated all references in our certificate of incorporation to the Series A preferred stock, of which there were 8 million authorized shares. Pursuant to such certificate of amendment, the Series A preferred stock was returned to the status of authorized but unissued shares of "blank check" preferred stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Certificate of Amendment to the Certificate of Incorporation of the Company that eliminates all references to the Series A Convertible Preferred Stock of Allied Healthcare International Inc. (the "Company"), filed on July 20, 2004 with the Department of State of the State of New York (incorporated by reference to Exhibit 9 of the Form 8-A/A of the Company filed with the Securities and Exchange Commission on July 21, 2004).
- 10.1 Underwriting Agreement, dated July 1, 2004, between Company and the underwriters named therein.
- 10.2 Form of Conversion Agreement between the Company and the holders of the shares of its Series A Convertible Preferred Stock (incorporated by reference to Exhibit 10.38 of the Registration Statement on Form S-1 of the Company filed with the Securities and Exchange Commission on May 17, 2004).
- 10.3 Deed of Termination, dated June 30, 2004, among Allied Healthcare Group Limited, Allied Healthcare Holdings Limited, the Company, Washington & Congress Capital Partners, L.P. and Richard Green.
- 10.4 Facility Agreement, dated July 19, 2004, among Allied Healthcare Group Limited, the Company, Allied Healthcare Holdings Limited, the subsidiaries of the Company named therein as guarantors, Barclays Capital and Lloyds TSB Bank plc, as arrangers, and the other banks named therein.
- 10.5 Floating Security Document, dated July 19, 2004, among Allied Healthcare Group Limited, Allied Healthcare Holdings Limited, the subsidiaries of the Company named therein, and Barclays Bank plc, as security agent.
- 10.6 Subordination Deed, dated July 19, 2004, among the Company, Barclays Bank plc and Allied Healthcare Group Limited.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer, President and Chief Operating Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer, President and Chief Operating Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.

(b) Reports on Form 8-K.

On May 17, 2004, we filed with the Securities and Exchange Commission a Current Report on Form 8-K that included information under Items 5 and 7 of Form 8-K. The Form 8-K disclosed that we had a press release on May 17, 2004 announcing our filing of a registration statement with the Securities and Exchange Commission relating to a proposed public offering of our common stock. No financial statements were filed.

On May 17, 2004, we filed with the Securities and Exchange Commission a Current Report on Form 8-K that included information required by Item 12 of Form 8-K. The Form 8-K disclosed that we had issued a press release on May 17, 2004 announcing our earnings for the quarter ended March 31, 2004. No financial statements were filed. However, the press release attached to the Form 8-K included a table containing statement of operations data.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 12, 2004

ALLIED HEALTHCARE INTERNATIONAL INC.

By: /s/ Charles F. Murphy

A solid black rectangular box redacting the signature of Charles F. Murphy.

Charles F. Murphy
Chief Financial Officer
(Principal Financial Officer and Duly Authorized
to Sign on Behalf of Registrant)

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ALLIED HEALTHCARE INTERNATIONAL INC.
14,500,000 SHARES OF COMMON STOCK

UNDERWRITING AGREEMENT

July 1, 2004

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.
as Representative of the several Underwriters
c/o Friedman, Billings, Ramsey & Co., Inc.
1001 19th Street North
Arlington, Virginia 22209

Dear Sirs:

Allied Healthcare International Inc., a New York corporation (the "Company"), confirms its agreement with each of the Underwriters listed on Schedule I hereto (collectively, the "Underwriters"), for whom Friedman, Billings, Ramsey & Co., Inc. is acting as representative (in such capacity, the "Representative"), with respect to (i) the sale by the Company of 14,500,000 shares (the "Initial Shares") of Common Stock, par value \$0.01 per share, of the Company ("Common Stock") and the purchase by the Underwriters, acting severally and not jointly, of the respective number of shares of Common Stock set forth opposite the names of the Underwriters in Schedule I hereto, and (ii) the grant of the option described in Section 1(b) hereof to purchase all or any part of 2,175,000 shares of Common Stock to cover over-allotments (the "Option Shares"), if any, from the Company to the Underwriters, acting severally and not jointly, in proportion to the respective numbers of shares of Common Stock set forth opposite the names of the Underwriters in Schedule I hereto. The 14,500,000 shares of Common Stock to be purchased by the Underwriters and all or any part of the 2,175,000 shares of Common Stock subject to the option described in Section 1(b) hereof are hereinafter called, collectively, the "Shares."

The Company understands that the Underwriters propose to make a public offering of the Shares as soon as the Underwriters deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-115559) and a related preliminary prospectus for the registration of the Shares under the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations thereunder (the "Securities Act Regulations"). The Company has prepared and filed such amendments thereto, if any, and such amended preliminary prospectuses, if any, as may have been required prior to the date hereof, and will file such additional amendments thereto and such amended prospectuses as may hereafter be required. The registration statement has

been declared effective under the Securities Act by the Commission. The registration statement as amended at the time it became effective (including all information deemed (whether by incorporation by reference or otherwise) to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) of the Securities Act Regulations) is hereinafter called the "Registration Statement," except that, if the Company files a post-effective amendment to such registration statement which becomes effective prior to the Closing Time (as defined below), "Registration Statement" shall refer to such registration statement as so amended. Any registration statement filed pursuant to Rule 462(b) of the Securities Act Regulations is hereinafter called the "Rule 462(b) Registration Statement," and after such filing the term "Registration Statement" shall include the 462(b) Registration Statement. Each prospectus included in the Registration Statement, or amendments thereof or supplements thereto, before it became effective under the Securities Act and any prospectus filed with the Commission by the Company with the consent of the Underwriters pursuant to Rule 424(a) of the Securities Act Regulations is hereinafter called the "Preliminary Prospectus." The term "Prospectus" means the final prospectus, as first filed with the Commission pursuant to paragraph (1) or (4) of Rule 424(b) of the Securities Act Regulations, and any amendments thereof or supplements thereto. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

The Company and the Underwriters agree as follows:

1. Sale and Purchase:

(a) Initial Shares. Upon the basis of the warranties and representations and other terms and conditions herein set forth, at the purchase price per share of \$4.606, the Company agrees to sell to the Underwriters the Initial Shares and each Underwriter agrees, severally and not jointly, to purchase from the Company the number of Initial Shares set forth in Schedule I opposite such Underwriter's name, plus any additional number of Initial Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 8 hereof, subject in each case, to such adjustments among the Underwriters as the Representative in its sole discretion shall make to eliminate any sales or purchases of fractional shares.

(b) Option Shares. In addition, upon the basis of the warranties and representations and other terms and conditions herein set forth, at the purchase price per share set forth in paragraph (a), the Company hereby grants an option to the Underwriters, acting severally and not jointly, to purchase from the Company, all or any part of the Option Shares, plus any additional number of Option Shares which such Underwriter may become obligated to purchase pursuant to the provisions of Section 8 hereof. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering over-allotments which may be made in connection with the offering and distribution of the Initial Shares upon notice by the Representative to the Company setting forth the number

of Option Shares as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Shares. Any such time and Date of Delivery (as defined below) shall be determined by the Representative, but shall not be later than three full business days (or earlier, without the consent of the Company, than two full business days) after the exercise of such option, nor in any event prior to the Closing Time, as hereinafter defined. If the option is exercised as to all or any portion of the Option Shares, the Company will sell that number of Option Shares then being purchased and each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Shares then being purchased which the number of Initial Shares set forth in Schedule I opposite the name of such Underwriter bears to the total number of Initial Shares, subject in each case to such adjustments among the Underwriters as the Representative in its sole discretion shall make to eliminate any sales or purchases of fractional shares.

2. Payment and Delivery

(a) Initial Shares. The Shares to be purchased by each Underwriter hereunder, in definitive form, and in such authorized denominations and registered in such names as the Representative may request upon at least forty-eight hours' prior notice to the Company shall be delivered by or on behalf of the Company to the Representative, including, at the option of the Representative, through the facilities of The Depository Trust Company ("DTC") for the account of such Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer of Federal (same-day) funds to the account specified to the Representative by the Company upon at least forty-eight hours' prior notice. The Company will cause the certificates representing the Initial Shares to be made available for checking and packaging at least twenty-four hours prior to the Closing Time (as defined below) with respect thereto at the office of the Representative, 1001 19th Street North, Arlington, Virginia 22209, or at the office of DTC or its designated custodian, as the case may be (the "Designated Office"). The time and date of such delivery and payment shall be 9:30 a.m., New York City time, on the third (fourth, if pricing occurs after 4:30 p.m., New York City time) business day after the date hereof (unless another time and date shall be agreed to by the Representative and the Company). The time at which such payment and delivery are actually made is hereinafter sometimes called the "Closing Time" and the date of delivery of both Initial Shares and Option Shares is hereinafter sometimes called the "Date of Delivery."

(b) Option Shares. Any Option Shares to be purchased by each Underwriter hereunder, in definitive form, and in such authorized denominations and registered in such names as the Representative may request upon at least forty-eight hours' prior notice to the Company shall be delivered by or on behalf of the Company to the Representative, including, at the option of the Representative, through the facilities of DTC for the account of such

Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer of Federal (same-day) funds

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to the account specified to the Representative by the Company upon at least forty-eight hours' prior notice. The Company will cause the certificates representing the Option Shares to be made available for checking and packaging at least twenty-four hours prior to the Date of Delivery with respect thereto at the Designated Office. The time and date of such delivery and payment shall be 9:30 a.m., New York City time, on the date specified by the Representative in the notice given by the Representative to the Company of the Underwriters' election to purchase such Option Shares or on such other time and date as the Company and the Representative may agree upon in writing.

3. Representations and Warranties of the Company:

The Company represents and warrants to the Underwriters that:

(a) the Company has an authorized capitalization as set forth in the Prospectus; the outstanding shares of capital stock of the Company and each subsidiary of the Company listed on Exhibit 21 to the Registration Statement (each, a "Subsidiary" or collectively, the "Subsidiaries") have been duly and validly authorized and issued and are fully paid and non-assessable, and all of the outstanding shares of capital stock of the Subsidiaries are directly or indirectly owned of record and beneficially by the Company or another Subsidiary; except as disclosed in the Prospectus, there are no outstanding (i) securities or obligations of the Company or any of the Subsidiaries convertible into or exchangeable for any capital stock of the Company or any such Subsidiary, (ii) warrants, rights or options to subscribe for or purchase from the Company or any such Subsidiary any such capital stock or any such convertible or exchangeable securities or obligations, or (iii) obligations of the Company or any such Subsidiary to issue any shares of capital stock, any such convertible or exchangeable securities or obligation, or any such warrants, rights or options;

(b) each of the Company and the Subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of its respective jurisdiction of incorporation with full corporate power and authority to own its respective properties and to conduct its respective businesses as described in the Registration Statement and Prospectus and, in the case of the Company, to execute and deliver this Agreement and to consummate the transactions contemplated herein;

(c) the Company and all of the Subsidiaries are duly qualified or licensed and are in good standing in each jurisdiction in which they conduct their respective businesses or in which they own or lease real property or otherwise maintain an office and in which the failure, individually or in the aggregate, to be so qualified or licensed would reasonably be expected to have a material adverse effect on the assets, business, operations, earnings, prospects,

properties or condition (financial or otherwise), of the Company and the Subsidiaries taken as a whole (any such effect or change, where the context so requires, is hereinafter called a "Material Adverse Effect" or "Material Adverse Change"); except as disclosed in the Prospectus, no Subsidiary is prohibited or

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restricted (other than by applicable law), directly or indirectly, from paying dividends to the Company, or from making any other distribution with respect to such Subsidiary's capital stock or from repaying to the Company or any other Subsidiary any amounts which may from time to time become due under any loans or advances to such Subsidiary from the Company or such other Subsidiary, or from transferring any such Subsidiary's property or assets to the Company or to any other Subsidiary; other than as disclosed in the Prospectus, the Company does not own, directly or indirectly, any capital stock or other equity securities of any other corporation or any ownership interest in any partnership, joint venture or other association;

(d) the Company and the Subsidiaries are in compliance with all applicable laws, rules, regulations, orders, decrees and judgments, including those relating to transactions with affiliates, except where such non-compliance would not reasonably be expected to have a Material Adverse Effect;

(e) neither the Company nor any Subsidiary is in breach of or in default under (nor has any event occurred which with notice, lapse of time, or both would constitute a breach of, or default under), its respective organizational documents, or in the performance or observance of any obligation, agreement, covenant or condition contained in any license, indenture, mortgage, deed of trust, loan or credit agreement or other agreement or instrument to which the Company or any Subsidiary is a party or by which any of them or their respective properties is bound, except for such breaches or defaults which would not reasonably be expected to have a Material Adverse Effect;

(f) the execution, delivery and performance of this Agreement, and consummation of the transactions contemplated herein will not (A) conflict with, or result in any breach of, or constitute a default under (nor constitute any event which with notice, lapse of time, or both would constitute a breach of, or default under), (i) any provision of the organizational documents of the Company or any Subsidiary, or (ii) any provision of any license, indenture, mortgage, deed of trust, loan or credit agreement or other agreement or instrument to which the Company or any Subsidiary is a party or by which any of them or their respective properties may be bound or affected, or under any federal, state, local or foreign law, regulation or rule or any decree, judgment or order applicable to the Company or any Subsidiary, except in the case of this clause (ii) for such breaches or defaults which would not reasonably be expected to have a Material Adverse Effect; or (B) result in the creation or imposition of any lien, charge, claim or encumbrance upon any property or asset of the Company or any Subsidiary;

(g) this Agreement has been duly authorized, executed and delivered by the Company and is a legal, valid and binding agreement of the Company enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and by general equitable principles, and except to the extent that the indemnification and

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contribution provisions of Section 9 hereof may be limited by federal or state securities laws and public policy considerations in respect thereof;

(h) no approval, authorization, consent or order of or filing with any federal, state, local or foreign governmental or regulatory commission, board, body, authority or agency is required in connection with the Company's execution, delivery and performance of this Agreement, its consummation of the transactions contemplated herein, and its sale and delivery of the Shares, other than (A) such as have been obtained, or will have been obtained at the Closing Time or the relevant Date of Delivery, as the case may be, under the Securities Act and the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), (B) such approvals as have been obtained in connection with the approval of the quotation of the Shares on the NASDAQ National Market and (C) any necessary qualification under the securities or blue sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters;

(i) each of the Company and the Subsidiaries has all necessary licenses, authorizations, consents and approvals and has made all necessary filings required under any federal, state, local or foreign law, regulation or rule, and has obtained all necessary authorizations, consents and approvals from other persons, required in order to conduct their respective businesses as described in the Prospectus, except to the extent that any failure to have any such licenses, authorizations, consents or approvals, to make any such filings or to obtain any such authorizations, consents or approvals would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect; neither the Company nor any of the Subsidiaries is required by any applicable law to obtain accreditation or certification from any governmental agency or authority in order to provide the products and services which it currently provides or which it proposes to provide as set forth in the Prospectus, except as described therein; neither the Company nor any of the Subsidiaries is in violation of, in default under, or has received any notice regarding a possible violation, default or revocation of any such license, authorization, consent or approval or any federal, state, local or foreign law, regulation or rule or any decree, order or judgment applicable to the Company or any of the Subsidiaries the effect of which would reasonably be expected to result in a Material Adverse Change;

(j) each of the Registration Statement and any Rule 462(b) Registration Statement has become effective under the Securities Act and no stop order suspending the effectiveness of the Registration Statement or any Rule 462(b) Registration Statement has been issued under the Securities Act and no

proceedings for that purpose have been instituted or are pending or, to the knowledge of the Company, are threatened by the Commission, and the Company has complied to the Commission's satisfaction with any request on the part of the Commission for additional information;

(k) the Preliminary Prospectus and the Registration Statement complies, and the Prospectus and any further amendments or supplements thereto will, when they have

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become effective or are filed with the Commission, as the case may be, comply, in all material respects with the requirements of the Securities Act and the Securities Act Regulations; the Registration Statement did not, and any amendment thereto will not, in each case as of the applicable effective date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Preliminary Prospectus does not, and the Prospectus or any amendment or supplement thereto will not, as of the applicable filing date and at the Closing Time and on each Date of Delivery (if any), contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no warranty or representation with respect to any statement contained in the Registration Statement or the Prospectus in reliance upon and in conformity with the information concerning the Underwriters and furnished in writing by or on behalf of the Underwriters through the Representative to the Company expressly for use in the Registration Statement or the Prospectus (that information being limited to that described in the penultimate sentence of the first paragraph of Section 9(c) hereof);

(l) the Preliminary Prospectus was and the Prospectus delivered to the Underwriters for use in connection with this offering will be identical to the versions of the Preliminary Prospectus and Prospectus created to be transmitted to the Commission for filing via the Electronic Data Gathering Analysis and Retrieval System ("EDGAR"), except to the extent permitted by Regulation S-T;

(m) there are no actions, suits, proceedings, inquiries or investigations pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary or any of their respective officers and directors in their capacities as such or to which the properties, assets or rights of any such entity are subject, at law or in equity, before or by any federal, state, local or foreign governmental or regulatory commission, board, body, authority, arbitral panel or agency which would reasonably be expected to result in a judgment, decree, award or order having a Material Adverse Effect;

(n) the financial statements, including the notes thereto, included in the Registration Statement and the Prospectus present fairly the consolidated financial position of the entities to which such financial statements relate

(the "Covered Entities") as of the dates indicated and the consolidated results of operations and changes in financial position and cash flows of the Covered Entities for the periods specified; such financial statements have been prepared in conformity with generally accepted accounting principles as applied in the United States and on a consistent basis during the periods involved and in accordance with Regulation S-X promulgated by the Commission; the financial statement schedules included in the Registration Statement and the amounts in the Prospectus under the captions "Prospectus Summary - Summary Financial Information" and "Selected Financial Information" fairly present the

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information shown therein and have been compiled on a basis consistent with the financial statements included in the Registration Statement and the Prospectus; no other financial statements or supporting schedules are required to be included in the Registration Statement; the unaudited pro forma financial information (including the related notes) included in the Prospectus and any Preliminary Prospectus complies as to form in all material respects with the applicable accounting requirements of the Securities Act and the Securities Act Regulations, and management of the Company believes that the assumptions underlying the pro forma adjustments are reasonable; such pro forma adjustments have been properly applied to the historical amounts in the compilation of the information and such information fairly presents with respect to the Company and the Subsidiaries, the pro forma financial position purported to be shown therein at the respective dates; no other pro forma financial information is required to be included in the Registration Statement;

(o) Deloitte and Touche LLP and Ernst & Young LLP, each of whose reports on the consolidated financial statements of the Company are filed with the Commission as part of the Registration Statement and Prospectus are, and were during the periods covered by their reports, independent public accountants as required by the Securities Act and the Securities Act Regulations;

(p) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, and except as may be otherwise stated in the Registration Statement or Prospectus, there has not been (A) any Material Adverse Change or any development that would reasonably be expected to result in a Material Adverse Change, whether or not arising in the ordinary course of business, (B) any transaction that is material to the Company and the Subsidiaries taken as a whole, contemplated or entered into by the Company or any of the Subsidiaries, (C) any obligation, contingent or otherwise, directly or indirectly incurred by the Company or any Subsidiary that is material to the Company and Subsidiaries taken as a whole or (D) any dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock;

(q) the Shares conform in all material respects to the description thereof contained in the Registration Statement and the Prospectus;

(r) there are no persons with registration or other similar rights to have

any equity or debt securities, including securities which are convertible into or exchangeable for equity securities, registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act except as described in the Registration Statement, except for those registration or similar rights which have been waived with respect to the offering contemplated by this Agreement, all of which registration or similar rights described above are fairly summarized in the Prospectus;

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(s) the Shares have been duly authorized and, when issued and duly delivered against payment therefor as contemplated by this Agreement, will be validly issued, fully paid and non-assessable, free and clear of any pledge, lien, encumbrance, security interest or other claim, and the issuance and sale of the Shares by the Company is not subject to preemptive or other similar rights arising by operation of law, under the organizational documents of the Company or under any agreement to which the Company or any Subsidiary is a party or otherwise;

(t) the Shares have been approved for quotation on the NASDAQ National Market, subject to notice of issuance;

(u) the Company has not taken, and will not take, directly or indirectly, any action which is designed to or which has constituted or which might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares;

(v) neither the Company nor any of its affiliates (i) is required to register as a "broker" or "dealer" in accordance with the provisions of the Exchange Act, or the rules and regulations thereunder (the "Exchange Act Regulations"), or (ii) directly, or indirectly through one or more intermediaries, controls or has any other association with (within the meaning of Article I of the By-laws of the National Association of Securities Dealers, Inc. (the "NASD")) any member firm of the NASD;

(w) the Company has not relied upon the Representative or legal counsel for the Representative for any legal, tax or accounting advice in connection with the offering and sale of the Shares;

(x) any certificate signed by any officer of the Company or any Subsidiary delivered to the Representative or to counsel for the Underwriters pursuant to or in connection with this Agreement shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby;

(y) the form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the organizational documents of the Company and the requirements of the NASDAQ National Market;

(z) the Company and the Subsidiaries have good and marketable title in fee simple to all freehold real property, if any, and good title to all personal property owned by them, in each case free and clear of all liens, security interests, pledges, charges, encumbrances, mortgages and defects, except such as are disclosed in the Prospectus or such as do not materially and adversely affect the value of such property or do not interfere with the use made or proposed to be made of such property by the

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Company and the Subsidiaries; and any real property and buildings held under lease by the Company or any Subsidiary are held under valid, existing and enforceable leases, with such exceptions as are disclosed in the Prospectus or would not reasonably be expected to have a Material Adverse Effect;

(aa) the descriptions in the Registration Statement and the Prospectus of the legal or governmental proceedings, contracts, leases and other legal documents therein described present fairly in all material respects the information required to be shown, and there are no legal or governmental proceedings, contracts, leases, or other documents of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement which are not described or filed as required; all agreements between the Company or any of the Subsidiaries and third parties expressly referenced in the Prospectus are legal, valid and binding obligations of the Company or one or more of the Subsidiaries, enforceable in accordance with their respective terms, except to the extent enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general equitable principles;

(bb) the Company and each Subsidiary owns or possesses adequate licenses or other rights to use all patents, trademarks, service marks, trade names, copyrights, software and design licenses, trade secrets, manufacturing processes, other intangible property rights and know-how (collectively "Intangibles") necessary for the Company and each Subsidiary to conduct its business as described in the Prospectus, and neither the Company nor any Subsidiary has received notice of infringement of or conflict with (and the Company knows of no such infringement of or conflict with) asserted rights of others with respect to any Intangibles which would reasonably be expected to have a Material Adverse Effect;

(cc) the Company and each of the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles as applied in the United States and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable

intervals and appropriate action is taken with respect to any differences;

(dd) each of the Company and the Subsidiaries maintains insurance (issued by insurers of recognized financial responsibility) of the types and in the amounts generally deemed adequate for their respective businesses and consistent with insurance coverage maintained by similar companies in similar businesses, including, but not limited to, insurance covering general liability, malpractice liability and real and personal property owned or leased by the Company and the Subsidiaries against theft, damage, destruction,

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acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect;

(ee) No transfer tax, stamp duty or other similar tax is payable by or on behalf of the Underwriters in connection with the (i) issuance by the Company of the Shares (ii) the purchase by the Underwriters of the Shares (iii) the consummation by the Company of any of its obligations under this Agreement, or (iv) resales of the Shares in connection with the distribution contemplated hereby;

(ff) each of the Company and the Subsidiaries has filed on a timely basis all necessary federal, state, local and foreign income and franchise tax returns required to be filed through the date thereof and have paid all taxes shown as due thereon; and no tax deficiency has been asserted against any such entity, nor does any such entity know of any tax deficiency which is likely to be asserted against any such entity which, if determined adversely to any such entity, would reasonably be expected to have a Material Adverse Effect;

(gg) neither the Company nor any of the Subsidiaries is in violation, or has received notice of any violation with respect to, any applicable environmental, safety or similar law applicable to the business of the Company or any of the Subsidiaries, which if adversely determined would reasonably be expected to have a Material Adverse Effect; the Company and the Subsidiaries have received all permits, licenses or other approvals required of them under applicable federal, state and foreign occupational safety and health and environmental laws and regulations to conduct their respective businesses, and the Company and the Subsidiaries are in compliance with all terms and conditions of any such permit, license or approval, except any such violation of law or regulation, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals which would not reasonably be expected to, individually or in the aggregate, result in a Material Adverse Change;

(hh) neither the Company nor any Subsidiary is in violation of or has received notice of any violation with respect to any federal, state or foreign law relating to discrimination in the hiring, promotion or pay of employees, nor any applicable federal, state or foreign wages and hours law, the violation of any of which would reasonably be expected to have a Material Adverse Effect;

(ii) the Company and each of the Subsidiaries (to the extent applicable thereto) are in compliance in all material respects with all presently applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA"); no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any of the Subsidiaries would have any liability; the Company and each of the Subsidiaries have not incurred and do not expect to incur

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liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any "pension plan" or (ii) Section 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder ("Code"); and each "pension plan" for which the Company and each of its Subsidiaries would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification;

(jj) As regards each scheme or arrangement for the provision of relevant benefits (as defined in s. 612 of the Taxes Act but without the exception in the definition) under or in connection with which the Company or any of the Subsidiaries has or may have any liability (a "Scheme") (a) the Company, each of the Subsidiaries and the trustees or managers of the Scheme (if any) comply and have at all times complied in all material respects with all applicable legal obligations relating to the Scheme, including in particular all obligations under the terms of the Scheme and the Pensions Act 1995 and all obligations under TUPE in relation to members of the Scheme; (b) the Scheme provides benefits only on a money purchase basis and no promise or prediction has been given by the Company or any of the Subsidiaries as to the amount of any benefit which may be provided under the Scheme; (c) all amounts payable by the Company and any of the Subsidiaries under or in connection with the Scheme have duly paid; and (d) if the Scheme is intended to be approved under the Taxes Act or a contracted-out scheme under the Pension Schemes Act 1993, the Scheme is in fact approved or contracted-out (as appropriate), and nothing has occurred, whether by action or by failure to act, which would cause the loss of approval or of contracted-out status (as appropriate);

(kk) neither the Company nor any of the Subsidiaries nor, to the knowledge of the Company, any officer or director purporting to act on behalf of the Company or any of the Subsidiaries has at any time (i) made any contributions to any candidate for political office, or failed to disclose fully any such contributions, in violation of law, (ii) made any payment to any state, federal or foreign governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or allowed by applicable law, or (iii) engaged in any transactions, maintained any bank account or used any corporate funds except for transactions, bank accounts and funds which have been and are reflected in the normally maintained books and

records of the Company and the Subsidiaries;

(ll) except as otherwise disclosed in the Prospectus, there are no material outstanding loans or advances or material guarantees of indebtedness by the Company or any of the Subsidiaries to or for the benefit of any of the officers or directors of the Company or any of the Subsidiaries or any of the members of the families of any of them;

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(mm) neither the Company nor any of the Subsidiaries nor, to the knowledge of the Company, any employee or agent of the Company or any of the Subsidiaries, has made any payment of funds of the Company or of any Subsidiary or received or retained any funds in violation of any law, rule or regulation or of a character required to be disclosed in the Prospectus;

(nn) all securities issued by the Company or any of the Subsidiaries have been issued and sold in compliance with (i) all applicable federal and state securities laws, (ii) the laws of the applicable jurisdiction of incorporation of the issuing entity and, (iii) to the extent applicable to the issuing entity, the requirements of the NASDAQ National Market;

(oo) in connection with this offering, the Company has not offered and will not offer its Common Stock or any other securities convertible into or exchangeable or exercisable for Common Stock in a manner in violation of the Securities Act. The Company has not distributed and will not distribute any Prospectus or other offering material in connection with the offer and sale of the Shares in violation of the Securities Act;

(pp) the Company has complied and will comply with all the provisions of Florida Statutes, Section 517.075 (Chapter 92-198, Laws of Florida); and neither the Company nor any of the Subsidiaries or affiliates does business with the government of Cuba or with any person or affiliate located in Cuba;

(qq) the Company has not incurred any liability for any finder's fees or similar payments in connection with the transactions herein contemplated;

(rr) no relationship, direct or indirect, exists between or among the Company or any of the Subsidiaries on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or any of the Subsidiaries on the other hand, which is required by the Securities Act and the Securities Act Regulations to be described in the Registration Statement and the Prospectus and which is not so described;

(ss) neither the Company nor any of the Subsidiaries is and, after giving effect to the offering and sale of the Shares, will be an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(tt) there are no existing or, to the knowledge of the Company, threatened labor disputes with the employees of the Company or any of the Subsidiaries which are likely to have individually or in the aggregate a Material Adverse Effect;

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4. Certain Covenants:

The Company hereby agrees with each Underwriter:

(a) to furnish such information as may be required and otherwise to cooperate in qualifying the Shares for offering and sale under the securities or blue sky laws of such jurisdictions (both domestic and foreign) as the Representative may designate and to maintain such qualifications in effect as long as requested by the Representative for the distribution of the Shares, provided that the Company shall not be required to qualify as a foreign corporation or to consent to the service of process under the laws of any such jurisdiction (except service of process with respect to the offering and sale of the Shares);

(b) if, at the time this Agreement is executed and delivered, it is necessary for a post-effective amendment to the Registration Statement to be declared effective before the offering of the Shares may commence, the Company will endeavor to cause such post-effective amendment to become effective as soon as possible, on the date hereof, and will advise the Representative promptly and, if requested by the Representative, will confirm such advice in writing, when such post-effective amendment has become effective;

(c) to prepare the Prospectus in a form approved by the Underwriters and file such Prospectus (or a term sheet as permitted by Rule 434) with the Commission pursuant to Rule 424(b) under the Securities Act not later than 10:00 a.m. (New York City time), on the day following the execution and delivery of this Agreement or on such other day as the parties may mutually agree and to furnish promptly (and with respect to the initial delivery of such Prospectus, not later than 10:00 a.m. (New York City time) on the day following the execution and delivery of this Agreement or on such other day as the parties may mutually agree to the Underwriters copies of the Prospectus (or of the Prospectus as amended or supplemented if the Company shall have made any amendments or supplements thereto after the effective date of the Registration Statement) in such quantities and at such locations as the Underwriters may reasonably request for the purposes contemplated by the Securities Act Regulations, which Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the version created to be transmitted to the Commission for filing via EDGAR, except to the extent permitted by Regulation S-T;

(d) to advise the Representative promptly and (if requested by the

Representative) to confirm such advice in writing, when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective under the Securities Act Regulations;

(e) to advise the Representative immediately, confirming such advice in writing, of (i) the receipt of any comments from, or any request by, the Commission for

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amendments or supplements to the Registration Statement or Prospectus or for additional information with respect thereto, or (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, or of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes and, if the Commission or any other government agency or authority should issue any such order, to make every reasonable effort to obtain the lifting or removal of such order as soon as possible; to advise the Representative promptly of any proposal to amend or supplement the Registration Statement or Prospectus and to file no such amendment or supplement to which the Representative shall reasonably object in writing;

(f) to furnish to the Underwriters for a period of five years from the date of this Agreement (i) as soon as available, copies of all annual, quarterly and current reports or other communications supplied to holders of shares of Common Stock, (ii) as soon as practicable after the filing thereof, copies of all reports publicly filed by the Company with the Commission, the NASD or any securities exchange and (iii) such other information as the Underwriters may reasonably request regarding the Company and the Subsidiaries;

(g) to advise the Underwriters promptly of the happening of any event known to the Company within the time during which a Prospectus relating to the Shares is required to be delivered under the Securities Act Regulations which, in the judgment of the Company or in the reasonable opinion of the Representative or counsel for the Underwriters, might require the making of any change in the Prospectus then being used so that the Prospectus would not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend or supplement the Prospectus to comply with any law and, during such time, to promptly prepare and furnish to the Underwriters copies of the proposed amendment or supplement before filing any such amendment or supplement with the Commission and thereafter promptly furnish at the Company's own expense to the Underwriters and to dealers, copies in such quantities and at such locations as the Representative may from time to time reasonably request of an appropriate amendment to the Registration Statement or supplement to the Prospectus so that the Prospectus as so amended or supplemented will not, in the light of the circumstances when it is so delivered, be misleading, or so that

the Prospectus will comply with the law;

(h) to file promptly with the Commission any amendment to the Registration Statement or the Prospectus or any supplement to the Prospectus that may, in the reasonable judgment of the Company or the Representative, be required by the Securities Act or requested by the Commission;

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(i) prior to filing with the Commission any amendment to the Registration Statement or supplement to the Prospectus or any Prospectus pursuant to Rule 424 under the Securities Act, to furnish a copy thereof to the Representative and counsel for the Underwriters and obtain the consent of the Representative to the filing, which consent shall not be unreasonably withheld or delayed;

(j) to furnish promptly to each Representative a signed copy of the Registration Statement, as initially filed with the Commission, and of all amendments or supplements thereto (including all exhibits filed therewith) and such number of conformed copies of the foregoing as the Representative may reasonably request;

(k) to furnish to each Representative during the period referred to in paragraph (f) above, a copy of any document filed with the Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act and during such period to file all such documents in the manner and within the time periods required by the Exchange Act and the Exchange Act Regulations;

(l) to apply the net proceeds of the sale of the Shares in accordance with its statements under the caption "Use of Proceeds" in the Prospectus;

(m) to make generally available to its security holders and to deliver to the Representative as soon as practicable, but in any event not later than the end of the fiscal quarter first occurring after the first anniversary of the effective date of the Registration Statement an earnings statement complying with the provisions of Section 11(a) of the Securities Act (in form, at the option of the Company, complying with the provisions of Rule 158 of the Securities Act Regulations,) covering a period of 12 months beginning after the effective date of the Registration Statement;

(n) to use its best efforts to maintain the quotation of the Shares on the NASDAQ National Market and to file with the NASDAQ National Market all documents and notices required by the NASDAQ National Market of companies that have securities that are traded and quotations for which are reported by the NASDAQ National Market;

(o) to engage and maintain, at its expense, a registrar and transfer agent for the Shares;

(p) to refrain during a period of 90 days from the date of the Prospectus, without the prior written consent of the Representative, from, directly or

indirectly, (i) offering, pledging, selling, contracting to sell, selling any option or contract to purchase, purchasing any option or contract to sell, granting any option for the sale of, or otherwise disposing of or transferring, (or entering into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of), any share of Common Stock or any securities convertible into or exercisable

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or exchangeable for Common Stock, or filing any registration statement under the Securities Act with respect to any of the foregoing, or (ii) entering into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Shares to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option or warrant outstanding on the date hereof and referred to in the Prospectus or upon exercise of options issued pursuant to an option plan existing on the date hereof, (C) the conversion of the Company's Series A Preferred Stock, or (D) shares of capital stock of the Company issued in connection with the acquisition of the stock or assets of another entity;

(q) not to, and to use its best efforts to cause its officers, directors and affiliates not to, (i) take, directly or indirectly prior to termination of the underwriting syndicate contemplated by this Agreement, any action designed to stabilize or manipulate the price of any security of the Company, or which may cause or result in, or which might in the future reasonably be expected to cause or result in, the stabilization or manipulation of the price of any security of the Company, to facilitate the sale or resale of any of the Shares, (ii) sell, bid for, purchase or pay anyone any compensation for soliciting purchases of the Shares or (iii) pay or agree to pay to any person any compensation for soliciting any order to purchase any other securities of the Company;

(r) to cause each 5% or greater stockholder, officer and director of the Company to furnish to the Representative, prior to the first Date of Delivery, a letter or letters, substantially in the form of Exhibit A hereto;

(s) if at any time during the 90-day period after the Registration Statement becomes effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which, in the reasonable opinion of the Representative, the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus) and after written notice from the Representative advising the Company to the effect set forth above, to forthwith prepare, consult with the Representative concerning the substance of, and disseminate a press release or other public statement, reasonably satisfactory to the Representative, responding to or commenting on such rumor, publication or event;

(t) that the Company will comply with all of the provisions of any undertakings in the Registration Statement;

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5. Payment of Expenses:

(a) The Company agrees to pay all costs and expenses incident to the performance of its obligations under this Agreement, whether or not the transactions contemplated hereunder are consummated or this Agreement is terminated, including expenses, fees and taxes in connection with (i) the preparation and filing of the Registration Statement, each Preliminary Prospectus, the Prospectus, and any amendments or supplements thereto, and the printing and furnishing of copies of each thereof to the Underwriters and to dealers (including costs of mailing and shipment), (ii) the preparation, issuance and delivery of the certificates for the Shares to the Underwriters, including any stock or other transfer taxes or duties payable upon the sale of the Shares to the Underwriters, (iii) the printing of this Agreement and any dealer agreements and furnishing of copies of each to the Underwriters and to dealers (including costs of mailing and shipment), (iv) the qualification of the Shares for offering and sale under state laws that the Company and the Representative have mutually agreed are appropriate (including the legal fees and filing fees and other disbursements of counsel for the Underwriters in the maximum amount of \$10,000 relating thereto) and the printing and furnishing of copies of any blue sky surveys to the Underwriters and to dealers, (v) filing for review of the public offering of the Shares by the NASD (including the legal fees and filing fees and other disbursements of counsel for the Underwriters relating thereto), (vi) the fees and expenses of any transfer agent or registrar for the Shares and miscellaneous expenses referred to in the Registration Statement, (vii) the fees and expenses incurred in connection with the inclusion of the Shares in the NASDAQ National Market, (viii) making road show presentations with respect to the offering of the Shares, including without limitation, the road show costs and expenses of the Underwriters and the Company, (ix) preparing and distributing bound volumes of transaction documents for the Representative and its legal counsel and (x) the performance of the Company's other obligations hereunder. Upon the request of the Representative, the Company will provide funds in advance for filing fees.

(b) If this Agreement shall be terminated by the Underwriters, or any of them, because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, the Company will reimburse the Underwriters or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (such as printing, facsimile, courier service, direct computer expenses, accommodations, travel and the fees and disbursements of Underwriters' counsel) and any other advisors, accountants, appraisers, etc. reasonably incurred by such Underwriters in connection with this Agreement or

the transactions contemplated herein.

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6. Conditions of the Underwriters' Obligations:

(a) The obligations of the Underwriters hereunder to purchase Shares at the Closing Time or on each Date of Delivery, as applicable, are subject to the accuracy of the representations and warranties on the part of the Company hereunder on the date hereof and at the Closing Time and on each Date of Delivery, as applicable, the performance by the Company of its obligations hereunder and to the reasonable satisfaction of the following further conditions at the Closing Time or on each Date of Delivery, as applicable:

(b) The Company shall furnish to the Underwriters at the Closing Time and on each Date of Delivery an opinion of Brown, Raysman, Millstein, Felder & Steiner LLP, U.S. counsel for the Company and the Subsidiaries, addressed to the Underwriters and dated the Closing Time and each Date of Delivery and in form and substance reasonably satisfactory to Mayer, Brown, Rowe & Maw LLP, counsel for the Underwriters, and attached as Exhibit B;

(c) The Company shall furnish to the Underwriters at the Closing Time and on each Date of Delivery an opinion of Ashurst, U.K. counsel for the Company and the Subsidiaries, addressed to the Underwriters and dated the Closing Time and each Date of Delivery and in form and substance reasonably satisfactory to Mayer, Brown, Rowe & Maw LLP, counsel for the Underwriters, and attached as Exhibit C;

(d) The Representative shall have received from Deloitte and Touche LLP and Ernst & Young LLP, letters dated, respectively, as of the date of this Agreement, the Closing Time and each Date of Delivery, as the case may be, addressed to the Representative, in form and substance satisfactory to the Representative, relating to the financial statements, including any pro forma information, of the Company and the Subsidiaries, and such other matters customarily covered by comfort letters issued in connection with registered public offerings.

In the event that the letters referred to above set forth any increases in indebtedness or decreases in total assets or retained earnings, it shall be a further condition to the obligations of the Underwriters that (A) such letters shall be accompanied by a written explanation of the Company as to the significance thereof, unless the Representative deems such explanation unnecessary, and (B) such changes, decreases or increases do not, in the sole judgment of the Representative, make it impractical or inadvisable to proceed with the purchase and delivery of the Shares as contemplated by the Registration Statement.

(e) The Representative shall have received at the Closing Time and on each Date of Delivery the favorable opinion of Mayer, Brown, Rowe & Maw LLP, dated the Closing Time or such Date of Delivery, addressed to the Representative and

in form and substance satisfactory to the Representative.

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(f) No amendment or supplement to the Registration Statement or Prospectus shall have been filed to which the Underwriters shall have objected in writing.

(g) Prior to the Closing Time and each Date of Delivery (i) no stop order suspending the effectiveness of the Registration Statement or any order preventing or suspending the use of any Preliminary Prospectus or Prospectus has been issued, and no proceedings for such purpose shall have been initiated or threatened, by the Commission, and no suspension of the qualification of the Shares for offering or sale in any jurisdiction, or the initiation or threatening of any proceedings for any of such purposes, has occurred; (ii) all requests for additional information on the part of the Commission shall have been complied with to the reasonable satisfaction of the Representative; and (iii) the Registration Statement and the Prospectus shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(h) The Registration Statement (or if a post-effective amendment thereto is required to be filed under the Securities Act, such post-effective amendment) shall have become effective, and the Representative shall have received notice thereof, not later than 9:30 A.M., New York City time, on the date hereof; no order suspending the effectiveness of the Registration Statement shall be in effect, and no proceeding for such purpose shall be pending before or, to the Company's knowledge and belief, threatened by the Commission; all filings with the Commission required by Rule 424 under the Securities Act to have been filed by the Closing Time shall have been made within the applicable time period prescribed for such filing by such Rule and all requests by the Commission for additional information shall have been complied with to the reasonable satisfaction of the Representative.

(i) Between the time of execution of this Agreement and the Closing Time or the relevant Date of Delivery there shall not have been any Material Adverse Change with respect to the Company, which in the Representative's sole judgment, makes it impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Registration Statement.

(j) The Shares shall have been approved for inclusion in the NASDAQ National Market.

(k) The NASD shall not have raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(l) The Representative shall have received lock-up agreements from each officer, director, and 5% or greater stockholder of the Company, substantially in the form of Exhibit A attached hereto, and such letter agreements shall be in

(m) The Company will, at the Closing Time and on each Date of Delivery, deliver to the Underwriters a certificate of its Chairman of the Board, Chief Executive Officer, President, Chief Operating Officer or Vice President and Chief Accounting Officer or Chief Financial Officer, to the effect that:

(i) the representations and warranties of the Company in this Agreement are true and correct and the Company has complied in all material respects with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the date thereof;

(ii) no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Securities Act;

(iii) when the Registration Statement became effective and at all times subsequent thereto up to the date hereof, the Registration Statement and the Prospectus, and any amendments or supplements thereto contained all material information required to be included therein by the Securities Act and the applicable rules and regulations of the Commission thereunder, and in all material respects conformed to the requirements of the Securities Act and the applicable rules and regulations of the Commission thereunder; the Registration Statement and the Prospectus, and any amendments or supplements thereto, did not and do not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and, since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amendment or supplemented Prospectus which has not been so set forth; and

(iv) subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (a) any Material Adverse Change, (b) any transaction that is material to the Company and the Subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (c) any obligation, direct or contingent, that is material to the Company and the Subsidiaries considered as one enterprise, incurred by the Company or the Subsidiaries, except obligations incurred in the ordinary course of business, (d) any change in the capital stock or outstanding indebtedness of the Company or any Subsidiary that is material to the Company and the Subsidiaries considered as one enterprise, (e) except as may be described in the Registration Statement and the Prospectus, any dividend or distribution of any kind

Company or any Subsidiary, or (f) any loss or damage (whether or not insured) to the property of the Company or any subsidiary which has been sustained or will have been sustained which has a Material Adverse Effect.

(n) The Company shall have furnished to the Underwriters such other documents and certificates as to the accuracy and completeness of any statement in the Registration Statement and the Prospectus, the representations, warranties and statements of the Company contained herein, and the performance by the Company of its covenants contained herein, and the fulfillment of any conditions contained herein, as of the Closing Time or any Date of Delivery, as the Underwriters may reasonably request.

7. Termination:

The obligations of the several Underwriters hereunder shall be subject to termination in the absolute discretion of the Representative, at any time prior to the Closing Time or any Date of Delivery, (i) if any of the conditions specified in Section 6 shall not have been fulfilled when and as required by this Agreement to be fulfilled, or (ii) if there has been since the respective dates as of which information is given in the Registration Statement, any Material Adverse Change, or any development involving a prospective Material Adverse Change, or material change in management of the Company, whether or not arising in the ordinary course of business, or (iii) if there has occurred any outbreak or escalation of hostilities or other national or international calamity or crisis or change in economic, political or other conditions the effect of which on the financial markets of the United States is such as to make it, in the judgment of the Representative, impracticable to market the Shares or enforce contracts for the sale of the Shares, or (iv) if trading in any securities of the Company has been suspended by the Commission or by the NASDAQ National Market, or if trading generally on the New York Stock Exchange or in the NASDAQ National Market has been suspended (including an automatic halt in trading pursuant to market-decline triggers, other than those in which solely program trading is temporarily halted), or limitations on prices for trading (other than limitations on hours or numbers of days of trading) have been fixed, or maximum ranges for prices for securities have been required, by such exchange or the NASD or by order of the Commission or any other governmental authority, or (v) any federal, state or foreign statute, regulation, rule or order of any court or other governmental authority has been enacted, published, decreed or otherwise promulgated which, in the reasonable opinion of the Representative, materially adversely affects or will materially adversely affect the business or operations of the Company, or (vi) if a general moratorium on commercial banking activities has been declared by either Federal or New York State authorities or if there has been a material disruption in commercial banking or securities settlement or clearance services in the United States; or (vii) any action has been taken by any federal, state, local or foreign government or agency in

respect of its monetary or fiscal affairs which, in the reasonable opinion of the Representative, has a material adverse effect on the securities markets in the United States.

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If the Representative elects to terminate this Agreement as provided in this Section 7, the Company and the Underwriters shall be notified promptly by telephone, promptly confirmed by facsimile.

If the sale to the Underwriters of the Shares, as contemplated by this Agreement, is not carried out by the Underwriters for any reason permitted under this Agreement or if such sale is not carried out because the Company shall be unable to comply in all material respects with any of the terms of this Agreement, the Company shall not be under any obligation or liability under this Agreement (except to the extent provided in Sections 5 and 9 hereof) and the Underwriters shall be under no obligation or liability to the Company under this Agreement (except to the extent provided in Section 9 hereof) or to one another hereunder.

8. Increase in Underwriters' Commitments:

If any Underwriter shall default at the Closing Time or on a Date of Delivery in its obligation to take up and pay for the Shares to be purchased by it under this Agreement on such date, the Representative shall have the right, within 36 hours after such default, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Shares which such Underwriter shall have agreed but failed to take up and pay for (the "Defaulted Shares"). Absent the completion of such arrangements within such 36-hour period, (i) if the total number of Defaulted Shares does not exceed 10% of the total number of Shares to be purchased on such date, each non-defaulting Underwriter shall take up and pay for (in addition to the number of Shares which it is otherwise obligated to purchase on such date pursuant to this Agreement) the portion of the total number of Shares agreed to be purchased by the defaulting Underwriter on such date in the proportion that its underwriting obligations hereunder bears to the underwriting obligations of all non-defaulting Underwriters; and (ii) if the total number of Defaulted Shares exceeds 10% of such total, the Representative may terminate this Agreement by notice to the Company, without liability of any party to any other party except that the provisions of Sections 5 and 9 hereof shall at all times be effective and shall survive such termination.

Without relieving any defaulting Underwriter from its obligations hereunder, the Company agrees with the non-defaulting Underwriters that it will not sell any Shares hereunder on such date unless all of the Shares to be purchased on such date are purchased on such date by the Underwriters (or by substituted Underwriters selected by the Representative with the approval of the Company or selected by the Company with the approval of the Representative).

If a new Underwriter or Underwriters are substituted for a defaulting

Underwriter in accordance with the foregoing provision, the Company or the non-defaulting Underwriters shall have the right to postpone the Closing Time or the relevant Date of

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Delivery for a period not exceeding five business days in order that any necessary changes in the Registration Statement and Prospectus and other documents may be effected.

The term "Underwriter" as used in this Agreement shall refer to and include any Underwriter substituted under this Section 8 with the same effect as if such substituted Underwriter had originally been named in this Agreement.

9. Indemnity and Contribution by the Company and the Underwriters:

(a) The Company agrees to indemnify, defend and hold harmless each Underwriter and any person who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any loss, expense, liability, damage or claim (including the reasonable cost of investigation) which, jointly or severally, any such Underwriter or controlling person may incur under the Securities Act, the Exchange Act or otherwise, insofar as such loss, expense, liability, damage or claim arises out of or is based upon (A) any breach of any representation, warranty or covenant of the Company contained herein, (B) any failure on the part of the Company to comply with any applicable law, rule or regulation relating to the offering of securities being made pursuant to the Prospectus, (C) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company), the Prospectus (the term Prospectus for the purpose of this Section 9 being deemed to include any Preliminary Prospectus, the Prospectus and the Prospectus as amended or supplemented by the Company), (D) any application or other document, or any amendment or supplement thereto, executed by the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction (domestic or foreign) in order to qualify the Shares under the securities or blue sky laws thereof or filed with the Commission or any securities association or securities exchange (each an "Application"), (E) any omission or alleged omission to state a material fact required to be stated in any such Registration Statement, Prospectus or any Application or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, or (F) any untrue statement or alleged untrue statement of any material fact contained in any audio or visual materials used in connection with the marketing of the Shares, including, without limitation, slides, videos, films and tape recordings; except insofar as any such loss, expense, liability, damage or claim arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in and in conformity with information furnished in writing by the Underwriters through the Representative to the Company expressly for use in such Registration Statement, Prospectus or Application. The indemnity agreement set forth in this Section 9(a) shall be in

addition to any liability which the Company may otherwise have.

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(b) If any action is brought against an Underwriter or controlling person in respect of which indemnity may be sought against the Company pursuant to subsection (a) above, such Underwriter or controlling person shall promptly notify the Company in writing of the institution of such action, and the Company shall assume the defense of such action, including the employment of counsel and payment of expenses; provided, however, that any failure or delay to so notify the Company will not relieve the Company of any obligation hereunder, except to the extent that its ability to defend is actually impaired by such failure or delay. Such Underwriter or controlling person shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Underwriter or such controlling person unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action, or the Company shall not have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company and paid as incurred (it being understood, however, that the Company shall not be liable for the expenses of more than one separate firm of attorneys for the Underwriters or controlling persons in any one action or series of related actions in the same jurisdiction (other than local counsel in any such jurisdiction) representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent.

(c) Each Underwriter agrees, severally and not jointly, to indemnify, defend and hold harmless the Company, the Company's directors, the Company's officers that signed the Registration Statement, and any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any loss, expense, liability, damage or claim (including the reasonable cost of investigation) which, jointly or severally, the Company, or any such person may incur under the Securities Act, the Exchange Act or otherwise, but only insofar as such loss, expense, liability, damage or claim arises out of or is based upon (A) any untrue statement or alleged untrue statement of a material fact contained in and in conformity with information furnished in writing by such Underwriter through the Representative to the Company expressly for use in the Registration Statement (or in the Registration Statement as amended by any post-effective amendment thereof by the Company), the Prospectus, or any Application, or (B) any omission or alleged omission to state a material fact in connection with such information required to be stated either in such Registration Statement, Prospectus or any Application or necessary to make such information, in the light of the circumstances under

which made, not misleading. The statements set forth in the second, tenth, eleventh, and twelfth paragraphs and the second

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sentence of the seventh paragraph under the caption "Underwriting" in the Preliminary Prospectus, and the second, sixth, eleventh, twelfth and thirteenth paragraphs and the second sentence of the eighth paragraph under the caption "Underwriting" in the Prospectus constitute the only information furnished by or on behalf of any Underwriter through the Representative to the Company for purposes of Section 3(k) and this Section 9. The indemnity agreement set forth in this Section 9(c) shall be in addition to any liabilities that such Underwriter may otherwise have.

If any action is brought against the Company, or any such person in respect of which indemnity may be sought against any Underwriter pursuant to the foregoing paragraph, the Company, or such person shall promptly notify the Representative in writing of the institution of such action and the Representative, on behalf of the Underwriters, shall assume the defense of such action, including the employment of counsel and payment of expenses. The Company, or such person shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the Company or such person unless the employment of such counsel shall have been authorized in writing by the Representative in connection with the defense of such action or the Representative shall not have employed counsel to have charge of the defense of such action within a reasonable time or such indemnified party or parties shall have reasonably concluded (based on the advice of counsel) that there may be defenses available to it or them which are different from or additional to those available to the Underwriters (in which case the Representative shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by such Underwriter and paid as incurred (it being understood, however, that the Underwriters shall not be liable for the expenses of more than one separate firm of attorneys in any one action or series of related actions in the same jurisdiction (other than local counsel in any such jurisdiction) representing the indemnified parties who are parties to such action). Anything in this paragraph to the contrary notwithstanding, no Underwriter shall be liable for any settlement of any such claim or action effected without the written consent of the Representative.

(d) If the indemnification provided for in this Section 9 is unavailable or insufficient to hold harmless an indemnified party under subsections (a), (b) and (c) of this Section 9 in respect of any losses, expenses, liabilities, damages or claims referred to therein, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, expenses, liabilities, damages or claims (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, and the Underwriters from the offering of the Shares or (ii) if (but only if) the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is

appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, and of the Underwriters in connection with the

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statements or omissions which resulted in such losses, expenses, liabilities, damages or claims, as well as any other relevant equitable considerations. The relative benefits received by the Company, and the Underwriters shall be deemed to be in the same proportion as the total proceeds from the offering (net of underwriting discounts and commissions but before deducting expenses) received by the Company bear to the underwriting discounts and commissions received by the Underwriters. The relative fault of the Company, and of the Underwriters shall be determined by reference to, among other things, whether the untrue statement or alleged untrue statement of a material fact or omission or alleged omission relates to information supplied by the Company, or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any claim or action.

(e) The Company, and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in subsection (d)(i) and, if applicable (ii), above. Notwithstanding the provisions of this Section 9, no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions applicable to the Shares purchased by such Underwriter. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 9 are several in proportion to their respective underwriting commitments and not joint.

10. Survival:

The indemnity and contribution agreements contained in Section 9 and the covenants, warranties and representations of the Company contained in Sections 3, 4 and 5 of this Agreement shall remain in full force and effect regardless of any investigation made by or on behalf of any Underwriter, or any person who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, or by or on behalf of the Company, its directors and officers, or any person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, and shall survive any termination of this Agreement or the sale and delivery of the Shares. The Company, and each Underwriter agree promptly to notify the

others of the commencement of any litigation or proceeding against it or its controlling person and, in the case of the Company, against any of the Company's officers and directors, in connection with the sale and delivery of the Shares, or in connection with the Registration Statement or Prospectus.

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11. Notices:

Except as otherwise herein provided, all statements, requests, notices and agreements shall be in writing or by facsimile and, if to the Underwriters, shall be sufficient in all respects if delivered to Friedman, Billings, Ramsey & Co., Inc., 1001 19th Street North, Arlington, Virginia 22209, Attention: Syndicate Department Fax No.: (703) 469-1131; if to the Company, shall be sufficient in all respects if delivered to the Company at the offices of the Company at 555 Madison Avenue, New York, New York 10022, Attention: Charles F. Murphy, Fax No.: (212) 750-7221.

12. Governing Law; Headings:

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES. The section headings in this Agreement have been inserted as a matter of convenience of reference and are not a part of this Agreement.

13. Parties at Interest:

The Agreement herein set forth has been and is made solely for the benefit of the Underwriters, the Company, and the controlling persons, directors and officers referred to in Sections 9 and 10 hereof, and their respective successors, assigns, executors and administrators. No other person, partnership, association or corporation (including a purchaser, as such purchaser, from any of the Underwriters) shall acquire or have any right under or by virtue of this Agreement.

14. Counterparts and Facsimile Signatures:

This Agreement may be signed by the parties in counterparts which together shall constitute one and the same agreement among the parties. A facsimile signature shall constitute an original signature for all purposes.

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If the foregoing correctly sets forth the understanding among the Company and the Underwriters, please so indicate in the space provided below for the purpose, whereupon this Agreement shall constitute a binding agreement among the

Company and the Underwriters.

Very truly yours,

ALLIED HEALTHCARE INTERNATIONAL INC.

By: /s/ Charles Murphy

Name: Charles Murphy

Title: Chief Financial Officer

Accepted and agreed to as
of the date first above written:

FRIEDMAN, BILLINGS, RAMSEY & CO., INC.

By: /s/ James R. Kleeblatt

Name: James R. Kleeblatt

Title: Senior Managing Director

For itself and as Representative of the other
Underwriters named on Schedule I hereto.

[Ashurst Logo]

Deed of Termination

Allied Healthcare Group Limited

and

Allied Healthcare Holdings Limited

and

Allied Healthcare International Inc.

and

Washington & Congress Capital Partners, L.P.

and

Richard Green

30 June 2004

THIS DEED OF TERMINATION is entered into as a DEED on 30 June 2004

BETWEEN:

- (1) ALLIED HEALTHCARE GROUP LIMITED (formerly known as Transworld Holdings (UK) Limited), a company incorporated in England and Wales with registered number 3890177 ("UK Parent");
- (2) ALLIED HEALTHCARE HOLDINGS LIMITED (formerly known as Transworld Healthcare (UK) Limited), a company incorporated in England and Wales with registered number 3370146 ("AHHL");
- (3) ALLIED HEALTHCARE INTERNATIONAL INC. (formerly known as Transworld Healthcare, Inc.), a New York corporation ("US PARENT");
- (4) WASHINGTON & CONGRESS CAPITAL PARTNERS, L.P. (formerly known as Triumph Partners III, L.P.) a Delaware limited partnership ("W&C"); and

(5) RICHARD GREEN (hereinafter sometimes referred to, together with his successor in trust, as the "TRUSTEE").

RECITALS

- A WHEREAS on 17 December 1999, the parties entered into a voting trust agreement (the "VOTING TRUST AGREEMENT") as subsequently amended by an Amendment No.1 to the Voting Trust Agreement dated 25 July 2002 (the "AMENDMENT NO.1") to provide a mechanism for exercising the voting rights attributable to certain of the issued ordinary shares of AHHL and UK Parent.
- B WHEREAS on 25 July 2002, the US Parent completed a reorganization of its own share capital and that of its subsidiaries (the "REORGANIZATION") in accordance with a master reorganization agreement dated 24 April 2002 (as subsequently amended, the "REORGANIZATION AGREEMENT") by and among the Corporate Group and the Investors (as defined therein).
- C WHEREAS under the Reorganization Agreement W&C acquired shares of Series A convertible preferred stock of the US Parent ("US PARENT PREFERRED STOCK") and it was the intention of the parties that for so long as such US Parent Preferred Stock (or any shares of common stock of the US Parent ("US PARENT COMMON STOCK") issuable upon conversion thereof) remained outstanding, W&C was to be afforded certain amended voting rights as fully described in the Amendment No.1.
- D WHEREAS US Parent and W&C have entered into a conversion agreement dated 31 March 2004 ("CONVERSION AGREEMENT") under which W&C has agreed to convert each share of US Parent Preferred Stock held by it into one share of US Parent Common Stock effective as of the closing of an underwritten public offering by the US Parent of its Common Stock.
- E WHEREAS the parties have agreed that upon completion of the Conversion Agreement, the Voting Trust Agreement should terminate.

THE PARTIES AGREED AS FOLLOWS:

1. TERMINATION

The parties hereby agree that with effect from the Closing (as defined therein) of the Conversion Agreement ("COMPLETION"), the Voting Trust Agreement and the Amendment

No.1 shall automatically terminate and cease to have effect and no person shall have any right or liability in relation thereto.

2. TRANSFER

2.1 The parties (other than the Trustee) hereby direct the Trustee to transfer, as soon as practicable following Completion:

- (i) the 100 ordinary shares of (pound)1 each in the capital of Allied Healthcare Group Limited registered in his name to US Parent; and
- (ii) the 48,000,000 ordinary shares of (pound)0.05 each in the capital of Allied Healthcare Holdings Limited registered in his name to UK Parent,

and pending such transfers the parties acknowledge that the Trustee holds, in the case of (i) above, the relevant shares on bare trust for US Parent, and in the case of (ii), the relevant shares on bare trust for UK Parent.

2.2 The Trustee hereby agrees to the provisions of clause 2.1.

3. FURTHER ASSURANCES

The parties hereto undertake to each other that they shall forthwith upon request of any of the other parties execute and deliver such further documents and deeds as the other parties shall reasonably require in order to give full effect to the terms of this deed.

4. COUNTERPARTS

This deed may be executed in any number of counterparts by the parties to it on separate counterparts, each of which when so executed and delivered shall be an original and so that all counterparts shall together constitute one and the same instrument.

5. GOVERNING LAW

This deed shall be governed by and construed in accordance with English law.

IN WITNESS whereof this deed has been executed and delivered as a deed on the date first above written.

Executed as a deed and)
delivered by ALLIED HEALTHCARE)
GROUP LIMITED as follows:)

Director /s/ Sarah L. Eames

Secretary/Director /s/ Charles Murphy

Executed as a deed and)
delivered by ALLIED HEALTHCARE)
HOLDINGS LIMITED as follows:)

Director /s/ Sarah L. Eames

Secretary/Director /s/ Charles Murphy

Executed as a deed and)
delivered by ALLIED HEALTHCARE)
INTERNATIONAL INC. acting by:)

Name: Sarah Ladd Eames /s/ Sarah L. Eames

Title: Director

Name: Charles Murphy /s/ Charles Murphy

Title: Chief Financial Officer

Executed as a deed and)
delivered by RICHARD GREEN)
)

Witness Name: /s/ signature illegible

Address:

68 Elms Drive
Lancing
West Sussex BN15 9LR

Occupation: Secretary

Executed as a deed and)
delivered by WASHINGTON &)
CONGRESS CAPITAL PARTNERS L.P.)
acting by:)

By: Washington & Congress Advisors, LLC, its general partner:

By: /s/ Frederick S. Moseley

Name: Frederick S. Moseley IV

Title: Chief Executive Officer

(pound) 50,000,000
FACILITY AGREEMENT

dated 19 July 2004

for

ALLIED HEALTHCARE GROUP LIMITED
as the Company

ALLIED HEALTHCARE HOLDINGS LIMITED
as the Original Borrower

arranged by
BARCLAYS CAPITAL and
LLOYDS TSB BANK PLC

with

BARCLAYS BANK PLC
acting as Agent

and

BARCLAYS BANK PLC
acting as Security Agent

[LINKLATERS LOGO OMITTED]

Ref: LSW/JMS

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(ii)

THIS AGREEMENT is dated 19 July 2004 and made between:

- (1) ALLIED HEALTHCARE GROUP LIMITED, registration number 3890177 (the "COMPANY");
- (2) ALLIED HEALTHCARE HOLDINGS LIMITED, registration number 03370146 (the "ORIGINAL BORROWER");
- (3) ALLIED HEALTHCARE INTERNATIONAL, INC., a company incorporated in the state of New York, United States of America (the "PARENT");
- (4) THE SUBSIDIARIES of the Company listed in Part I of Schedule 1 as original guarantors (together with the Company the "ORIGINAL GUARANTORS");
- (5) BARCLAYS CAPITAL and LLOYDS TSB BANK PLC as mandated lead arrangers (whether acting individually or together the "ARRANGER");
- (6) THE FINANCIAL INSTITUTIONS listed in Part II and Part III of Schedule 1 as lenders (the "ORIGINAL LENDERS");
- (7) BARCLAYS BANK PLC and LLOYDS TSB BANK PLC as ancillary lenders (each an "ANCILLARY LENDER");
- (8) BARCLAYS BANK PLC as agent of the other Secured Parties (the "AGENT"); and
- (9) BARCLAYS BANK PLC as security agent for the Secured Parties (the "SECURITY AGENT").

IT IS AGREED as follows:

SECTION 1
INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

In this Agreement:

"ACCESSION LETTER" means a document substantially in the form set out in Schedule 6 (Form of Accession Letter).

"ACCOUNTING MONTH" means each period of approximately thirty days adopted by the Company for the purpose of its financial reporting in any financial year of the Company.

"ACCOUNTING QUARTER" means each period of three Accounting Months ending on 31 March, 30 June, 30 September and 31 December in any financial year of the Company.

"ADDITIONAL BORROWER" means a company which becomes an Additional Borrower in accordance with Clause 25 (Changes to the Obligors)

"ADDITIONAL COST RATE" has the meaning given to it in Schedule 4 (Mandatory Cost formulae).

"ADDITIONAL GUARANTOR" means a company which becomes an Additional Guarantor in accordance with Clause 25 (Changes to the Obligors).

"ADDITIONAL OBLIGOR" means an Additional Borrower or an Additional Guarantor.

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"AFFILIATE" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"AGENT'S SPOT RATE OF EXCHANGE" means the Agent's spot rate of exchange for the purchase of the relevant currency with the Base Currency in the London foreign exchange market at or about 11:00 a.m. on a particular day.

"ANCILLARY DOCUMENT" means each document evidencing an Ancillary Facility and designated as such by the Agent (acting on the instructions of the Lenders) and the Company.

"ANCILLARY FACILITY" means any facility or financial accommodation, including any interest rate swap, cap, or other arrangement for the hedging or fixing of interest by an Obligor, required in connection with the business of the Group and entered into by an Obligor and an Ancillary Lender.

"AUTHORISATION" means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisisation or registration.

"AVAILABILITY PERIOD" means:

(a) in relation to Facility A, the period from and including the date of this Agreement to and including the date which is one Month after the date of this Agreement; and

(b) in relation to Facility B, the period from and including the date of this Agreement to and including the Business Day one Month before the Termination Date.

"AVAILABLE COMMITMENT" means, in relation to a Facility, a Lender's Commitment under that Facility minus:

(a) the Base Currency Amount of its participation in any outstanding Loans under that Facility; and

(b) in relation to any proposed Utilisation, the Base Currency Amount of its participation in any Loans that are due to be made under that Facility on or before the proposed Utilisation Date,

other than, in relation to any proposed Utilisation under Facility B only, that Lender's participation in any Facility B Loans that are due to be repaid or prepaid on or before the proposed Utilisation Date.

"AVAILABLE FACILITY" means, in relation to a Facility, the aggregate for the time being of each Lender's Available Commitment in respect of that

Facility.

"BASE CURRENCY" or "(POUND)" means sterling.

"BASE CURRENCY AMOUNT" means, in relation to a Loan, the amount specified in the Utilisation Request delivered by a Borrower for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Utilisation Date or, if later, on the date the Agent receives the Utilisation Request) adjusted to reflect any repayment (other than, in relation to Facility A, a repayment arising from a change of currency), prepayment, consolidation or division of the Loan.

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"BORROWINGS" has the meaning given to it in Clause 21 (Financial covenants).

"BORROWER" means the Original Borrower or an Additional Borrower, unless it has ceased to be a Borrower in accordance with Clause 25 (Changes for the Obligors)

"BREAK COSTS" means the amount (if any) by which:

- (a) the interest which a Lender should have received for the period from the date of receipt of all or any part of its participation in a Loan or Unpaid Sum to the last day of the current Interest Period in respect of that Loan or Unpaid Sum, had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;

exceeds:

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank in the Relevant Interbank Market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

"BUSINESS DAY" means a day (other than a Saturday or Sunday) on which banks are open for general business in London and:

- (a) (in relation to any date for payment or purchase of a currency other than euro) the principal financial centre of the country of that currency; or
- (b) (in relation to any date for payment or purchase of euro) any TARGET Day.

"CHARGED ASSETS" has the meaning given to it in the Debenture.

"CHARGES OVER CASH COLLATERAL ACCOUNTS" means the charges granted by the Original Borrower in favour of Barclays Bank PLC, pursuant to Project Driving Range, Project Gravesend and Project Indigo in each case securing amounts deposited in designated cash collateral accounts.

"CHARGOR" has the meaning given to it in the Debenture.

"COMMITMENT" means a Facility A Commitment or Facility B Commitment.

"COMPLIANCE CERTIFICATE" means a certificate substantially in the form set out in Schedule 8 (Form of Compliance Certificate).

"CONFIDENTIALITY UNDERTAKING" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Agent.

"DEBENTURE" means the floating security document between the Chargors and the Security Agent.

"DEFAULT" means an Event of Default or any event or circumstance specified in Clause 23 (Events of Default) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

"DOLLARS" and "US\$" means the lawful currency for the time being of the United States of America.

"EBIT" has the meaning given to it in Clause 21 (Financial covenants).

"EBITA" has the meaning given to it in Clause 21 (Financial covenants).

"EMPLOYEE PLAN" means, at any time, an "employee pension benefit plan" as defined in Section 3(2) of ERISA which is subject to Title IV of ERISA (other than a Multiemployer Plan) then or at any time during the previous five years maintained for, or contributed to (or to which there is or was an obligation to contribute) on behalf of, employees of the Parent, any Obligor or an ERISA Affiliate.

"ENVIRONMENT" means living organisms including the ecological systems of which they form part and the following media:

- (a) air (including air within natural or man-made structures, whether above or below ground);
- (b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including land under water).

"ENVIRONMENTAL LAW" means all laws and regulations of any relevant jurisdiction which:

- (a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;
- (b) provide remedies or compensation for harm or damage to the Environment; or
- (c) relate to Hazardous Substances or health and safety matters.

"ENVIRONMENTAL LICENCE" means any Authorisation required at any time under Environmental Law.

"ERISA" means the US Employee Retirement Income Security Act of 1974 (or any successor legislation thereto) and the regulations promulgated and rulings issued thereunder.

"ERISA AFFILIATE" means each person (as defined in Section 3(9) of ERISA) that is a member of a controlled group of, or under common control with, any of the Parent or any Obligor, within the meaning of Section 414(b), (c), (m) or (o) of the Internal Revenue Code.

"ERISA EVENT" means any of the following events:

- (a) any reportable event, as defined in Section 4043(c) of ERISA and the regulations promulgated under it, with respect to an Employee Plan as to which the PBGC has not by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within thirty days of the occurrence of that event. However, a failure to meet the minimum funding standard of Section 412 of the Internal Revenue Code or Section 302 of ERISA by a material amount shall be a reportable event for the purposes of this paragraph (a) regardless of the issuance of any waiver under Section 412(d) of the Internal Revenue Code;

- (b) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of that Section) are met with respect to a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of an Employee Plan and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to that Employee Plan within the following 30 days;
- (c) the filing under Section 4041(c) of ERISA of a notice of intent to terminate any Employee Plan pursuant to a distress termination;
- (d) the termination of any Employee Plan under Section 4041(c) of ERISA

pursuant to a distress termination;

- (e) the institution of proceedings under Section 4042 of ERISA by the PBGC for the termination of, or the appointment of a trustee to administer, any Employee Plan;
- (f) the failure to make a required contribution to any Employee Plan that would result in the imposition of an encumbrance under Section 412 of the Internal Revenue Code or Section 302 of ERISA for a material amount; or
- (g) engagement by an Employee Plan in a non-exempt prohibited transaction within the meaning of Section 4795 of the Internal Revenue Code or Section 406 of ERISA for which the associated liability to the Parent, any Obligor or any ERISA Affiliate could reasonably be expected to be material.

"EURIBOR" means, in relation to any Loan in euro:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the Interest Period of that Loan) the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request quoted by the Reference Banks to leading banks in the European interbank market,

as of the Specified Time on the Quotation Day for the offering of deposits in euro for a period comparable to the Interest Period of the relevant Loan.

"EURO" means the single currency of Participating Member States.

"EVENT OF DEFAULT" means any event or circumstance specified as such in Clause 23 (Events of Default).

"EXISTING FACILITIES" mean:

- (a) the (pound)95,500,000 senior credit agreement dated 17 December 1999 (as amended by amendment agreements dated 14 January 2000 and 27 September 2001 and further amended and restated by a third amendment and restatement agreement dated 27 June 2002) between, among others, the Company, the Original Borrower and Barclays Bank PLC as agent and security agent; and
- (b) the (pound)10,000,000 mezzanine credit agreement dated 17 December 1999 between the Original Borrower and the banks and financial institutions named therein as Banks.

"FACILITY" means Facility A or Facility B.

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"FACILITY A" means the term loan facility made available under this Agreement as described in Clause 2 (The Facilities).

"FACILITY A COMMITMENT" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Facility A Commitment" in Part II or Part III of Schedule 1 (The Original Parties) and the amount of any other Facility A Commitment transferred to it under this Agreement; and
- (b) in relation to any other Lender, the amount in the Base Currency of any Facility A Commitment transferred to it under this Agreement,

to the extent not cancelled, reduced or transferred by it under this Agreement.

"FACILITY A LOAN" means a loan made or to be made under Facility A or the principal amount outstanding for the time being of that loan.

"FACILITY A REPAYMENT DATE" means the dates which are 6 months and one year after the date of this Agreement and each anniversary of those dates.

"FACILITY B" means the revolving loan facility made available under this Agreement as described in Clause 2 (The Facilities).

"FACILITY B COMMITMENT" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Facility B Commitment" in Part II or Part III of Schedule 1 (The Original Parties) and the amount of any other Facility B Commitment transferred to it under this Agreement; and
- (b) in relation to any other Lender, the amount in the Base Currency of any Facility B Commitment transferred to it under this Agreement,

to the extent not cancelled, reduced or transferred by it under this Agreement.

"FACILITY B LOAN" means a loan made or to be made under Facility B or the principal amount outstanding for the time being of that loan.

"FACILITY OFFICE" means the office or offices notified by a Lender to the Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days' written notice) as the office or offices through which it will perform its obligations under this Agreement.

"FEE LETTER" means any letter or letters dated on or about the date of this Agreement between, as the case may be, the Arranger and the Original Borrower, the Agent and the Original Borrower or the Security Agent and the Original Borrower setting out any of the fees referred to in Clause 12 (Fees).

"FINANCE DOCUMENT" means this Agreement, any Fee Letter, any Accession Letter, any Resignation Letter, the Subordination Deed, any Ancillary Document and Security Document and any other document designated as such by the Agent and the Company.

"FINANCE PARTY" means the Agent, the Security Agent, the Arranger or a Lender.

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"FINANCIAL INDEBTEDNESS" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) shares which are expressed to be redeemable;
- (i) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (j) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above.

"FUND FLOW STATEMENT" means the chart and memorandum in the agreed form showing the payments to be made by each member of the Group and the Parent on or immediately prior to the date of this Agreement for the purpose of repaying the Existing Facilities.

"GAAP" means:

- (a) in respect of the Company or any person incorporated in the United Kingdom, generally accepted accounting principles, standards and practices in the United Kingdom; and
- (b) in respect of the Parent or any person incorporated in the United States of America, generally accepted accounting principles, standards and practices in the United States of America.

"GROUP" means the Company and its Subsidiaries for the time being.

"GUARANTOR" means an Original Guarantor or an Additional Guarantor, unless it has ceased to be a Guarantor in accordance with Clause 25 (Changes to the Obligors).

"HAZARDOUS SUBSTANCE" means any waste, pollutant, contaminant or other substance (including any liquid, solid, gas, ion, living organism or noise) that may be harmful to human health or other life or the Environment or a nuisance to any person or that may make the use or ownership of any affected land or property more costly.

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"HOLDING COMPANY" means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

"INFORMATION PACKAGE" means the information concerning the Parent and the Group provided to the Arranger before the date of this Agreement by or on behalf of the Group or the Parent.

"INTEREST EXPENSE" has the meaning given to it in Clause 21 (Financial covenants).

"INTEREST PERIOD" means, in relation to a Loan, each period determined in accordance with Clause 10 (Interest Periods) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 9.3 (Default interest).

"INTERNAL REVENUE CODE" means the United States Internal Revenue Code of 1986, as amended.

"IRS" means the United States Internal Revenue Service.

"LENDER" means:

- (a) any Original Lender; and
- (b) any bank, financial institution, trust, fund or other entity which has become a Party in accordance with Clause 24 (Changes to the Lenders),

which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

"LIABILITIES" has the meaning given to it in the Debenture.

"LIBOR" means, in relation to any Loan:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the currency or Interest Period of that Loan) the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Agent at its request quoted by the Reference Banks to leading banks in the London interbank market,

as of the Specified Time on the Quotation Day for the offering of deposits in the currency of that Loan and for a period comparable to the Interest Period for that Loan.

"LMA" means the Loan Market Association.

"LOAN" means a Facility A Loan or a Facility B Loan.

"MAJORITY LENDERS" means:

- (a) if there are no Loans then outstanding, a Lender or Lenders whose

Commitments aggregate 66 2/3% or more of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated 66 2/3% or more of the Total Commitments immediately prior to the reduction); or

- (b) at any other time, a Lender or Lenders whose participations in the Loans then outstanding aggregate 66 2/3% or more of all the Loans then outstanding.

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"MANDATORY COST" means the percentage rate per annum calculated by the Agent in accordance with Schedule 4 (Mandatory Cost formulae).

"MARGIN" means, in relation to a particular Interest Period, the rate per annum determined by reference to the ratio of Net Borrowings to EBITDA as shown in the most recent Compliance Certificate received by the Agent at least 5 Business Days before the Quotation Day for that Interest Period, in accordance with the following table:

RATIO	MARGIN (%P.A.)
Greater than 2.0:1.0	0.90
Greater than 1.0:1.0 but less than or equal to 2.0:1.0	0.80
Equal to or less than 1.0:1.0	0.70

However:

- (a) in the case of any Interest Period whose Quotation Day is before the fifth Business Day after the date on which the Agent has received the first Compliance Certificate under this Agreement, the Margin will be 0.80 per cent. per annum;
- (b) if by the fifth Business Day before the Quotation Day for an Interest Period the Agent has not received a Compliance Certificate (or any financial statement with which that Compliance Certificate is required by this Agreement to be delivered) due on or before that day, the Margin for that Interest Period will be 0.90 per cent. per annum; and
- (c) If, on the Quotation Day for that Interest Period a Default is continuing, the Margin for that Interest Period will be 0.90 per cent. per annum.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on or material adverse change in the ability of the Parent or the Obligors (taken as a whole) to perform and comply with its/their payment obligations under this Agreement (or the ability of the Company to perform its obligations under Clause 21 (Financial covenants)).

"MATERIAL SUBSIDIARY" means:

- (c) a Subsidiary of the Company the gross assets, EBIT or turnover of which (consolidated where that Subsidiary itself has Subsidiaries) as at the date as at which its latest audited consolidated financial statements were prepared or, as the case may be, for the financial period to which those financial statements relate account for 5 per cent. or more of the consolidated gross assets, EBIT or turnover of the Group (all as calculated by reference to the latest audited consolidated financial statements of the Group); or
- (d) a Subsidiary of the Company to which has been transferred (whether in a single transaction or a series of transactions (whether related or not)) the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transaction(s) was a Material Subsidiary.

For the purposes of this definition:

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- (i) if a Subsidiary becomes a Material Subsidiary under paragraph (b) above, the Material Subsidiary by which the relevant transfer was made shall, subject to paragraph (a) above, cease to be a Material Subsidiary; and
- (ii) if a Subsidiary is acquired by the Company after the end of the financial period to which the latest audited consolidated financial statements of the Group relate, those financial statements shall be adjusted as if that Subsidiary had been shown in them by reference to its then latest audited financial statements (consolidated if appropriate) until audited consolidated financial statements of the Group for the financial period in which the acquisition is made have been prepared.

"MONTH" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

- (a) if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day; and
- (b) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last Business Day in that calendar month.

The above rules will only apply to the last Month of any period.

"MULTIEMPLOYER PLAN" means, at any time, a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) then or at any time during the previous five years maintained for, or contributed to (or to which there is or was an obligation to contribute) on behalf of, employees of the Parent, any Obligor or an ERISA Affiliate.

"NET WORTH" has the meaning given to it in Clause 21 (Financial covenants).

"OBLIGOR" means a Borrower or a Guarantor.

"OFF-BALANCE SHEET FUNDING" means any Financial Indebtedness not required to be recorded on the balance sheet of a company.

"OPTIONAL CURRENCY" means a currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (Conditions relating to Optional Currencies).

"ORIGINAL FINANCIAL STATEMENTS" means:

- (a) in relation to the Company, the audited consolidated financial statements of the Group for the financial year ended 30 September 2003;
- (b) in relation to each Original Obligor other than the Company, its audited financial statements for its financial year ended 30 September 2003; and
- (c) in relation to the Parent, its audited financial statements for its financial year ended 30 September 2003

"ORIGINAL OBLIGOR" means the Original Borrower or an Original Guarantor.

"PARENT GROUP" means the Parent and the Group.

"PARTICIPATING MEMBER STATE" means any member state of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.

"PARTY" means a party to this Agreement.

"PBGC" means the Pension Benefit Guaranty Corporation of the USA established pursuant to Section 4002 of ERISA or any entity succeeding to all or any of its functions under ERISA.

"PERMITTED ACQUISITION" means:

- (a) the acquisition by a member of the Group of any share or asset sold, leased, transferred or otherwise disposed of by another member of the Group in circumstances constituting a Permitted Disposal;
- (b) an acquisition of any business or all of the issued share capital of a limited liability company if:
 - (i) no Default is continuing on the closing date for the acquisition or would occur as a result of the acquisition;
 - (ii) the acquired company or business is incorporated or established, and carries on its principal business, in the United Kingdom;
 - (iii) the acquired company or business carries on, or is, a business substantially the same as that carried on by the Group;
 - (iv)
 - (A) the consideration (including associated costs and expenses) for the acquisition and any Financial Indebtedness remaining in the acquired company or business at the date of acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph (b) and any Financial Indebtedness remaining in any such acquired companies or businesses at the time of acquisition) does not:
 - (i) in any single acquisition exceed (pound)2,000,000; and
 - (ii) in any financial year of the Company exceed in aggregate (pound)10,000,000,(or its equivalent in another currency or currencies); or
 - (B) the consideration (including associated costs and expenses) for the acquisition and any Financial Indebtedness remaining in the acquired company or business at the date of acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph (b) and any Financial Indebtedness remaining in any such acquired companies or businesses at the time of acquisition) is funded by a subscription for shares in the Company; and

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- (v) the business acquired is EBITA positive.

"PERMITTED DISPOSAL" means the sale, lease, transfer or other disposal:

- (a) on arm's length terms of trading stock by any member of the Group in the ordinary course of trading of the disposing entity;
- (b) arising as a result of any Permitted Security;
- (c) of obsolete or redundant vehicles, plant and equipment for cash and on arm's length terms and which, in the reasonable opinion of the member of the Group making the sale, transfer or disposal, are not required for the efficient operation of its business;
- (d) on arm's length terms of assets in exchange for other assets comparable or superior as to type, value and quality; or
- (e) where the consideration receivable (when aggregated with the consideration receivable for any other sale, lease, transfer or other disposal, other than any permitted under paragraphs (a) to (d) above), does not exceed (pound)1,000,000 (or its equivalent in another currency or currencies) in any financial year of the Company.

"PERMITTED GUARANTEE" means:

- (a) any guarantee arising under the Finance Documents;

- (b) any guarantee issued by a member of the Group in respect of the obligations of another member of the Group expressly referred to in Schedule 12 (Permitted Loans and Permitted Guarantees);
- (c) any guarantee issued by a member of the Group on arm's length terms and in the ordinary course of its trading, not in respect of Financial Indebtedness;
- (d) any customary indemnity to a purchaser in relation to a Permitted Disposal;
- (e) any guarantee in respect of a netting or set-off arrangement entered into by a member of the Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances for members of the Group, provided that the arrangement does not permit credit balances of Obligors to be netted or set off against debit balances of members of the Group which are not Obligors and the arrangement does not give rise to Security over the assets of Obligors in support of liabilities of members of the Group which are not Obligors;
- (f) any guarantee issued by an Obligor in relation to the Financial Indebtedness of a member of the Group which is not an Obligor provided that the aggregate principal amount guaranteed at any time does not, when aggregated with:
 - (i) the amount of any loans outstanding at that time which are permitted under paragraph (k) of the definition of Permitted Loans; and
 - (i) the aggregate consideration payable for the sale, lease, transfer or other disposal of assets permitted to be sold, leased, transferred or otherwise disposed of under paragraph (j) of the definition of Permitted Disposals,
 exceed(pound)1,000,000 (or its equivalent in another currency or currencies); or

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- (g) any guarantee not falling within paragraphs (a) to (f) above where the aggregate liability (whether actual or contingent) of members of the Group under all such guarantees does not at any time exceed (pound)1,000,000 (or its equivalent in another currency or currencies).

"PERMITTED LOAN" means:

- (a) any trade credit extended by any member of the Group to its customers on normal commercial terms and in the ordinary course of its trading activities;
- (b) a loan made by a member of the Group to another member of the Group expressly referred to in Schedule 12 (Permitted Loans and Permitted Guarantees);
- (c) a loan made by a member of the Group in the ordinary course of business to an employee or director of any member of the Group if the amount of that loan when aggregated with the amount of all loans to employees and directors by members of the Group does not at any time exceed (pound)250,000 (or its equivalent in another currency or currencies);
- (d) any loan not falling within paragraphs (a) to (c) above the aggregate principal amount of which at any time does not, when aggregated with the aggregate principal amount of the Financial Indebtedness under any such loans and the aggregate liability (whether actual or contingent) of any guarantees at that time which are permitted under paragraph (f) of the definition of Permitted Guarantee, exceed (pound)1,000,000 (or its equivalent in another currency or currencies).

"PERMITTED SECURITY" means:

- (a) any Security listed in Schedule 9 (Existing Security) except to the extent the principal amount secured by that Security exceeds the amount stated in that Schedule;
- (b) any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its banking arrangements for the

purpose of netting debit and credit balances;

- (c) any lien arising by operation of law and in the ordinary course of trading provided that such lien is discharged within 30 days or arising;
- (d) any Security over or affecting any asset acquired by a member of the Group after the date of this Agreement if:
 - (i) the Security was not created in contemplation of the acquisition of that asset by a member of the Group;
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by a member of the Group; and
 - (iii) the Security is removed or discharged within 3 months of the date of acquisition of such asset;
- (e) any Security over or affecting any asset of any company which becomes a member of the Group after the date of this Agreement, where the Security is created prior to the date on which that company becomes a member of the Group, if:

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- (i) the Security was not created in contemplation of the acquisition of that company;
 - (ii) the principal amount secured has not increased in contemplation of or since the acquisition of that company; and
 - (iii) the Security is removed or discharged within 3 months of that company becoming a member of the Group;
- (f) the Security created pursuant to any Security Document;
 - (g) any Security arising under or evidenced by the Charges over Cash Collateral Accounts; or
 - (h) any Security securing indebtedness the principal amount of which (when aggregated with the principal amount of any other indebtedness which has the benefit of Security given by any member of the Group other than any permitted under paragraphs (a) to (g) above) does not exceed (pound)1,000,000 (or its equivalent in another currency or currencies).

"PROJECT DRIVING RANGE" means the transaction relating to the acquisition of all the shares in Balfor Medical Limited by the Original Borrower.

"PROJECT GRAVESEND" means the transaction relating to the acquisition of all the shares in Crystalglen Limited by the Original Borrower.

"PROJECT INDIGO" means the transaction relating to the acquisition of all the shares in Staffing Enterprise Limited and Staffing Enterprise (PSV) Limited by the Original Borrower.

"QUALIFYING LENDER" has the meaning given to it in Clause 13 (Tax gross-up and indemnities).

"QUOTATION DAY" means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period.

"REFERENCE BANKS" means in relation to LIBOR and EURIBOR and Mandatory Cost the principal London offices of Barclays Bank PLC and Lloyds TSB Bank plc or such other banks as may be appointed by the Agent in consultation with the Company.

"RELEVANT INTERBANK MARKET" means, in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

"RELEVANT PERIOD" has the meaning given to it in Clause 21 (Financial covenants).

"REPAYMENT INSTALMENT" means each instalment for repayment of the Facility A Loan specified in Clause 7.1 (Repayment of Facility A Loans).

"REPEATING REPRESENTATIONS" means each of the representations set out in Clauses 19.1 (Status), 19.2 (Binding obligations), 19.3 (Non-conflict with other obligations), 19.4 (Power and authority), 19.6 (Governing law and enforcement), 19.9 (No default), 19.11 (Financial statements), 19.12 (Pari passu ranking), 19.13 (No proceedings pending or threatened) and 19.14 (Title).

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"RESERVATIONS" means:

- (a) the principle that equitable remedies are remedies which may be granted or refused at the discretion of the court;
- (b) the limitation of enforcement by laws relating to bankruptcy, insolvency, liquidation, reorganisation, court schemes, moratoria, administration and other laws generally affecting the rights of creditors;
- (c) the time barring of claims under the Limitation Acts;
- (d) the possibility that an undertaking to assume liability for or to indemnify a person against non-payment of UK stamp duty may be void;
- (e) defences of set-off or counterclaim and similar principles; and
- (f) any other general principles of law limiting the obligations of an Obligor or the Parent which are specifically referred to in any legal opinion delivered pursuant to Clause 4 (Conditions of Utilisation) or Clause 25 (Changes to the Obligors).

"RESIGNATION NOTICE" means a letter substantially in the form set out in Schedule 13 (Form of Resignation Notice).

"ROLLOVER LOAN" means one or more Facility B Loans:

- (a) made or to be made on the same day that one or more maturing Facility B Loans is or are due to be repaid;
- (b) the aggregate amount of which is equal to or less than the maturing Facility B Loan(s) (unless it is more than the maturing Facility B Loan(s) solely because it arose as a result of the operation of Clause 6.2 (Unavailability of a currency));
- (c) in the same currency as the maturing Facility B Loan(s) (unless it arose as a result of the operation of Clause 6.2 (Unavailability of a currency)); and
- (d) made or to be made to the same Borrower for the purpose of refinancing the maturing Facility B Loan(s).

"SCREEN RATE" means:

- (a) in relation to LIBOR, the British Bankers Association Interest Settlement Rate for the relevant currency and period; and
- (b) in relation to EURIBOR, the percentage rate per annum determined by the Banking Federation of the European Union for the relevant period,

displayed on the appropriate page of the Reuters screen. If the agreed page is replaced or service ceases to be available, the Agent may specify another page or service displaying the appropriate rate after consultation with the Company and the Lenders.

"SECURED PARTY" means a Finance Party or an Ancillary Lender.

"SECURITY" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"SECURITY DOCUMENT" means the Debenture and any other security document that may at any time be given as security for any of the Liabilities pursuant to or in connection with any Finance Document.

"SECURITY PROPERTY" has the meaning given to it in Schedule 7 (Security agency provisions).

"SELECTION NOTICE" means a notice substantially in the form set out in Part II of Schedule 3 (Requests) given in accordance with Clause 10 (Interest Periods) in relation to Facility A.

"SPECIFIED TIME" means a time determined in accordance with Schedule 10 (Timetables).

"SUBORDINATION DEED" means the subordination document between the Borrower, the Parent and the Agent dated on or about the date of this Agreement.

"SUBSIDIARY" means a subsidiary within the meaning of section 736 of the Companies Act 1985 and, for the purpose of Clause 21 (Financial covenants) and in relation to financial statements of the Group, a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985.

"TARGET" means Trans-European Automated Real-time Gross Settlement Express Transfer payment system.

"TARGET DAY" means any day on which TARGET is open for the settlement of payments in euro.

"TAX" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"TAXES ACT" means the Income and Corporation Taxes Act 1988.

"TERMINATION DATE" means the date which is 5 years after the date of this Agreement.

"TOTAL COMMITMENTS" means the aggregate of the Total Facility A Commitments and the Total Facility B Commitments, being (pound)50,000,000 at the date of this Agreement.

"TOTAL FACILITY A COMMITMENTS" means the aggregate of the Facility A Commitments, being (pound)30,000,000 at the date of this Agreement.

"TOTAL FACILITY B COMMITMENTS" means the aggregate of the Facility B Commitments, being (pound)20,000,000 at the date of this Agreement.

"TRANSFER CERTIFICATE" means a certificate substantially in the form set out in Schedule 5 (Form of Transfer Certificate) or any other form agreed between the Agent and the Company.

"TRANSFER DATE" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the Transfer Certificate; and
- (b) the date on which the Agent executes the Transfer Certificate.

"UNPAID SUM" means any sum due and payable but unpaid by the Parent or an Obligor under the Finance Documents.

"UTILISATION" means a utilisation of a Facility.

"UTILISATION DATE" means the date of a Utilisation, being the date on which the relevant Loan is to be made.

"UTILISATION REQUEST" means a notice substantially in the form set out in Part I of Schedule 3 (Requests).

"VAT" means value added tax as provided for in the Value Added Tax Act 1994 and any other tax of a similar nature.

1.2 CONSTRUCTION

- (a) Unless a contrary indication appears, any reference in this Agreement to:
- (i) the "AGENT", the "ARRANGER", any "FINANCE PARTY", any "SECURED PARTY", any "LENDER", any "OBLIGOR", any "PARTY" or the "SECURITY AGENT" shall be construed so as to include its successors in title, permitted assigns and permitted transferees;
 - (ii) "ASSETS" includes present and future properties, revenues and rights of every description;
 - (iii) "BARCLAYS CAPITAL" means the investment banking division of Barclays Bank PLC;
 - (iv) a "FINANCE DOCUMENT" or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended or novated;
 - (v) "INDEBTEDNESS" includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
 - (vi) a "PERSON" includes any person, firm, company, corporation, government, state or agency of a state or any association, trust or partnership (whether or not having separate legal personality) or two or more of the foregoing;
 - (vii) a "REGULATION" includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (viii) a provision of law is a reference to that provision as amended or re-enacted; and
 - (ix) a time of day is a reference to London time.
- (b) Section, Clause and Schedule headings are for ease of reference only.
- (c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (d) A Default (other than an Event of Default) is "continuing" if it has not been remedied or waived and an Event of Default is "continuing" if it has not been waived.

1.3 THIRD PARTY RIGHTS

- (a) Unless expressly provided to the contrary in a Finance Document, a person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

- (b) Notwithstanding any term of any Finance Document, the consent of any person who is not Party is not required to rescind or vary this agreement at any time.

SECTION 2
THE FACILITIES

2. THE FACILITIES

2.1 THE FACILITIES

Subject to the terms of this Agreement, the Lenders make available to the Borrowers:

- (a) a multicurrency term loan facility in an aggregate amount equal to the Total Facility A Commitments; and
- (b) a multicurrency revolving loan facility in an aggregate amount equal to the Total Facility B Commitments.

2.2 ANCILLARY FACILITIES

- (a) Ancillary Facilities may be agreed from time to time between an Ancillary Lender and an Obligor, and the Ancillary Lenders are under no obligation to make available or provide an Ancillary Facility until the terms and conditions of such Ancillary Facility have been agreed.
- (b) The Ancillary Lenders will on request by the Agent provide details of all amounts outstanding under any Ancillary Facility to the Agent, and the Obligors consent to this information being provided.

2.3 SECURED PARTIES' RIGHTS AND OBLIGATIONS

- (a) The obligations of each Secured Party under the Finance Documents are several. Failure by a Secured Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Secured Party is responsible for the obligations of any other Secured Party under the Finance Documents.
- (b) The rights of each Secured Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Secured Party from the Parent or an Obligor shall be a separate and independent debt.
- (c) A Secured Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.

2.4 OBLIGORS' AGENT

- (a) Each Obligor (other than the Company) irrevocably appoints the Company to act on its behalf as its agent in relation to the Finance Documents and irrevocably authorities:
- (i) the Company on its behalf to supply all information concerning itself contemplated by this Agreement to the Secured Parties and to give and receive all notices, consents and instructions (including Utilisation Requests), to agree, accept and execute on its behalf all documents in connection with the Finance Documents (including amendments and variations of and consents under any Finance Document) and to execute any new Finance Document and to take such other action as may be necessary or desirable under or in connection with the Finance Documents; and
 - (ii) each Secured Party to give any notice, demand or other communication to that Obligor pursuant to the Finance Documents to the Company.

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- (b) Each Obligor (other than the Company) confirms that:

- (i) it will be bound by any action taken by the Company under or in connection with the Finance Document; and
- (ii) each Secured Party may rely on any action purported to be taken by the Company on behalf of that Obligor.

2.5 ACTS OF THE COMPANY

- (a) The respective liabilities of each of the Obligors under the Finance Documents shall not be in any way affected by:
- (i) any actual or purported irregularity in any act done, or failure to act, by the Company;
 - (ii) the Company acting (or purporting to act) in any respect outside any authority conferred upon it by any Obligor; or
 - (iii) any actual or purported failure by, or inability of, the Company to inform any Obligor of receipt by it of any notification under the Finance Documents.
- (a) In the event of any conflict between any notices or other communications of the Company and any other Obligor, those of the Company shall prevail.

3. PURPOSE

3.1 PURPOSE

Each Borrower shall apply all amounts borrowed by it under the Facilities for:

- (a) its general corporate purposes;
- (b) to refinance the Existing Facilities; and
- (c) Permitted Acquisitions.

3.2 MONITORING

No Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. CONDITIONS OF UTILISATION

4.1 INITIAL CONDITIONS PRECEDENT

No Borrower may deliver a Utilisation Request unless the Agent has received (or waived receipt of) all of the documents and other evidence listed in Part I of Schedule 2 (Conditions precedent) in form and substance satisfactory to the Agent. The Agent shall notify the Company and the Lenders promptly upon being so satisfied.

4.2 FURTHER CONDITIONS PRECEDENT

- (a) The Lenders will only be obliged to comply with Clause 5.4 (Lenders' participation) if on the date of the Utilisation Request and on the proposed Utilisation Date:
- (i) in the case of a Rollover Loan, no Event of Default is continuing or would result from the proposed Loan and, in the case of any other Loan, no Default is continuing or would result from the proposed Loan; and

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(ii) the Repeating Representations to be made by the Parent and each Obligor are true in all material respects.

- (b) The Lenders will only be obliged to comply with Clause 6.3 (Change of currency) if, on the first day of an Interest Period, no Default is continuing or would result from the change of currency and the Repeating Representations to be made by the Parent and each Obligor are true in all material respects.

4.3 CONDITION SUBSEQUENT

Within 30 days of the date of this Agreement the Company will provide to the Agent the Original Financial Statements for each of the Original Obligors.

4.4 CONDITIONS RELATING TO OPTIONAL CURRENCIES

- (a) A currency will constitute an Optional Currency in relation to a Loan if:
- (i) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Utilisation Date for that Loan; and
- (ii) it is US Dollars or euro or has been approved by the Agent (such approval not to be unreasonably withheld) on or prior to receipt by the Agent of the relevant Utilisation Request or Selection Notice for that Loan.
- (b) If by the Specified Time the Agent has received a written request from the Company for a currency to be approved under paragraph (a)(ii) above, the Agent will notify the Lenders of that request by the Specified Time. Based on any responses received by the Agent by the Specified Time, the Agent will confirm to the Company by the Specified Time:
- (i) whether or not the Lenders have granted their approval; and
- (ii) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Utilisation in that currency.

4.5 MAXIMUM NUMBER OF LOANS

- (a) A Borrower may not deliver a Utilisation Request if as a result of the proposed Utilisation more than 10 Loans would be outstanding.
- (b) A Borrower may not request that a Facility A Loan be divided if, as a result of the proposed division, more than 10 Loans would be outstanding.
- (c) Any Loan made by a single Lender under Clause 6.2 (Unavailability of a currency) shall not be taken into account in this Clause 4.5.

SECTION 3
UTILISATION

5. UTILISATION

5.1 DELIVERY OF A UTILISATION REQUEST

A Borrower may utilise a Facility by delivery to the Agent of a duly completed Utilisation Request not later than the Specified Time.

5.2 COMPLETION OF A UTILISATION REQUEST

(a) Each Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:

- (i) it identifies the Facility to be utilised;
- (ii) the proposed Utilisation Date is a Business Day within the Availability Period applicable to that Facility;
- (iii) the currency and amount of the Utilisation comply with Clause 5.3 (Currency and amount);
- (iv) the proposed Interest Period complies with Clause 10 (Interest Periods); and
- (v) it specifies the account and bank (which must be in the principal financial centre of the country of the currency of the Utilisation or, in the case of euro, the principal financial centre of a Participating Member State in which banks are open for general business on that day or London) to which the proceeds of the Utilisation are to be credited.

(b) Only one Loan may be requested in each Utilisation Request.

5.3 CURRENCY AND AMOUNT

(a) The currency specified in a Utilisation Request must be the Base Currency or an Optional Currency.

(b) The amount of the proposed Loan must be:

- (i) if the currency selected is the Base Currency, a minimum of (pound)1,000,000 or, if less, the Available Facility;
- (ii) if the currency selected is US Dollars, a minimum of US\$1,500,000 or, if less, the Available Facility;
- (iii) if the currency selected is euro, a minimum of euro 1,500,000 or, if less, the Available Facility; or
- (iv) if the currency selected is an Optional Currency other than US Dollars or euro, the minimum amount (and, if required, integral multiple) specified by the Agent pursuant to paragraph (b)(ii) of Clause 4.3 (Conditions relating to Optional Currencies) or, if less, the Available Facility; and
- (v) in any event such that its Base Currency Amount is less than or equal to the Available Facility.

5.4 LENDERS' PARTICIPATION

- (a) If the conditions set out in this Agreement have been met, each Lender shall make its participation in each Loan available by the Utilisation Date through its Facility Office.
- (b) The amount of each Lender's participation in each Loan will be equal to the proportion borne by its Available Commitment to the Available Facility immediately prior to making the Loan.
- (c) The Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan and the amount of its participation in that Loan, in each case by the Specified Time.

6. OPTIONAL CURRENCIES

6.1 SELECTION OF CURRENCY

- (a) A Borrower shall select the currency of a Loan:
 - (i) (in the case of an initial Utilisation) in a Utilisation Request; and
 - (ii) (afterwards in relation to a Facility A Loan made to it) in a Selection Notice.
- (b) If a Borrower fails to issue a Selection Notice in relation to a Facility A Loan, it shall be deemed to have requested that the Loan will remain denominated for its next Interest Period in the same currency in which it is then outstanding.
- (c) If a Borrower issues a Selection Notice requesting a change of currency and the first day of the requested Interest Period is not a Business Day for the new currency, the Agent shall promptly notify that Borrower and the Lenders and the Loan will remain in the existing currency (with Interest Periods running from one Business Day until the next Business Day) until the next day which is a Business Day for both currencies, on which day the requested Interest Period will begin.

6.2 UNAVAILABILITY OF A CURRENCY

If before the Specified Time on any Quotation Day:

- (a) a Lender notifies the Agent that the Optional Currency requested is not readily available to it in the amount required; or
- (b) a Lender notifies the Agent that compliance with its obligation to participate in a Loan in the proposed Optional Currency would contravene a law or regulation applicable to it,

the Agent will give notice to the relevant Borrower to that effect by the Specified Time on that day. In this event, any Lender that gives notice pursuant to this Clause 6.2 will be required to participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made) and its participation will be treated as a separate Loan denominated in the Base Currency during that Interest Period.

6.3 CHANGE OF CURRENCY

- (a) If a Facility A Loan is to be denominated in different currencies during two successive Interest Periods:
 - (i) if the currency for the second Interest Period is an Optional Currency, the amount of the Loan in that Optional Currency will be calculated by the Agent as the amount of that Optional Currency equal

to the Base Currency Amount of the Loan at the Agent's Spot Rate of Exchange at the Specified Time;

- (ii) if the currency for the second Interest Period is the Base Currency, the amount of the Loan will be equal to the Base Currency Amount;
 - (iii) (unless the Agent and the relevant Borrower agree otherwise in accordance with paragraph (b) below) the Borrower that has borrowed the Loan shall repay it on the last day of the first Interest Period in the currency in which it was denominated for that Interest Period; and
 - (iv) (subject to Clause 4.2 (Further conditions precedent)) the Lenders shall re-advance the Loan in the new currency in accordance with Clause 6.5 (Agent's calculations).
- (b) If the Agent and the Borrower that has borrowed the Facility A Loan agree, the Agent shall:
- (i) apply the amount paid to it by the Lenders pursuant to paragraph (a)(iv) above (or so much of that amount as is necessary) in or towards purchase of an amount in the currency in which the Facility A Loan is outstanding for the first Interest Period; and
 - (ii) use the amount it purchases in or towards satisfaction of the relevant Borrower's obligations under paragraph (a)(iii) above.
- (c) If the amount purchased by the Agent pursuant to paragraph (b)(i) above is less than the amount required to be repaid by the relevant Borrower, the Agent shall promptly notify that Borrower and that Borrower shall, on the last day of the first Interest Period, pay an amount to the Agent (in the currency of the outstanding Facility A Loan for the first Interest Period) equal to the difference.
- (d) If any part of the amount paid to the Agent by the Lenders pursuant to paragraph (a)(iv) above is not needed to purchase the amount required to be repaid by the relevant Borrower, the Agent shall promptly notify that Borrower and pay that Borrower, on the last day of the first Interest Period, that part of that amount (in the new currency).

6.4 SAME OPTIONAL CURRENCY DURING SUCCESSIVE INTEREST PERIODS

- (a) If a Facility A Loan is to be denominated in the same Optional Currency during two successive Interest Periods, the Agent shall calculate the amount of the Facility A Loan in the Optional Currency for the second of those Interest Periods (by calculating the amount of Optional Currency equal to the Base Currency Amount of that Facility A Loan at the Agent's Spot Rate of Exchange at the Specified Time) and (subject to paragraph (b) below):
- (i) if the amount calculated is less than the existing amount of that Facility A Loan in the Optional Currency during the first Interest Period, promptly notify the Borrower that has borrowed the Facility A Loan and that Borrower shall pay, on the last day of the first Interest Period, an amount equal to the difference; or
 - (ii) if the amount calculated is more than the existing amount of that Facility A Loan in the Optional Currency during the first Interest Period, promptly notify each Lender and, if no Default is continuing, each Lender shall, on the last day of the first Interest Period, pay its participation in an amount equal to the difference.
- (b) If the calculation made by the Agent pursuant to paragraph (a) above shows that the amount of the Facility A Loan in the Optional Currency for the second of those Interest Periods converted into the Base Currency at the Agent's Spot Rate of Exchange used in calculating the Base Currency Amount of that Loan has increased or decreased by less than 5 per cent. compared to its Base Currency Amount (taking into account any payments made pursuant to paragraph (a) above), no notification shall be made by the Agent and no payment shall be required under paragraph (a) above.

6.5 AGENT'S CALCULATIONS

- (a) All calculations made by the Agent pursuant to this Clause 6 will take into account any repayment, prepayment, consolidation or division of Facility A Loans to be made on the last day of the first Interest Period.
- (b) Each Lender's participation in a Loan will, subject to paragraph (a) above,

be determined in accordance with paragraph (b) of Clause 5.4 (Lenders' participation).

SECTION 4

REPAYMENT, PREPAYMENT AND CANCELLATION

7. REPAYMENT

7.1 REPAYMENT OF FACILITY A LOANS

- (a) The Facility A Loans outstanding at the end of the Availability Period for Facility A shall be repaid by each Borrower that has drawn a Facility A Loan in 10 equal six monthly instalments. One instalment shall fall due on each Facility A Repayment Date.
- (b) No Borrower may reborrow any part of Facility A which is repaid.
- (c) All Facility A Loans then outstanding will be repaid on the Termination Date.

7.2 REPAYMENT OF FACILITY B LOANS

- (a) Each Borrower which has drawn a Facility B Loan repay that Loan on the last day of its Interest Period.
- (b) All Facility B Loans then outstanding will be repaid on the Termination Date.

8. PREPAYMENT AND CANCELLATION

8.1 ILLEGALITY

If it becomes unlawful in any applicable jurisdiction for a Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in any Loan:

- (a) that Lender shall promptly notify the Agent upon becoming aware of that event;
- (b) upon the Agent notifying the Company, the Commitment of that Lender will be immediately cancelled; and
- (c) each Borrower shall repay that Lender's participation in the Loans made to that Borrower on the last day of the Interest Period for each Loan occurring after the Agent has notified the Company or, if earlier, the date specified by the Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law).

8.2 CHANGE OF CONTROL

- (a) If any person, or persons acting in concert, acquire(s) control of:
 - (i) the Parent;
 - (ii) the Company; or

(iii) any Borrower,

then:

- (iv) the Company shall promptly notify the Agent upon becoming aware of that event;
- (v) a Lender shall not be obliged to fund a Utilisation (except for a Rollover Loan); and
- (vi) if a Lender so requires and notifies the Agent, the Agent shall, by not less than 30 days' notice to the Company, cancel the Commitment of that Lender and declare the

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participation of that Lender in all outstanding Loans, together with accrued interest, and all other amounts accrued under the Finance Documents immediately due and payable, whereupon the Commitment of that Lender will be cancelled and all such outstanding amounts will become immediately due and payable.

(b) For the purpose of paragraph (a) above:

- (i) "CONTROL" has the meaning given to it in section 416(2) of the Taxes Act; and
- (ii) "ACTING IN CONCERT" has the meaning given to it in the City Code on Takeovers and Mergers.

8.3 DISPOSAL

- (a) In this Clause 8.3 "NET DISPOSAL PROCEEDS" means any amount received by a member of the Group as consideration for a Permitted Disposal of an asset to a person which is not a member of the Group, including the amount of any intercompany loan repaid or prepaid to continuing members of the Group, less:
 - (i) all Taxes paid or reasonably estimated by the Company to be payable (certified by the Company to the Agent) as a result of that disposal; and
 - (ii) all reasonable costs and expenses incurred by members of the Group in connection with the disposal, receipt or recovery.
- (b) Other than Permitted Disposals where the asset disposed of is based in the United Kingdom and is reinvested within 6 months of the date of disposal, the Original Borrower shall procure the application of an amount equal to the net disposal proceeds in respect of any Permitted Disposals in repayment of the Facilities in accordance with this Clause 8.3 promptly upon receipt of the same by any Group member.
- (c) Any prepayment made under this Clause 8.3 must be made:
 - (i) on or before the last day of the Interest Period of the Loan to be prepaid in which the disposal occurred; or
 - (ii) where the Company has notified the Agent that an asset the subject of a disposal is to be replaced by another asset based in the United Kingdom for use in the business of the Group and no reinvestment is made within 6 months of the date of the disposal, on or before the last day of the Interest Period of the Loan to be prepaid in which the period of 6 months ended.
- (d) Any prepayment made under this Clause 8.3 must be applied towards:
 - (i) first, prepayment of Loans under Facility A (in reverse chronological order); and
 - (ii) second, prepayment of Loans under Facility B.
- (e) Any prepayment of Facility B made under this Clause 8.3 will result in the cancellation of the Available Facility with respect to Facility B by the amount of that prepayment.

8.4 VOLUNTARY CANCELLATION

The Company may, if it gives the Agent not less than 5 Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, cancel the whole or any part (being a minimum

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amount of (pound)500,000 and an integral multiple of (pound)250,000) of an Available Facility. Any cancellation under this Clause 8.3 shall reduce the Commitments of the Lenders rateably under that Facility.

8.5 VOLUNTARY PREPAYMENT OF FACILITY A LOANS

- (a) The Borrower to which a Facility A Loan has been made may, if it gives the Agent not less than 5 Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, prepay the whole or any part of any Facility A Loan (but, if in part, being an amount that reduces the Base Currency Amount of the Facility A Loan by a minimum amount of (pound)500,000 and an integral multiple of (pound)250,000).
- (b) A Facility A Loan may only be prepaid after the last day of the Availability Period (or, if earlier, the day on which the applicable Available Facility is zero).
- (c) Any prepayment under this Clause 8.5 shall satisfy the obligations under Clause 7.1 (Repayment of Facility A Loans) pro rata.

8.6 VOLUNTARY PREPAYMENT OF FACILITY B LOANS

The Borrower to which a Facility B Loan has been made may, if it gives the Agent not less than 5 Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, prepay the whole or any part of a Facility B Loan (but if in part, being an amount that reduces the Base Currency Amount of the Facility B Loan by a minimum amount of (pound)500,000 and an integral multiple of (pound)250,000).

8.7 RIGHT OF REPAYMENT AND CANCELLATION IN RELATION TO A SINGLE LENDER

- (a) If:
 - (i) any sum payable to any Lender by the Parent or an Obligor is required to be increased under paragraph (c) of Clause 13.2 (Tax gross-up); or
 - (ii) any Lender claims indemnification from the Original Borrower under Clause 13.3 (Tax indemnity) or Clause 14 (Increased costs),the Company may, whilst the circumstance giving rise to the requirement or indemnification continues, give the Agent notice of cancellation of the Commitment of that Lender and its intention to procure the repayment of that Lender's participation in the Loans.
- (b) On receipt of a notice referred to in paragraph (a) above, the Commitment of that Lender shall immediately be reduced to zero.
- (c) On the last day of each Interest Period which ends after the Company has given notice under paragraph (a) above (or, if earlier, the date specified by the Company in that notice), each Borrower to which a Loan is outstanding shall repay that Lender's participation in that Loan.

8.8 RESTRICTIONS

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 8 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.

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- (b) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.
- (c) No Borrower may reborrow any part of Facility A which is prepaid.
- (d) Unless a contrary indication appears in this Agreement, any part of Facility B which is prepaid may be reborrowed in accordance with the terms of this Agreement.
- (e) No Borrower shall repay or prepay all or any part of the Loans or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.
- (f) No amount of the Total Commitments cancelled under this Agreement may be subsequently reinstated.
- (g) If the Agent receives a notice under this Clause 8 it shall promptly forward a copy of that notice to either the Company or the affected Lender, as appropriate.

SECTION 5
COSTS OF UTILISATION

9. INTEREST

9.1 CALCULATION OF INTEREST

The rate of interest on each Loan for each Interest Period is the percentage rate per annum which is the aggregate of the applicable:

- (a) Margin;
- (b) LIBOR or, in relation to any Loan in euro, EURIBOR; and
- (c) Mandatory Cost, if any.

9.2 PAYMENT OF INTEREST

The Borrower to which a Loan has been made shall pay accrued interest on that Loan on the last day of each Interest Period (and, if the Interest Period is longer than six Months, on the dates falling at six monthly intervals after the first day of the Interest Period).

9.3 DEFAULT INTEREST

- (a) If the Parent or an Obligor fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate which, subject to paragraph (b) below, is the sum of 1 per cent and the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount for successive Interest Periods, each of a duration selected by the Agent (acting reasonably). Any interest accruing

under this Clause 9.3 shall be immediately payable by the Parent or the Obligor on demand by the Agent.

- (b) If any overdue amount consists of all or part of a Loan which became due on a day which was not the last day of an Interest Period relating to that Loan:
 - (i) the first Interest Period for that overdue amount shall have a duration equal to the unexpired portion of the current Interest Period relating to that Loan; and
 - (ii) the rate of interest applying to the overdue amount during that first Interest Period shall be the sum of 1 per cent and the rate which would have applied if the overdue amount had not become due.
- (c) Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount but will remain immediately due and payable.

9.4 NOTIFICATION OF RATES OF INTEREST

The Agent shall promptly notify the Lenders and the Company of the determination of a rate of interest under this Agreement.

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10. INTEREST PERIODS

10.1 SELECTION OF INTEREST PERIODS

- (a) A Borrower may select an Interest Period for a Loan in the Utilisation Request for that Loan or (if the Loan has already been borrowed) in a Selection Notice.
- (b) Each Selection Notice for a Facility A Loan is irrevocable and must be delivered to the Agent by the Borrower to which that Facility A Loan was made not later than the Specified Time.
- (c) If a Borrower fails to deliver a Selection Notice to the Agent in accordance with paragraph (b) above, the relevant Interest Period will, subject to Clause 10.2 (Changes to Interest Periods), be one Month.
- (d) Subject to this Clause 10, a Borrower may select an Interest Period of 1, 2, 3 or 6 Months or any other period agreed between that Borrower and the Agent (acting on the instructions of all the Lenders). In addition a Borrower may select an Interest Period of less than one Month (in relation to Facility A), if necessary to ensure that there are sufficient Facility A Loans (with an aggregate Base Currency Amount equal to or greater than the Repayment Instalment) which have an Interest Period ending on a Facility A Repayment Date for that Borrower to make the Repayment Instalment due on that date.
- (e) An Interest Period for a Loan shall not extend beyond the Termination Date applicable to its Facility.
- (f) Each Interest Period for a Facility A Loan shall start on the Utilisation Date or (if already made) on the last day of its preceding Interest Period.
- (g) A Facility B Loan has one Interest Period only.

10.2 CHANGES TO INTEREST PERIODS

- (a) Prior to determining the interest rate for a Facility A Loan, the Agent may shorten an Interest Period for any Facility A Loan to ensure there are sufficient Facility A Loans with an Interest Period ending on a Facility A Repayment Date for the Borrower of that Facility A Loan to make the Repayment Instalment due on that Facility A Repayment Date.
- (b) If the Agent makes any of the changes to an Interest Period referred to in this Clause 10.2, it shall promptly notify the relevant Borrower and

the Lenders.

10.3 NON-BUSINESS DAYS

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

10.4 CONSOLIDATION AND DIVISION OF FACILITY A LOANS

(a) Subject to paragraph (b) below, if two or more Interest Periods:

- (i) relate to Facility A Loans in the same currency;
- (ii) end on the same date; and
- (iii) are made to the same Borrower,

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those Facility A Loans will, unless that Borrower specifies to the contrary in the Selection Notice for the next Interest Period, be consolidated into, and treated as, a single Facility A Loan on the last day of the Interest Period.

(b) Subject to Clause 4.5 (Maximum number of Loans) and Clause 5.3 (Currency and amount), if a Borrower requests in a Selection Notice that a Facility A Loan be divided into two or more Facility A Loans, that Facility A Loan will, on the last day of its Interest Period, be so divided with Base Currency Amounts specified in that Selection Notice, being an aggregate Base Currency Amount equal to the Base Currency Amount of the Facility A Loan immediately before its division.

11. CHANGES TO THE CALCULATION OF INTEREST

11.1 ABSENCE OF QUOTATIONS

Subject to Clause 11.2 (Market disruption), if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR shall be determined on the basis of the quotations of the remaining Reference Banks.

11.2 MARKET DISRUPTION

(a) If a Market Disruption Event occurs in relation to a Loan for any Interest Period, then the rate of interest on each Lender's share of that Loan for the Interest Period shall be the rate per annum which is the sum of:

- (i) the Margin;
- (ii) the rate notified to the Agent by that Lender as soon as practicable and in any event before interest is due to be paid in respect of that Interest Period, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its participation in that Loan from whatever source it may reasonably select; and
- (iii) the Mandatory Cost, if any, applicable to that Lender's participation in the Loan.

(b) In this Agreement "Market Disruption Event" means:

- (i) at or about noon on the Quotation Day for the relevant Interest Period the Screen Rate is not available and none or only one of the Reference Banks supplies a rate to the Agent to determine LIBOR or, if applicable, EURIBOR for Sterling for the relevant Interest Period; or
- (ii) before close of business in London on the Quotation Day for the relevant Interest Period, the Agent receives notifications from a Lender or Lenders (whose participations in a Loan exceed 35 per

cent. of that Loan) that the cost to it of obtaining matching deposits in the Relevant Interbank Market would be in excess of LIBOR or, if applicable, EURIBOR .

11.3 ALTERNATIVE BASIS OF INTEREST OR FUNDING

- (a) If a Market Disruption Event occurs and the Agent or the Company so requires, the Agent and the Company shall enter into negotiations (for a period of not more than thirty days) with a view to agreeing a substitute basis for determining the rate of interest.

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- (b) Any alternative basis agreed pursuant to paragraph (a) above shall, with the prior consent of all the Lenders and the Company, be binding on all Parties.

11.4 BREAK COSTS

- (a) Each Borrower shall, within three Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by that Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.
- (b) Each Lender shall, as soon as reasonably practicable after a demand by the Agent, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

12. FEES

12.1 COMMITMENT FEE

- (a) The Original Borrower shall pay to the Agent (for the account of each Lender) a fee in the Base Currency computed at the rate of 45 per cent. per annum of the applicable Margin on that Lender's Available Commitment under each Facility for the Availability Period applicable to that Facility.
- (b) The accrued commitment fee is payable:
- (i) in respect of Facility A, on the last day of the Availability Period and, if Facility A is cancelled in full, on the cancelled amount of the relevant Lender's Commitment at the time the cancellation is effective; and
 - (ii) in respect of Facility B, on the last day of each successive period of three Months which ends during the Availability Period for Facility B, on the last day of the Availability Period for Facility B and, if Facility B is cancelled in full, on the cancelled amount of the relevant Lender's Commitment at the time the cancellation is effective.

12.2 ARRANGEMENT FEE

The Original Borrower shall pay to the Arranger an arrangement fee in the amount and at the times agreed in a Fee Letter.

12.3 AGENCY FEE

The Original Borrower shall pay to the Agent (for its own account) an agency fee in the amount and at the times agreed in a Fee Letter.

12.4 SECURITY AGENCY FEE

The Original Borrower shall pay to the Security Agent (for its own account) a security agency fee in the amount and at the times agreed in a Fee Letter.

SECTION 6

ADDITIONAL PAYMENT OBLIGATIONS

13. TAX GROSS UP AND INDEMNITIES

13.1 DEFINITIONS

(a) In this Agreement:

"PROTECTED PARTY" means a Finance Party which is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

"QUALIFYING LENDER" means:

- (i) a Lender (other than a Lender within sub-paragraph (ii) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(A) a Lender:

1. which is a bank (as defined for the purpose of section 349 of the Taxes Act) making an advance under a Finance Document; or
2. in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 349 of the Taxes Act) at the time that that advance was made,

and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

(B) a Lender which is:

1. a company resident in the United Kingdom for United Kingdom tax purposes;
2. a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (for the purposes of section 11(2) of the Taxes Act) the whole of any share of interest payable in respect of that advance that falls to it by reason of sections 114 and 115 of the Taxes Act;
3. a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (for the purposes of section 11(2) of the Taxes Act) of that company; or

(C) a Treaty Lender; or

(ii) a building society (as defined for the purpose of section 477A of the Taxes Act).

"TAX CONFIRMATION" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

(i) a company resident in the United Kingdom for United Kingdom tax purposes; or

(ii) a partnership each member of which is:

(A) a company so resident in the United Kingdom; or

(B) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (for the purposes of section 11(2) of the Taxes Act) the whole of any share of interest payable in respect of that advance that falls to it by reason of sections 114 and 115 of the Taxes Act; or

(iii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (for the purposes of section 11(2) of the Taxes Act) of that company.

"TAX CREDIT" means a credit against, relief or remission for, or repayment of any Tax.

"TAX DEDUCTION" means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

"TAX PAYMENT" means either the increase in a payment made by the Parent or an Obligor to a Finance Party under Clause 13.2 (Tax gross-up) or a payment under Clause 13.3 (Tax indemnity).

"TREATY LENDER" means a Lender which:

(i) is treated as a resident of a Treaty State for the purposes of the Treaty;

(ii) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loans is effectively connected; and

(iii) fulfils any conditions which must be fulfilled under the double taxation agreement for residents of that Treaty State to obtain exemption from United Kingdom taxation on interest.

"TREATY STATE" means a jurisdiction having a double taxation agreement (a "TREATY") with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"UK NON-BANK LENDER" means:

(i) where a Lender becomes a Party on the day on which this Agreement is entered into, a Lender listed in Part III of Schedule 1 (The Original Parties); and

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(ii) where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the Transfer Certificate which it executes on becoming a Party.

(b) Unless a contrary indication appears, in this Clause 13 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

13.2 TAX GROSS-UP

- (a) The Parent and each Obligor shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.
- (b) The Company shall promptly upon becoming aware that the Parent or an Obligor must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Agent accordingly. Similarly, a Lender shall notify the Agent on becoming so aware in respect of a payment payable to that Lender. If the Agent receives such notification from a Lender it shall notify the Company and the Parent or that Obligor.
- (c) If a Tax Deduction is required by law to be made by the Parent or an Obligor, the amount of the payment due from the Parent or that Obligor shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (d) The Parent or an Obligor is not required to make an increased payment to a Lender under paragraph (c) above for a Tax Deduction in respect of tax imposed by the United Kingdom from a payment of interest on a Loan, if on the date on which the payment falls due:
 - (i) the payment could have been made to the relevant Lender without a Tax Deduction if it was a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration or application of) any law or Treaty, or any published practice or concession of any relevant taxing authority; or
 - (ii)
 - (A) the relevant Lender is a Qualifying Lender solely under sub-paragraph (i)(B) of the definition of Qualifying Lender;
 - (B) the Board of the Inland Revenue has given (and not revoked) a direction (a "DIRECTION") under section 349C of the Taxes Act (as that provision has effect on the date on which the relevant Lender became a Party) which relates to that payment and that Lender has received from the Parent, that Obligor or the Company a certified copy of that Direction; and
 - (C) the payment could have been made to the Lender without any Tax Deduction in the absence of that Direction; or
 - (iii) the relevant Lender is a Qualifying Lender solely under sub-paragraph (i)(B) of the definition of Qualifying Lender and it has not, other than by reason of any change after the date of this Agreement in (or in the interpretation, administration or application of) any law or any published practice or concession of any relevant taxing authority, given a Tax Confirmation to the Company; or
 - (iv) the relevant Lender is a Treaty Lender and the Parent or the Obligor making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under paragraph (g) below.
- (e) If the Parent or an Obligor is required to make a Tax Deduction, the Parent or that Obligor shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (f) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Parent or the Obligor making that Tax Deduction shall deliver to the Agent for the Finance Party entitled to the payment evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any

appropriate payment paid to the relevant taxing authority.

- (g) A Treaty Lender and the Parent or each Obligor which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for the Parent or that Obligor to obtain authorisation to make that payment without a Tax Deduction.
- (h) A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- (i) A UK Non-Bank Lender shall promptly notify the Company and the Agent if there is any change in the position from that set out in the Tax Confirmation.

13.3 TAX INDEMNITY

- (a) The Original Borrower shall (within three Business Days of demand by the Agent) pay to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines will be or has been (directly or indirectly) suffered for or on account of Tax by that Protected Party in respect of a Finance Document.
- (b) Paragraph (a) above shall not apply:
 - (i) with respect to any Tax assessed on a Finance Party:
 - (A) under the law of the jurisdiction in which that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (B) under the law of the jurisdiction in which that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party; or

- (ii) to the extent a loss, liability or cost:
 - (A) is compensated for by an increased payment under Clause 13.2 (Tax gross-up); or

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- (B) would have been compensated for by an increased payment under Clause 13.2 (Tax gross-up) but was not so compensated solely because one of the exclusions in paragraph (d) of Clause 13.2 (Tax gross-up) applied.

- (c) A Protected Party making, or intending to make, a claim under paragraph (a) above shall promptly notify the Agent of the event which will give, or has given, rise to the claim, following which the Agent shall notify the Company.
- (d) A Protected Party shall, on receiving a payment from the Parent or an Obligor under this Clause 13.3, notify the Agent.

13.4 TAX CREDIT

If the Parent or an Obligor makes a Tax Payment and the relevant Finance Party (acting in good faith) determines that:

- (a) a Tax Credit is attributable either to an increased payment of which that Tax Payment forms part, or to that Tax Payment; and
- (b) that Finance Party has obtained, utilised and retained that Tax Credit,

the Finance Party shall pay an amount to the Parent or the Obligor which that Finance Party determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not

been required to be made by the Parent or the Obligor.

13.5 STAMP TAXES

The Original Borrower shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, stamp duty land tax, registration and other similar Taxes payable in respect of any Finance Document.

13.6 VALUE ADDED TAX

- (a) All amounts set out, or expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part) constitute the consideration for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply, and accordingly, subject to paragraph (c) below, if VAT is chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying the consideration) an amount equal to the amount of the VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).
- (b) If VAT is chargeable on any supply made by any Finance Party (the "SUPPLIER") to any other Finance Party (the "RECIPIENT") under a Finance Document, and any Party (the "RELEVANT PARTY") is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Relevant Party an amount equal to any credit or repayment from the relevant tax authority which it reasonably determines relates to the VAT chargeable on that supply.

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- (c) Where a Finance Document requires any Party to reimburse a Finance Party for any costs or expenses, that Party shall also at the same time pay and indemnify the Finance Party against all VAT incurred by the Finance Party in respect of the costs or expenses.

14. INCREASED COSTS

14.1 INCREASED COSTS

- (a) Subject to Clause 14.3 (Exceptions) the Original Borrower shall, within three Business Days of a demand by the Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation or (ii) compliance with any law or regulation made after the date of this Agreement.
- (b) In this Agreement "INCREASED COSTS" means:
- (i) a reduction in the rate of return from the Facility or on a Finance Party's (or its Affiliate's) overall capital;
 - (ii) an additional or increased cost; or
 - (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document.

14.2 INCREASED COST CLAIMS

- (a) A Finance Party intending to make a claim pursuant to Clause 14.1 (Increased costs) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Company.

- (b) Each Finance Party shall, as soon as practicable after a demand by the Agent, provide a certificate confirming the amount of its Increased Costs.

14.3 EXCEPTIONS

- (a) Clause 14.1 (Increased costs) does not apply to the extent any Increased Cost is:
- (i) attributable to a Tax Deduction required by law to be made by the Parent or an Obligor;
 - (ii) compensated for by Clause 13.3 (Tax indemnity) (or would have been compensated for under Clause 13.3 (Tax indemnity) but was not so compensated solely because any of the exclusions in paragraph (b) of Clause 13.3 (Tax indemnity) applied);
 - (iii) compensated for by the payment of the Mandatory Cost; or
 - (iv) attributable to the wilful breach by the relevant Finance Party or its Affiliates of any law or regulation.
- (b) In this Clause 14.3, a reference to a "Tax Deduction" has the same meaning given to the term in Clause 13.1 (Definitions).

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15. OTHER INDEMNITIES

15.1 CURRENCY INDEMNITY

- (a) If any sum due from the Parent or an Obligor under the Finance Documents (a "SUM"), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the "FIRST CURRENCY") in which that Sum is payable into another currency (the "SECOND CURRENCY") for the purpose of:

- (i) making or filing a claim or proof against the Parent or that Obligor;
- (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,

the Parent or that Obligor shall as an independent obligation, within three Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.

- (b) The Parent and each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

15.2 OTHER INDEMNITIES

The Original Borrower shall (or shall procure that the Parent or an Obligor will), within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability incurred by that Finance Party as a result of:

- (a) the occurrence of any Event of Default;
- (b) a failure by the Parent or an Obligor to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 28 (Sharing among the Finance Parties);
- (c) funding, or making arrangements to fund, its participation in a Loan requested by a Borrower in a Utilisation Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that

Finance Party alone); or

- (d) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by a Borrower or the Company.

15.3 INDEMNITY TO THE AGENT AND THE SECURITY AGENT

The Original Borrower shall promptly indemnify the Agent and the Security Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of:

- (a) investigating any event which it reasonably believes is a Default;
- (b) entering into or performing any foreign exchange contract for the purposes of paragraph (b) of Clause 6.3 (Change of currency); or

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- (c) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised.

16. MITIGATION BY THE LENDERS

16.1 MITIGATION

- (a) Each Finance Party shall, in consultation with the Company, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 8.1 (Illegality), Clause 13 (Tax gross-up and indemnities), Clause 14 (Increased costs) or paragraph 3 of Schedule 4 (Mandatory Cost Formula) including (but not limited to) transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of the Parent or any Obligor under the Finance Documents.

16.2 LIMITATION OF LIABILITY

- (a) The Original Borrower shall indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 16.1 (Mitigation).
- (b) A Finance Party is not obliged to take any steps under Clause 16.1 (Mitigation) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

17. COSTS AND EXPENSES

17.1 TRANSACTION EXPENSES

The Original Borrower shall promptly on demand pay the Agent, the Security Agent and the Arranger the amount of all costs and expenses (including legal fees) reasonably incurred by any of them in connection with the negotiation, preparation, printing, execution and syndication of:

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Documents executed after the date of this Agreement.

17.2 AMENDMENT COSTS

If (a) the Parent or an Obligor requests an amendment, waiver or consent or (b) an amendment is required pursuant to Clause 29.9 (Change of currency), the Original Borrower shall, within three Business Days of demand, reimburse the Agent and the Security Agent for the amount of all

costs and expenses (including legal fees) reasonably incurred by the Agent or the Security Agent in responding to, evaluating, negotiating or complying with that request or requirement.

17.3 ENFORCEMENT COSTS

The Original Borrower shall, within three Business Days of demand, pay to each Secured Party the amount of all costs and expenses (including legal fees) incurred by that Secured Party in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

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17.4 SECURITY AGENT EXPENSES

Each Borrower shall promptly on demand pay the Security Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the administration or release of any Security created pursuant to any Security Document.

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SECTION 7

GUARANTEE

18. GUARANTEE AND INDEMNITY

18.1 GUARANTEE AND INDEMNITY

Each Guarantor and the Parent irrevocably and unconditionally jointly and severally:

- (a) guarantees to each Secured Party punctual performance by each

Borrower of all that Borrower's obligations under the Finance Documents;

- (b) undertakes with each Secured Party that whenever a Borrower does not pay any amount when due under or in connection with any Finance Document, that Guarantor or the Parent shall immediately on demand pay that amount as if it was the principal obligor; and
- (c) indemnifies each Secured Party immediately on demand against any cost, loss or liability suffered by that Secured Party if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which that Secured Party would otherwise have been entitled to recover.

18.2 CONTINUING GUARANTEE

This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by the Parent or any Obligor under the Finance Documents, regardless of any intermediate payment or discharge in whole or in part.

18.3 REINSTATEMENT

If any payment by an Obligor or the Parent or any discharge given by a Secured Party (whether in respect of the obligations of any Obligor or the Parent or any security for those obligations or otherwise) is avoided or reduced as a result of insolvency or any similar event:

- (a) the liability of each Obligor and the Parent shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
- (b) each Secured Party shall be entitled to recover the value or amount of that security or payment from each Obligor and the Parent, as if the payment, discharge, avoidance or reduction had not occurred.

18.4 WAIVER OF DEFENCES

The obligations of each Guarantor and the Parent under this Clause 18 will not be affected by an act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under this Clause 18 (without limitation and whether or not known to it or any Secured Party) including:

- (a) any time, waiver or consent granted to, or composition with, any Obligor or the Parent or other person;
- (b) the release of any other Obligor or the Parent or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;

- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any Obligor or the Parent or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor or the Parent or any other person;
- (e) any amendment (however fundamental) or replacement of a Finance Document or any other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security; or
- (g) any insolvency or similar proceedings.

18.5 IMMEDIATE RECOURSE

Each Guarantor and the Parent waives any right it may have of first requiring any Secured Party (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Guarantor or the Parent under this Clause 18. This waiver applies irrespective of any law or any provision of a Finance Document to the contrary.

18.6 APPROPRIATIONS

Until all amounts which may be or become payable by the Obligors or the Parent under or in connection with the Finance Documents have been irrevocably paid in full, each Secured Party (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by that Secured Party (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Guarantor or the Parent shall be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from any Guarantor or the Parent or on account of any Guarantor's or the Parent's liability under this Clause 18.

18.7 DEFERRAL OF GUARANTORS' RIGHTS

Until all amounts which may be or become payable by the Obligors and the Parent under or in connection with the Finance Documents have been irrevocably paid in full and unless the Agent or, as the case may be, the Security Agent otherwise directs, no Guarantor or the Parent will exercise any rights which it may have by reason of performance by it of its obligations under the Finance Documents:

- (a) to be indemnified by an Obligor or the Parent;
- (b) to claim any contribution from any other guarantor of any Obligor's or the Parent's obligations under the Finance Documents; and/or

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- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Secured Parties under the Finance Documents or of any other guarantee or security taken pursuant to, or in connection with, the Finance Documents by any Secured Party.

18.8 RELEASE OF GUARANTORS' RIGHT OF CONTRIBUTION

If any Guarantor (a "RETIRING GUARANTOR") ceases to be a Guarantor in accordance with the terms of the Finance Documents for the purpose of any sale or other disposal of that Retiring Guarantor then on the date such Retiring Guarantor ceases to be a Guarantor:

- (a) that Retiring Guarantor is released by each other Guarantor from any liability (whether past, present or future and whether actual or contingent) to make a contribution to any other Guarantor arising by reason of the performance by any other Guarantor of its obligations under the Finance Documents; and
- (b) each other Guarantor waives any rights it may have by reason of the performance of its obligations under the Finance Documents to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Secured Parties under any Finance Document or of any other security taken pursuant to, or in connection with, any Finance Document where such rights or security are granted by or in relation to the assets of the Retiring Guarantor.

In this Clause 18.8 a reference to "Guarantor" includes the Parent.

18.9 ADDITIONAL SECURITY

This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by any Secured Party.

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SECTION 8

REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

19. REPRESENTATIONS

- (a) Each Obligor makes the representations and warranties set out in this Clause 19 to each Secured Party on the date of this Agreement.
- (b) The Parent makes the representations and warranties set out in this Clause 19, other than the representations set out in Clause 19.7 (Deduction of Tax) Clause 19.12(a) (Pari passu ranking), Clause 19.14 (Title) and Clause 19.18 (Material Subsidiaries), for itself and each member of the Group to each Secured Party on the date of this Agreement.

19.1 STATUS

- (a) It is a corporation, duly incorporated and validly existing under the law of its jurisdiction of incorporation.
- (b) It has the power to own its assets and carry on its business as it is being conducted.

19.2 BINDING OBLIGATIONS

The obligations expressed to be assumed by it in each Finance Document are legal, valid, binding and enforceable, subject to:

- (a) the Reservations; or
- (b) in the case of any Security Document, the requirements specified at the end of Clause 19.5 (Validity and admissibility in evidence).

19.3 NON-CONFLICT WITH OTHER OBLIGATIONS

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not and will not conflict with:

- (a) any law or regulation applicable to it;
- (b) its constitutional documents; or
- (c) any agreement or instrument binding upon it or any of its assets in any material respect,

nor (except as provided in any Security Document) result in the existence of, or oblige it to create, any Security over any of its assets.

19.4 POWER AND AUTHORITY

It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents to which it is a party and the transactions contemplated by those Finance Documents.

19.5 VALIDITY AND ADMISSIBILITY IN EVIDENCE

All Authorisations required or desirable:

- (a) to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents to which it is a party;

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- (b) to make the Finance Documents to which it is a party admissible in evidence in its jurisdiction of incorporation; and
- (c) to enable it to create the Security to be created by it pursuant to any Security Document and to ensure that such Security has the priority and ranking it is expressed to have, subject to the Reservations,

have been obtained or effected and are in full force and effect save for the making of the appropriate registrations of the Security Documents with the Companies Registration Office and HM Land Registry.

19.6 GOVERNING LAW AND ENFORCEMENT

- (a) The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.
- (b) Any judgment obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

19.7 DEDUCTION OF TAX

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document.

19.8 NO FILING OR STAMP TAXES

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents.

19.9 NO DEFAULT

- (a) No Event of Default is continuing or might reasonably be expected to result from the making of any Utilisation.
- (b) No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

19.10 NO MISLEADING INFORMATION

- (a) Any factual information provided by the Parent or any member of the Group for the purposes of the Information Package was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.
- (b) The financial projections contained in the Information Package have been prepared in good faith on the basis of recent historical information and on the basis of reasonable assumptions, it being recognised that these projections relate to future events, they are not to be viewed as fact, and actual results may vary by a material amount.
- (c) Nothing has occurred or been omitted from the Information Package and no information has been given or withheld that results in the information contained in the Information Package being untrue or misleading in any material respect.

19.11 FINANCIAL STATEMENTS

- (a) Its Original Financial Statements were prepared in accordance with GAAP consistently applied.
- (b) Its Original Financial Statements fairly represent its financial condition and operations (consolidated in the case of the Company) as at the end of and for the relevant financial year.
- (c) There has been no material adverse change in its business or financial condition (or the business or consolidated financial condition of the Group, in the case of the Company) since 30 September 2003.

19.12 PARI PASSU RANKING

- (a) Subject to the requirements specified at the end of Clause 19.5 (Validity and admissibility in evidence) and to the Reservations, each Security Document creates (or, once entered into, will create) in favour of the Security Agent for the benefit of the Secured Parties the Security which it is expressed to create with the ranking and priority it is expressed to have.
- (b) Without limiting paragraph (a) above, its payment obligations under the Finance Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

19.13 NO PROCEEDINGS PENDING OR THREATENED

No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency which, if adversely determined, might reasonably be expected to have a Material Adverse Effect have (to the best of its knowledge and belief) been started or threatened against it or any of its Subsidiaries.

19.14 TITLE

It has good and marketable title to the assets subject to the Security created by it pursuant to any Security Document, free from all Security except the Security created pursuant to, or permitted by, the Finance Documents.

19.15 ENVIRONMENTAL LAWS AND LICENCES

It and each of its Subsidiaries has:

- (a) complied with all Environmental Laws to which it may be subject;
- (b) obtained all Environmental Licences required or desirable in connection with its business; and
- (c) complied with the terms of those Environmental Licences,

in each case where failure to do so would be reasonably likely to have a Material Adverse Effect.

19.16 ENVIRONMENTAL RELEASES

No:

- (a) property currently or previously owned, leased, occupied or controlled by it or any of its Subsidiaries (including any offsite waste management or disposal location utilised by it or any of its Subsidiaries) is contaminated with any Hazardous Substance; and
- (b) discharge, release, leaching, migration or escape of any Hazardous Substance into the Environment has occurred or is occurring on, under or from that property,

in each case in circumstances where this might have a Material Adverse Effect.

19.17 EMPLOYEE BENEFIT PLANS

- (a) None of the Parent, an Obligor or an ERISA Affiliate has incurred or could be reasonably expected to incur any liability to, or on account of, a Multiemployer Plan as a result of a violation of Section 515 of ERISA or pursuant to Section 4201, 4204 or 4212(c) of ERISA.
- (b) Except as could not reasonably be expected to have a Material Adverse Effect, the fair market value of the assets of each Employee Plan subject to Title IV of ERISA is at least equal to the present value of the "benefit liabilities" (within the meaning of Section 4001(a)(16) of ERISA) under that Employee Plan using the actuarial assumptions and methods used by the actuary to that Employee Plan in its most recent valuation of that Employee Plan.
- (c) There is (to the best of each Obligor, the Parent's and each ERISA Affiliates' knowledge and belief) no litigation, arbitration, administrative proceeding or claim pending or threatened against or with respect to any Employee Plan (other than routine claims for benefits) which has or, if adversely determined, could reasonably be expected to have, a Material Adverse Effect.
- (d) Except as could not reasonably be expected to have a Material Adverse Effect, none of the Parent, an Obligor or an ERISA Affiliate has incurred or could reasonably be expected to incur liability to the PBGC.
- (e) No ERISA Event has occurred or is reasonably likely to occur which could reasonably be expected to result in liability which has had or would have a Material Adverse Effect.

19.18 MATERIAL SUBSIDIARIES

- (a) Each member of the Group which, as at the date of this Agreement, is a Material Subsidiary is listed in Schedule 11.
- (b) The percentage of the gross assets, gross revenues and EBIT of the Group attributable to each such Material Subsidiary in accordance with the definition of "Material Subsidiary" is accurately described in Schedule 11.

19.19 INSOLVENCY PROCEEDINGS

It has not taken any corporate action nor have any legal proceedings or other procedure or step been taken, started or threatened in relation to anything referred to in Clause 23.7 (Insolvency proceedings).

19.20 FINANCIAL ASSISTANCE MEMORANDUM

The memorandum provided by the Company to the Arranger on 16 July 2004 is true and accurate in all material respects in relation to the acquisitions that the Group has made that are to be refinanced, in part, by the Facilities, and the steps that will be required to whitewash those acquisitions in accordance with sections 155 to 158 of the Companies Act 1985.

19.21 REPETITION

The Repeating Representations (and, in the case of paragraph (b) below, the representations set out in Clauses 19.5 (Validity and admissibility in evidence), 19.7 (Deduction of Tax), and 19.8 (No filing or stamp taxes)) are deemed to be made by the Parent and each Obligor by reference to the facts and circumstances then existing on:

- (a) the date of each Utilisation Request and the first day of each Interest Period; and
- (b) in the case of an Additional Obligor, the day on which the company becomes (or it is proposed that the company becomes) an Additional Obligor.

20. INFORMATION UNDERTAKINGS

The undertakings in this Clause 20 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

20.1 FINANCIAL STATEMENTS

The Company shall supply to the Agent in sufficient copies for all the Lenders:

- (a) as soon as the same become available, but in any event within 120 days after the end of each of its financial years:
 - (i) its audited consolidated financial statements for that financial year; and
 - (ii) the audited financial statements of the Parent and each Borrower for that financial year; and
- (b) as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years its consolidated financial statements for that financial half year; and
- (c) as soon as the same become available, but in any event within 150 days after the end of each of its financial years the audited financial statements of the Parent and each Obligor for that financial year; and
- (d) as soon as the same become available, but in any event within 45 days after the end of each of Accounting Quarter the consolidated financial statements of the Group for that Accounting Quarter; and
- (e) as soon as the same become available, but in any event on or before the beginning of its financial year, a budget approved by the Agent (acting on the instructions of the Majority Lenders acting reasonably) including the budgeted expenses for the Parent for that financial year.

20.2 COMPLIANCE CERTIFICATE

- (a) The Company shall supply to the Agent, with each set of financial statements delivered pursuant to in paragraph (a)(i) or (d) of Clause 20.1 (Financial statements), a Compliance Certificate setting out:
 - (i) (in reasonable detail) computations as to compliance with Clause 21 (Financial covenants) as at the date as at which those financial statements were drawn up; and
 - (ii)
 - (A) listing the Material Subsidiaries as at the end of the Relevant Period; and
 - (B) setting out in reasonable detail and in a form satisfactory to the Agent the computations necessary to justify the inclusions in, and exclusions from, that list.

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- (b) Each Compliance Certificate shall be signed by two directors of the Company (one of whom shall be the Finance Director) and, if required to be delivered with the financial statements delivered pursuant to paragraph (a)(i) of Clause 20.1 (Financial statements), shall be reported on by the Company's auditors in the form agreed by the Company and all the Lenders before the date of this Agreement.

20.3 REQUIREMENTS AS TO FINANCIAL STATEMENTS

- (a) Each set of financial statements delivered by the Company pursuant to Clause 20.1 (Financial statements) shall be certified by a director of the relevant company as fairly representing its (or, as the case may be, its consolidated) financial condition and operations as at the end of and for the period in relation to which those financial statements were drawn up.
- (b) The Company shall procure that each set of financial statements of the Parent or an Obligor delivered pursuant to 20.1 (Financial statements) is prepared using GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements for the Parent or that Obligor unless, in relation to any set of financial statements, it notifies the Agent that there has been a change in GAAP, the accounting practices or reference periods and its auditors (or, if appropriate, the auditors of the Parent or the Obligor) deliver to the Agent:
- (i) a description of any change necessary for those financial statements to reflect the GAAP, accounting practices and reference periods upon which the Parent's or that Obligor's Original Financial Statements were prepared; and
 - (ii) sufficient information, in form and substance as may be reasonably required by the Agent, to enable the Lenders to determine whether Clause 21 (Financial covenants) has been complied with and make an accurate comparison between the financial position indicated in those financial statements and the Parent's or that Obligor's Original Financial Statements.

Any reference in this Agreement to those financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.

20.4 INFORMATION: MISCELLANEOUS

The Company shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- (a) all documents dispatched by the Company to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;
- (b) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group, and which might, if adversely determined, have a Material Adverse Effect; and
- (c) promptly, such further information regarding the financial condition, business and operations of any member of the Group as any Secured Party (through the Agent) may reasonably request.

20.5 NOTIFICATION OF DEFAULT

- (a) The Parent and each Obligor shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence (unless the Parent or that Obligor is aware that a notification has already been provided by the Parent or another Obligor).
- (b) Promptly upon a reasonable request by the Agent, the Company shall supply to the Agent a certificate signed by two of its directors or senior officers on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

20.6 "KNOW YOUR CUSTOMER" CHECKS

- (a) If:
- (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
 - (ii) any change in the status of the Parent or an Obligor after the date of this Agreement; or
 - (iii) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Agent or any Lender (or, in the case of paragraph (iii) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Parent and each Obligor shall promptly upon the request of the Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

- (b) Each Lender shall promptly upon the request of the Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself) in order for the Agent to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.
- (c) The Company shall, by not less than 10 Business Days' prior written notice to the Agent, notify the Agent (which shall promptly notify the Lenders) of its intention to request that one of its Subsidiaries becomes an Additional Obligor pursuant to Clause 25 (Changes to the Obligors).
- (d) Following the giving of any notice pursuant to paragraph (c) above, if the accession of such Additional Obligor obliges the Agent or any Lender to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself or on behalf of any Lender) or any Lender (for itself or on behalf of any

prospective new Lender) in order for the Agent or such Lender or any prospective new Lender to carry out and be satisfied it has complied with necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the accession of such Subsidiary to this Agreement as an Additional Obligor.

21. FINANCIAL COVENANTS

21.1 FINANCIAL CONDITION

The Company shall ensure that:

- (a) Net Worth will not at any time be less than (pound)100,000,000;
- (b) the ratio of Net Borrowings to EBITDA for any Relevant Period will not be more than 3.0 to 1.0;
- (c) the ratio of EBIT to Interest Expense for any Relevant Period will not be less than 4.0 to 1.0; and
- (d) the aggregate of indebtedness owed by Obligors under Ancillary Facilities will not at any time be more than:

- (i) in respect of Ancillary Facilities with Barclays Bank PLC, (pound)7,500,000; and
 - (ii) in respect of Ancillary Facilities with Lloyds TSB Bank plc, (pound)7,500,000,
- (or their equivalent in another currency or currencies).

21.2 GUARANTOR COVER

- (a) Subject to Clause 25.4 (Additional Guarantors), the Company must ensure that, from the first Utilisation Date, the aggregate gross assets, turnover, and EBIT, of the Guarantors are not at any time less than 90 per cent. of aggregate gross assets, turnover, and EBIT of the Group at that time. For the avoidance of doubt the gross assets, turnover or EBIT of the Parent shall not be taken into account under this Clause 21.2(a).
- (b) For the purpose of this Clause 21.2:
 - (i) the turnover and profits before interest and taxation of a Guarantor will be determined from its financial statements (unconsolidated if it has Subsidiaries) based upon which the latest audited financial statements of the Group have been prepared; and
 - (ii) if a company becomes a Guarantor after the date on which the latest audited financial statements of the Group have been prepared, the gross assets, turnover and profits before interest and taxation of that Guarantor will be determined from its latest financial statements.

21.3 FINANCIAL COVENANT CALCULATIONS

Borrowings, Cash and Deposits, EBIT, EBITDA, Interest Expense, and Net Worth shall be calculated and interpreted on a consolidated basis in accordance with the GAAP applicable to the Original Financial Statements of the Company and shall be expressed in sterling.

21.4 DEFINITIONS

In this Clause 21:

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"BORROWINGS" means, as at any particular time, the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of the Financial Indebtedness of members of the Group other than:

- (a) any indebtedness referred to in paragraph (g) of the definition of Financial Indebtedness and any guarantee or indemnity in respect of that indebtedness; and
- (b) the amount of any loans from the Parent to the Company subordinated under the Subordination Deed or otherwise subordinated on terms acceptable to the Agent (acting on the instructions of the Lenders).

For this purpose, any amount outstanding or repayable in a currency other than sterling shall on that day be taken into account in its sterling equivalent at the rate of exchange that would have been used had an audited consolidated balance sheet of the Group been prepared as at that day in accordance with the GAAP applicable to the Original Financial Statements of the Company.

"CASH AND DEPOSITS" means the amount of any cash in hand or cash held at a bank by a member of the Group or other form of deposit held by a member of the Group, other than:

- (c) cash or deposits subject to Security; or
- (d) cash or deposits that cannot be remitted to the United Kingdom to meet any indebtedness due to any foreign exchange laws or other laws.

"EBIT" means, in relation to any Relevant Period, the total consolidated

operating profit of the Group for that Relevant Period before taking into account:

- (a) Interest Expense;
- (b) Tax;
- (c) any share of the profit of any associated company or undertaking, except for dividends received in cash by any member of the Group;
- (d) extraordinary items,

as determined (except as needed to reflect the terms of this Clause 21) from the financial statements of the Group and Compliance Certificates delivered under Clause 20.1 (Financial statements) and Clause 20.2 (Compliance Certificate).

For the purposes of the guarantor cover test in Clause 21.2(a) (Guarantor Cover) and the definition of Material Subsidiary, the EBIT of a company shall take the total operating profit for that company for a Relevant Period before taking into account the items in paragraphs (a), (b), (c) and (d) above for that company.

"EBITA" means, in relation to any Relevant Period, EBITDA for that Relevant Period deducting depreciation, as determined (except as needed to reflect the terms of this Clause 21) from the financial statements of the Group and Compliance Certificates delivered under Clause 20.1 and Clause 20.2.

"EBITDA" means, in relation to any Relevant Period, EBIT for that Relevant Period, plus all amounts provided for depreciation and amortisation for that Relevant Period, as determined

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(except as needed to reflect the terms of this Clause 21) from the financial statements of the Group and Compliance Certificates delivered under Clause 20.1 and Clause 20.2.

"INTEREST EXPENSE" means, in relation to any Relevant Period, the aggregate amount of interest and any other finance charges (whether or not paid, payable or capitalised) accrued by the Group in that Relevant Period in respect of Borrowings including:

- (a) the interest element of leasing and hire purchase payments;
- (b) commitment fees, commissions, arrangement fees and guarantee fees; and
- (c) amounts in the nature of interest payable in respect of any shares other than equity share capital,

adjusted (but without double counting) by adding back the net amount payable (or deducting the net amount receivable) by members of the Group in respect of that Relevant Period under any interest or (so far as they relate to interest) currency hedging arrangements as determined (except as needed to reflect the terms of this Clause 21) from the financial statements of the Group and Compliance Certificates delivered under Clause 20.1 (Financial statements) and Clause 20.2 (Compliance Certificate).

"NET BORROWINGS" means all Borrowings less the aggregate amount of all Cash and Deposits.

"NET WORTH" means, as at any particular time, the amount paid up or credited as paid up on the issued share capital of the Company (other than any shares which are expressed to be redeemable) and the aggregate amount of reserves of the Group, including:

- (a) any amount credited to the share premium account;
- (b) any capital redemption reserve fund;
- (c) any balance standing to the credit or debit of the consolidated profit and loss account reserve of the Group, adjusted for (i) the effect of the historic goodwill arising on consolidation of (pound)50,701,000 and (ii) the elimination of the amortisation charged in respect of purchased goodwill as per the consolidated

profit and loss account of the Group; and

- (d) the amount of any loans or equity from the Parent to the Company subordinated under the Subordination Deed or otherwise subordinated on terms acceptable to the Agent (acting on the instructions of the Lenders),

but deducting:

- (e) (to the extent included) any amounts arising from an upward revaluation of assets made at any time after 30 September 2003; and
- (f) (to the extent included) any dividend or distribution recommended but not debited to the profit and loss account reserve or made by any member of the Group to the extent payable to a person who is not a member of the Group and such distribution is not provided for in the most recent financial statements,

and so that no amount shall be included or excluded more than once.

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"RELEVANT PERIOD" means:

- (a) each financial year of the Company; and
- (b) each period of 12 months ending on the last day of each Accounting Quarter of the Company's financial year.

22. GENERAL UNDERTAKINGS

The undertakings in this Clause 22 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

22.1 AUTHORISATIONS

- (a) The Parent and each Obligor shall promptly:

- (i) obtain, comply with and do all that is necessary to maintain in full force and effect; and
- (ii) supply certified copies to the Agent of,

any Authorisation required under any law or regulation of its jurisdiction of incorporation to enable it to perform its obligations under the Finance Documents and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of any Finance Document.

- (b) The Parent or the relevant Obligor shall promptly make the registrations specified at the end of Clause 19.5 (Validity and admissibility in evidence).

22.2 COMPLIANCE WITH LAWS

The Parent and each Obligor shall comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations under the Finance Documents.

22.3 NEGATIVE PLEDGE

- (a) No Obligor shall (and the Company shall ensure that no other member of the Group will) create or permit to subsist any Security over any of its assets.

- (b) No Obligor shall (and the Company shall ensure that no other member of the Group will):

- (i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by an Obligor or any other member of the Group;
- (ii) sell, transfer or otherwise dispose of any of its receivables on

recourse terms;

- (iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (iv) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

- (c) Paragraphs (a) and (b) above do not apply to and Permitted Security.

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22.4 DISPOSALS

- (a) No Obligor shall (and the Company shall ensure that no other member of the Group will) enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, transfer or otherwise dispose of any asset.
- (b) Paragraph (a) above does not apply to:
 - (i) any Permitted Disposal; or
 - (ii) any sale, lease, transfer or other disposal in the ordinary course of trading of the disposing entity of any Charged Asset subject only to a floating charge before the floating charge crystallises or the security created pursuant to the Security Documents has become enforceable.

22.5 MERGER

Neither the Parent nor any Obligor shall (and the Company shall ensure that no other member of the Group will) enter into any amalgamation, demerger, merger or corporate reconstruction.

22.6 CHANGE OF BUSINESS

The Company shall procure that no substantial change is made to the general nature of the business of the Company, the Group, the Obligors or the Parent from that carried on at the date of this Agreement.

22.7 INSURANCE

Each Obligor shall (and the Company shall ensure that each other member of the Group will) maintain insurances on and in relation to its business and assets with reputable underwriters or insurance companies against those risks, and to the extent, usually insured against by prudent companies located in the same or a similar location and carrying on a similar business.

22.8 ENVIRONMENTAL UNDERTAKINGS

The Parent and each Obligor shall (and the Company shall ensure that each other member of the Group will):

- (a) comply with all Environmental Laws to which it may be subject;
- (b) obtain all Environmental Licences required or desirable in connection with its business; and
- (c) comply with the terms of all those Environmental Licences,

in each case where failure to do so might have a Material Adverse Effect.

22.9 ENVIRONMENTAL CLAIMS

The Parent and each Obligor shall (and the Company shall ensure that each other member of the Group will) promptly notify the Agent of any claim, notice or other communication received by it in respect of any actual or alleged breach of or liability under Environmental Law which, if substantiated, might have a Material Adverse Effect.

22.10 ERISA

Except where a failure to do so could reasonably be expected to have a Material Adverse Effect, the Parent and each Obligor shall:

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- (a) ensure that neither it nor any ERISA Affiliate engages in a complete or partial withdrawal, within the meaning of Sections 4203 and 4205 of ERISA, from any Multiemployer Plan without the prior consent of the Majority Lenders;
- (b) ensure that any material liability imposed on it or any ERISA Affiliate pursuant to Title IV of ERISA is paid and discharged when due;
- (c) ensure that neither it nor any ERISA Affiliate adopts an amendment to an Employee Plan requiring the provision of Security under Section 307 of ERISA or Section 401(a)(29) of the Internal Revenue Code without the prior consent of the Majority Lenders; and
- (d) ensure that no Employee Plan is terminated pursuant to a "distress termination" under Section 4041(c) of ERISA.

22.11 ACQUISITIONS AND INVESTMENTS

- (a) No Obligor shall (and the Company shall ensure that no other member of the Group will):
 - (i) invest in or acquire any share in, or any security issued by, any person, or any interest therein or in the capital of any person, or make any capital contribution to any person (or agree to do any of the foregoing); or
 - (ii) invest in or acquire any business or going concern, or the whole or substantially the whole of the assets or business of any person, or any assets that constitute a division or operating unit of the business of any person (or agree to do any of the foregoing).
- (b) Paragraph (a) above does not apply to any acquisition or investment which is a Permitted Acquisition.

22.12 PARI PASSU

The Parent and each Obligor shall ensure that its obligations under the Finance Documents rank at all times at least pari passu in right of priority and payment with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

22.13 LOANS OR CREDIT

- (a) No Obligor will make loans or credit or give guarantee or indemnities or other assurance against financial loss.
- (b) Paragraph (a) above does not apply to a Permitted Loan or Permitted Guarantee.

22.14 DIVIDENDS

- (a) The Company shall not:
 - (i) declare, pay or make any dividend or other payment or distribution of any kind on or in respect of any of its shares or make any distribution of assets, payment of interest or repayment of loans or other payment (including management fees); and
 - (ii) reduce, return, purchase, repay, cancel or redeem any of its

shares.

- (b) Paragraph (a) above does not apply to payment of administration costs that do not exceed 120 per cent. of the budgeted expenses for the Parent. For the period ending 30 September 2005 budgeted expenses are deemed to be US\$3,500,000 in aggregate, and subsequently will be

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based on the budget provided by the Company in accordance the Clause 20.1(e) (Financial statements).

22.15 OFF-BALANCE SHEET FUNDING

No Obligor shall (and the Company shall ensure that no other member of the Group will) incur (or agree to incur) or allow to remain outstanding any Off-Balance Sheet Funding.

22.16 SECURITY AND GUARANTEES

The Company shall ensure that each Material Subsidiary takes all necessary steps to become an Additional Guarantor in accordance with Clause 25 (Changes to the Obligors) (including, without limitation, re-registering public companies as private companies) and will provide the documents and other evidence listed in paragraph 13 of Part II of Schedule 2 (Conditions precedent) as Security in favour of the Security Agent to secure all of the obligations of the Obligors under the Finance Documents.

23. EVENTS OF DEFAULT

Each of the events or circumstances set out in Clause 23 is an Event of Default.

23.1 NON-PAYMENT

The Parent or an Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place at and in the currency in which it is expressed to be payable unless:

- (a) its failure to pay is caused by administrative or technical error; and
- (b) payment is made within 3 Business Days of its due date.

23.2 FINANCIAL COVENANTS

Any requirement of Clause 21 (Financial covenants) is not satisfied.

23.3 OTHER OBLIGATIONS

- (a) The Parent or an Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 23.1 (Non-payment) and Clause 23.2 (Financial covenants)).
- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within 10 Business Days of the Agent giving notice to the Company or the Company becoming aware of the failure to comply.

23.4 MISREPRESENTATION

Any representation or statement made or deemed to be made by the Parent or an Obligor in the Finance Documents or any other document delivered by or on behalf of the Parent or any Obligor under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made and if the circumstances causing such misrepresentation are reasonably capable of remedy, the Parent or such Obligor shall have failed to remedy such circumstances within 10 Business Days of receipt by it of written notice from the Agent requiring such circumstances to be remedied.

23.5 CROSS DEFAULT

- (a) Any Financial Indebtedness of the Parent or any member of the Group is not paid when due nor within any originally applicable grace period.
- (b) Any Financial Indebtedness of the Parent or any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described). (c) Any commitment for any Financial Indebtedness of the Parent or any member of the Group is cancelled or suspended by a creditor of the Parent or any member of the Group as a result of an event of default (however described).
- (d) Any creditor of the Parent or any member of the Group becomes entitled to declare any Financial Indebtedness of the Parent or any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- (e) No Event of Default will occur under this Clause 23.5 if the aggregate amount of Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (a) to (d) above is less than (pound)1,000,000 (or its equivalent in any other currency or currencies).

23.6 INSOLVENCY

- (a) The Parent or a member of the Group is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its indebtedness.
- (b) The value of the assets of the Parent or any member of the Group is less than its liabilities (taking into account contingent and prospective liabilities).
- (c) A moratorium is declared in respect of any indebtedness of the Parent or any member of the Group.

23.7 INSOLVENCY PROCEEDINGS

Any corporate action, legal proceedings or other procedure or step is taken in relation to:

- (a) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Parent, an Obligor or a Material Subsidiary;
- (b) a composition, compromise, assignment or arrangement with any creditor of the Parent, an Obligor or a Material Subsidiary;
- (c) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of the Parent, an Obligor or a Material Subsidiary or any of its assets; or
- (d) enforcement of any Security over any assets of the Parent, an Obligor or a Material Subsidiary,

or any analogous procedure or step is taken in any jurisdiction.

23.8 CREDITORS' PROCESS

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of a member of the Parent Group and is not

discharged within 15 Business Days.

23.9 OWNERSHIP OF THE OBLIGORS

An Obligor (other than the Company) is not or ceases to be a wholly-owned Subsidiary of the Company.

23.10 UNLAWFULNESS

It is or becomes unlawful for the Parent or an Obligor to perform any of its obligations under the Finance Documents.

23.11 REPUDIATION

The Parent or an Obligor repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

23.12 SECURITY AND GUARANTEES

Any:

- (a) guarantee given under this Agreement is not in full force and effect; or
- (b) Security Document is not in full force and effect or does not create in favour of the Security Agent for the benefit of the Secured Parties the Security which it is expressed to create with the ranking and priority it is expressed to have.

23.13 MATERIAL ADVERSE CHANGE

The Majority Lenders determine that a Material Adverse Effect exists, has occurred or might occur.

23.14 ERISA

(a)

- (i) Any ERISA Event occurs or is reasonably expected to occur;
- (ii) the Parent, any Obligor or any ERISA Affiliate incurs or is likely to incur a liability to or on account of a Multiemployer Plan as a result of a violation of Section 515 of ERISA or under Section 4201, 4204 or 4212(c) of ERISA;
- (iii) the fair market value of the assets of any Employee Plan subject to Title IV of ERISA is not at least equal to the present value of the "benefit liabilities" (within the meaning of Section 4001(a)(16) of ERISA) under that Employee Plan using the actuarial assumptions and methods used by the actuary to that Employee Plan in its most recent valuation of that Employee Plan; or
- (iv) the Parent, any Obligor or any ERISA Affiliate incurs or is likely to incur a liability to or on account of an Employee Plan under Section 409, 502(i) or 502(I) of ERISA or Section 401(a)(29), 4971 or 4975 of the Internal Revenue Code; and

- (b) any event or events described in paragraph (a) result(s) in the imposition of or granting of Security, or the incurring of a liability or a material risk of incurring a liability; and

- (c) that Security or liability, individually and/or in the aggregate, has or could reasonably be expected to have a Material Adverse Effect.

23.15 CESSATION OF BUSINESS

The Parent or any Obligor suspends or ceases (or threatens to suspend or cease) to carry on all or a material part of its business, except as part of a Permitted Disposal.

23.16 ACCELERATION

On and at any time after the occurrence of an Event of Default which is continuing the Agent may, and shall if so directed by the Majority Lenders, by notice to the Company:

- (a) cancel the Total Commitments whereupon they shall immediately be cancelled;
- (b) declare that all or part of the Loans, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- (c) declare that all or part of the Loans be payable on demand, whereupon they shall immediately become payable on demand by the Agent on the instructions of the Majority Lenders.

SECTION 9
CHANGES TO PARTIES

24. CHANGES TO THE LENDERS

24.1 ASSIGNMENTS AND TRANSFERS BY THE LENDERS

Subject to this Clause 24, a Lender (the "EXISTING LENDER") may after the first Utilisation Date:

- (a) assign any of its rights; or
- (b) transfer by novation any of its rights and obligations,

to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the "NEW LENDER").

24.2 CONDITIONS OF ASSIGNMENT OR TRANSFER

- (a) The consent of the Company is required for an assignment or transfer by an Existing Lender, unless the assignment or transfer is to another Lender or an Affiliate of a Lender or an Event of Default is continuing.
- (b) The consent of the Company to an assignment or transfer must not be unreasonably withheld or delayed. The Company will be deemed to have given its consent 10 Business Days after the Existing Lender has requested it unless consent is expressly refused by the Company within that time.
- (c) Any assignment or transfer must be:
 - (i) the Existing Lender's entire Commitment; or
 - (ii) a minimum of (pound)5,000,000 and an integral multiple of (pound)5,000,000 (or their comparable amounts in any Optional Currency).
- (d) The consent of the Company to an assignment or transfer must not be withheld solely because the assignment or transfer may result in an increase to the Mandatory Cost.

- (e) An assignment will only be effective on:
- (i) receipt by the Agent of written confirmation from the New Lender (in form and substance satisfactory to the Agent) that the New Lender will assume the same obligations to the other Secured Parties as it would have been under if it was an Original Lender; and
 - (ii) performance by the Agent of all "know your customer" or other checks relating to any person that it is required to carry out in relation to such assignment to a New Lender, the completion of which the Agent shall promptly notify to the Existing Lender and the New Lender.
- (f) A transfer will only be effective if the procedure set out in Clause 24.5 (Procedure for transfer) is complied with.
- (g) Any assignment or transfer by an Existing Lender to a New Lender shall only be effective if it transfers or assigns the Existing Lender's share of each Facility pro rata.

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- (h) If:
- (i) a Lender assigns or transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
 - (ii) as a result of circumstances existing at the date the assignment, transfer or change occurs, an the Parent or an Obligor would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 13 (Tax gross-up and indemnities) or Clause 14 (Increased Costs),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred.

24.3 ASSIGNMENT OR TRANSFER FEE

The New Lender shall, on the date upon which an assignment or transfer takes effect, pay to the Agent (for its own account) a fee of (pound)1,000.

24.4 LIMITATION OF RESPONSIBILITY OF EXISTING LENDERS

- (a) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
- (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (ii) the financial condition of the Parent or any Obligor;
 - (iii) the performance and observance by the Parent or any Obligor of its obligations under the Finance Documents or any other documents; or
 - (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document,
- and any representations or warranties implied by law are excluded.
- (b) Each New Lender confirms to the Existing Lender and the other Secured Parties that it:
- (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of the Parent and each Obligor and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and
 - (ii) will continue to make its own independent appraisal of the

creditworthiness of the Parent and each Obligor and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.

- (c) Nothing in any Finance Document obliges an Existing Lender to:
- (i) accept a re-transfer from a New Lender of any of the rights and obligations assigned or transferred under this Clause 24; or

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- (ii) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by the Parent or any Obligor of its obligations under the Finance Documents or otherwise.

24.5 PROCEDURE FOR TRANSFER

- (a) Subject to the conditions set out in Clause 24.2 (Conditions of assignment or transfer) a transfer is effected in accordance with paragraph (c) below when the Agent executes an otherwise duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to paragraph (b) below, as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate.
- (b) The Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Existing Lender and the New Lender once it is satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to such New Lender.
- (c) On the Transfer Date:
 - (i) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer by novation its rights and obligations under the Finance Documents each of the Parent, the Obligors and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the "DISCHARGED RIGHTS AND OBLIGATIONS");
 - (ii) the Parent and each of the Obligors and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Parent or that Obligor and the New Lender have assumed and/or acquired the same in place of the Parent or that Obligor and the Existing Lender;
 - (iii) the Agent, the Arranger, the Security Agent, the New Lender and other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Agent, the Arranger, the Security Agent and the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and
 - (iv) the New Lender shall become a Party as a "Lender".

24.6 COPY OF TRANSFER CERTIFICATE TO COMPANY

The Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate, send to the Company a copy of that Transfer Certificate.

24.7 DISCLOSURE OF INFORMATION

Any Lender may disclose to any of its Affiliates and any other person:

- (a) to (or through) whom that Lender assigns or transfers (or may potentially assign or transfer) all or any of its rights and obligations under this Agreement;
- (b) with (or through) whom that Lender enters into (or may potentially enter into) any sub-participation in relation to, or any other transaction under which payments are to be made by reference to, this Agreement, the Parent or any Obligor; or
- (c) to whom, and to the extent that, information is required to be disclosed by any applicable law or regulation,

any information about the Parent, any Obligor, the Group and the Finance Documents as that Lender shall consider appropriate if, in relation to paragraphs (a) and (b) above, the person to whom the information is to be given has entered into a Confidentiality Undertaking. This Clause supersedes any previous agreement relating to the confidentiality of this information.

25. CHANGES TO THE OBLIGORS

25.1 ASSIGNMENTS AND TRANSFER BY PARENT AND OBLIGORS

Neither the Parent nor an Obligor may assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

25.2 ADDITIONAL BORROWERS

- (a) Subject to compliance with the provisions of paragraphs (c) and (d) of Clause 20.6 ("Know your customer" checks), the Company may request that any of its wholly owned Subsidiaries becomes an Additional Borrower. That Subsidiary shall become an Additional Borrower if:
 - (i) for a Subsidiary that is not incorporated in the United Kingdom, the Majority Lenders approve the addition of that Subsidiary (such approval not to be unreasonably withheld);
 - (ii) the Company delivers to the Agent a duly completed and executed Accession Letter;
 - (iii) the Company confirms that no Default is continuing or would occur as a result of that Subsidiary becoming an Additional Borrower;
 - (iv) that Subsidiary becomes an Additional Guarantor in accordance with Clause 28.3 (Additional Guarantors); and
 - (v) the Agent has received all of the documents and other evidence listed in Part II of Schedule 2 (Conditions precedent) in relation to that Additional Borrower, each in form and substance satisfactory to the Agent (acting reasonably).
- (b) The Agent shall notify the Company and the Lenders promptly upon being satisfied that it has received (in form and substance satisfactory to it) all the documents and other evidence listed in Part II of Schedule 2 (Conditions precedent).

25.3 RESIGNATION OF A BORROWER

If at any time a Borrower (other than the Company) is under no actual or contingent obligation under or pursuant to any Finance Document and such resignation would not affect the legality, validity or enforceability of any security contemplated by the Security Documents in respect of such Borrower or its assets, the Company may request that such Borrower shall cease to be a

Borrower by delivering to the Agent a Resignation Notice. Such

Resignation Notice shall be accepted by the Agent on the date on which it notifies the Company that:

- (a) it is satisfied that such Borrower is under no actual or contingent obligation under or pursuant to any Finance Document;
- (b) no Default is continuing or would result from the acceptance of the Resignation Notice (and the Company has confirmed this is the case); and
- (c) it has received the consent of the Majority Lenders to the resignation of such Borrower (such consent not to be unreasonably withheld),

and such Borrower shall immediately cease to be a Borrower and shall have no further rights, benefits or obligations hereunder.

25.4 ADDITIONAL GUARANTORS

- (a) Subject to compliance with the provisions of paragraphs (c) and (d) of Clause 20.6 ("Know your customer" checks), the Company may request that any of its wholly owned Subsidiaries become an Additional Guarantor. That Subsidiary shall become an Additional Guarantor if:
 - (i) for a Subsidiary that is not incorporated in the United Kingdom, the Majority Lenders approve the addition of that Subsidiary (such approval not to be unreasonably withheld);
 - (ii) the Company delivers to the Agent a duly completed and executed Accession Letter; and
 - (iii) the Agent has received all of the documents and other evidence listed in Part II of Schedule 2 (Conditions precedent) in relation to that Additional Guarantor, each in form and substance satisfactory to the Agent (acting reasonably).
- (b) The Agent shall notify the Company and the Lenders promptly upon being satisfied that it has received (in form and substance satisfactory to it) all the documents and other evidence listed in Part II of Schedule 2 (Conditions precedent).

25.5 RESIGNATION OF A GUARANTOR

- (a) The Company may request that a Guarantor (other than the Company) ceases to be a Guarantor or that the Parent ceases to be bound as a guarantor by delivering to the Agent a Resignation Notice.
- (b) The Agent shall accept a Resignation Notice and notify the Company and the Lenders of its acceptance if:
 - (i) no Default is continuing or would result from the acceptance of the Resignation Notice (and the Company has confirmed this is the case); and
 - (ii) the Majority Lenders have consented to the Company's request (such consent not to be unreasonably withheld).

25.6 REPETITION OF REPRESENTATIONS

Delivery of an Accession Letter constitutes confirmation by the relevant Subsidiary that the Repeating Representations and each of the representations set out in Clauses 19.5 (Validity and admissibility in evidence), 19.7 (Deduction of Tax) and 19.8 (No filing or stamp taxes) are true

and correct in relation to it as at the date of delivery as if made by reference to the facts and circumstances then existing.

SECTION 10
THE SECURED PARTIES

26. ROLE OF THE AGENT, THE SECURITY AGENT AND THE ARRANGER

26.1 APPOINTMENT OF THE AGENT AND THE SECURITY AGENT

- (a) Each other Finance Party appoints the Agent to act as its agent under and in connection with the Finance Documents.
- (b) Each other Secured Party appoints the Security Agent to act as security trustee under and in connection with the Finance Documents.
- (c) Each other:
 - (i) Finance Party authorises the Agent; and
 - (ii) Secured Party authorises the Security Agent,

to exercise the rights, powers, authorities and discretions specifically given to it under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

26.2 DUTIES OF THE AGENT AND THE SECURITY AGENT

- (a) The Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent for that Party by any other Party.
- (b) Except where a Finance Document specifically provides otherwise, the Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (c) If the Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the Secured Parties.
- (d) If the Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Agent or the Arranger) under this Agreement it shall promptly notify the other Secured Parties.
- (e) The Agent shall promptly send to the Security Agent such certification as the Security Agent may require pursuant to paragraph 7 (Basis of distribution) of Schedule 7 (Security Agency provisions).
- (f) The duties of the Agent and the Security Agent under the Finance

Documents are solely mechanical and administrative in nature.

26.3 ROLE OF THE ARRANGER

Except as specifically provided in the Finance Documents, the Arranger has no obligations of any kind to any other Party under or in connection with any Finance Document.

26.4 ROLE OF THE SECURITY AGENT

The Security Agent shall not be an agent of any Secured Party, the Parent or any Obligor under or in connection with any Finance Document.

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26.5 NO FIDUCIARY DUTIES

- (a) Nothing in this Agreement constitutes the Agent, the Security Agent (expressly as provided in any Finance Document) or the Arranger as a trustee or fiduciary of any other person.
- (b) Neither the Agent, the Security Agent (except as expressly provided in any Finance Document) nor the Arranger shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

26.6 BUSINESS WITH THE GROUP

The Agent, the Security Agent and the Arranger may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

26.7 RIGHTS AND DISCRETIONS OF THE AGENT AND THE SECURITY AGENT

- (a) The Agent and the Security Agent may rely on:
 - (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
 - (ii) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.
- (b) The Agent and the Security Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders or, as the case may be, as security trustee for the Secured Parties) that:
 - (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 23.1 (Non-payment));
 - (ii) any right, power, authority or discretion vested in any Party or the Majority Lenders has not been exercised; and
 - (iii) any notice or request made by the Company (other than a Utilisation Request or Selection Notice) is made on behalf of and with the consent and knowledge of the Parent and all the Obligors.
- (c) Each of the Agent and the Security Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts.
- (d) Each of the Agent and the Security Agent may act in relation to the Finance Documents through its personnel and agents.
- (e) The Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
- (f) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent, the Security Agent nor the Arranger is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a

26.8 MAJORITY LENDERS' INSTRUCTIONS

- (a) Unless a contrary indication appears in a Finance Document, the Agent and the Security Agent shall (i) exercise any right, power, authority or discretion vested in it as Agent or Security Agent (as the case may be) in accordance with any instructions given to it by the Majority Lenders (or, if so instructed by the Majority Lenders, refrain from exercising any right, power, authority or discretion vested in it as Agent or Security Agent, as the case may be) and (ii) not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Majority Lenders.
- (b) Unless a contrary indication appears in a Finance Document, any instructions given by the Majority Lenders will be binding on all the Secured Parties.
- (c) Each of the Agent and the Security Agent may refrain from acting in accordance with the instructions of the Majority Lenders (or, if appropriate, the Lenders) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.
- (d) In the absence of instructions from the Majority Lenders (or, if appropriate, the Lenders), each of the Agent and the Security Agent may act (or refrain from taking action) as it considers to be in the best interest of the Lenders.
- (e) Neither the Agent nor the Security Agent is authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

26.9 RESPONSIBILITY FOR DOCUMENTATION

Neither the Agent, the Security Agent nor the Arranger:

- (a) is responsible for the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Agent, the Security Agent, the Arranger, the Parent, an Obligor or any other person given in or in connection with any Finance Document or the Information Package; or
- (b) is responsible for the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with any Finance Document.

26.10 EXCLUSION OF LIABILITY

- (a) Without limiting paragraph (b) below, neither the Agent nor the Security Agent will be liable for any action taken by it under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- (b) No Party (other than the Agent or the Security Agent) may take any proceedings against any officer, employee or agent of the Agent or the Security Agent in respect of any claim it might have against the Agent or the Security Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Agent or the Security Agent may rely on this Clause.
- (c) Neither the Agent nor the Security Agent will be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents

to be paid by it if it has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by it for that purpose.

- (d) Nothing in this Agreement shall oblige the Agent or the Arranger to carry out any "know your customer" or other checks in relation to any person on behalf of any Lender and each Lender confirms to the Agent and the Arranger that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Agent or the Arranger.

26.11 LENDERS' INDEMNITY TO THE AGENT AND THE SECURITY AGENT

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Agent and the Security Agent, within three Business Days of demand, against any cost, loss or liability incurred by the Agent or the Security Agent (otherwise than by reason of its gross negligence or wilful misconduct) in acting as Agent or, as the case may be, Security Agent under the Finance Documents (unless it has been reimbursed by the Parent or an Obligor pursuant to a Finance Document).

26.12 RESIGNATION OF THE AGENT OR THE SECURITY AGENT

- (a) The Agent may resign and appoint one of its Affiliates acting through an office in the United Kingdom as successor by giving notice to the other Finance Parties and the Company.
- (b) The Security Agent may resign and appoint one of its Affiliates acting through an office in the United Kingdom as successor by giving notice to the other Secured Parties and the Company.
- (c) Alternatively:
 - (i) the Agent may resign by giving notice to the other Finance Parties and the Company, in which case the Majority Lenders (after consultation with the Company) may appoint a successor Agent; or
 - (ii) the Security Agent may resign by giving notice to the other Secured Parties and the Company, in which case the Majority Lenders (after consultation with the Company) may appoint a successor Security Agent.
- (d) If the Majority Lenders have not appointed a successor Agent or, as the case may be, Security Agent in accordance with paragraph (c) above within 30 days after notice of resignation was given, the Agent or, as the case may be, Security Agent (after consultation with the Company) may appoint a successor Agent or Security Agent (acting through an office in the United Kingdom).
- (e) The retiring Agent or Security Agent shall, at its own cost, make available to its successor such documents and records and provide such assistance as its successor may reasonably request for the purposes of performing its functions as Agent or Security Agent under the Finance Documents.
- (f) The resignation notice of the Agent or Security Agent shall only take effect upon the appointment of a successor.

- (g) Upon the appointment of a successor, the retiring Agent or Security Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 26. Its successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (h) After consultation with the Company, the Majority Lenders may, by notice to the Agent or, as the case may be, the Security Agent, require it to resign in accordance with paragraph (b) above. In this event, the Agent or, as the case may be, the Security Agent shall resign in accordance with paragraph (b) above.

26.13 CONFIDENTIALITY

- (a) The Agent (in acting as agent for the Finance Parties) and the Security Agent (in acting as security trustee for the Secured Parties) shall be regarded as acting through its respective agency or security trustee division which in each case shall be treated as a separate entity from any other of its divisions or departments.
- (b) If information is received by another division or department of the Agent or, as the case may be, the Security Agent, it may be treated as confidential to that division or department and the Agent or, as the case may be, the Security Agent shall not be deemed to have notice of it.

26.14 RELATIONSHIP WITH THE LENDERS

- (a) The Agent may treat each Lender as a Lender, entitled to payments under this Agreement and acting through its Facility Office unless it has received not less than five Business Days prior notice from that Lender to the contrary in accordance with the terms of this Agreement.
- (b) Each Lender shall supply the Agent with any information required by the Agent in order to calculate the Mandatory Cost in accordance with Schedule 4 (Mandatory Cost formulae).

26.15 CREDIT APPRAISAL BY THE LENDERS

Without affecting the responsibility of the Parent or any Obligor for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Agent, the Security Agent and the Arranger that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (a) the financial condition, status and nature of the Parent and each member of the Group;
- (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, Security, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- (c) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, Security, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (d) the adequacy, accuracy and/or completeness of the Information Package and any other information provided by the Agent, the Security Agent, any Party or by any other person

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under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, Security, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

26.16 REFERENCE BANKS

If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Agent shall (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

26.17 MANAGEMENT TIME OF THE AGENT AND THE SECURITY AGENT

Any amount payable to the Agent or the Security Agent under Clause 15.3 (Indemnity to the Agent and the Security Agent), Clause 17 (Costs and expenses) and Clause 26.11 (Lenders' indemnity to the Agent and the Security Agent) shall include the cost of utilising its management time

or other resources and will be calculated on the basis of such reasonable daily or hourly rates as it may notify to the Company and the Lenders, and is in addition to any fee paid or payable to it under Clause 12 (Fees).

26.18 SECURITY AGENCY PROVISIONS

The provisions of Schedule 7 (Security Agency provisions) shall bind each Party.

26.19 DEDUCTION FROM AMOUNTS PAYABLE BY THE AGENT OR THE SECURITY AGENT

If any Party owes an amount to the Agent or the Security Agent under the Finance Documents the Agent or the Security Agent (as the case may be) may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Agent or the Security Agent (as the case may be) would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

27. CONDUCT OF BUSINESS BY THE SECURED PARTIES

No provision of this Agreement will:

- (a) interfere with the right of any Secured Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (b) oblige any Secured Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (c) oblige any Secured Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

28. SHARING AMONG THE SECURED PARTIES

28.1 PAYMENTS TO SECURED PARTIES

If a Secured Party (a "RECOVERING SECURED PARTY") receives or recovers any amount from the Parent or an Obligor other than in accordance with Clause 29 (Payment mechanics) and applies that amount to a payment due under the Finance Documents then:

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- (a) the Recovering Secured Party shall, within three Business Days, notify details of the receipt or recovery to the Agent;
- (b) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Secured Party would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 29 (Payment mechanics), without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and
- (c) the Recovering Secured Party shall, within three Business Days of demand by the Agent, pay to the Agent an amount (the "Sharing Payment") equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Secured Party as its share of any payment to be made, in accordance with Clause 29.5 (Partial payments).

28.2 REDISTRIBUTION OF PAYMENTS

The Agent shall treat the Sharing Payment as if it had been paid by the Parent or the relevant Obligor and distribute it between the Secured Parties (other than the Recovering Finance Party) in accordance with

28.3 RECOVERING SECURED PARTY'S RIGHTS

- (a) On a distribution by the Agent under Clause 28.2 (Redistribution of payments), the Recovering Secured Party will be subrogated to the rights of the Finance Parties which have shared in the redistribution.
- (b) If and to the extent that the Recovering Secured Party is not able to rely on its rights under paragraph (a) above, the Parent or the relevant Obligor shall be liable to the Recovering Secured Party for a debt equal to the Sharing Payment which is immediately due and payable.

28.4 REVERSAL OF REDISTRIBUTION

If any part of the Sharing Payment received or recovered by a Recovering Secured Party becomes repayable and is repaid by that Recovering Secured Party, then:

- (a) each Secured Party which has received a share of the relevant Sharing Payment pursuant to Clause 28.2 (Redistribution of payments) shall, upon request of the Agent, pay to the Agent for account of that Recovering Secured Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Secured Party for its proportion of any interest on the Sharing Payment which that Recovering Secured Party is required to pay); and
- (b) that Recovering Secured Party's rights of subrogation in respect of any reimbursement shall be cancelled and the Parent or the relevant Obligor will be liable to the reimbursing Secured Party for the amount so reimbursed.

28.5 EXCEPTIONS

- (a) This Clause 28 shall not apply to the extent that the Recovering Secured Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the Parent or the relevant Obligor.

- (b) A Recovering Secured Party is not obliged to share with any other Secured Party any amount which the Recovering Secured Party has received or recovered as a result of taking legal or arbitration proceedings, if:
 - (i) it notified that other Secured Party of the legal or arbitration proceedings; and
 - (ii) that other Secured Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.
- (c) If an Ancillary Lender provides an overdraft facility this clause shall not apply to the extent that the Ancillary Lender nets credit and debit balances in relation to bank accounts provided by it.

SECTION 11
ADMINISTRATION

29. PAYMENT MECHANICS

29.1 PAYMENTS TO THE AGENT

- (a) On each date on which the Parent, an Obligor or a Lender is required to make a payment under a Finance Document, the Parent or that Obligor (subject to Clause 29.10 (Payments to the Security Agent) or Lender shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (b) Payment shall be made to such account in the principal financial centre of the country of that currency (or, in relation to euro, in the principal financial centre in a Participating Member State or London) with such bank as the Agent specifies.

29.2 DISTRIBUTIONS BY THE AGENT

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 29.3 (Distributions to the Parent or an Obligor) and Clause 29.4 (Clawback) and Clause 29.10 (Payments to the Security Agent), be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Lender, for the account of its Facility Office), to such account as that Party may notify to the Agent by not less than five Business Days' notice with a bank in the principal financial centre of the country of that currency (or, in relation to euro, in the principal financial centre of a Participating Member State or London).

29.3 DISTRIBUTIONS TO THE PARENT OR AN OBLIGOR

The Agent and the Security Agent may (with the consent of the Parent or the Obligor or in accordance with Clause 30 (Set-off)) apply any amount received by it for the Parent or that Obligor in or towards payment (on the date and in the currency and funds of receipt) of any amount due from the Parent or that Obligor under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

29.4 CLAWBACK

- (a) Where a sum is to be paid to the Agent or the Security Agent under the Finance Documents for another Party, the Agent or, as the case may be, the Security Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.
- (b) If the Agent or the Security Agent pays an amount to another Party and it proves to be the case that it had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid shall on demand refund the same to the Agent or, as the case may be, the Security Agent together with interest on that amount from the date of payment to the date of receipt by the Agent or, as the case may be, the Security Agent, calculated by it to reflect its cost of funds.

29.5 PARTIAL PAYMENTS

- (a) If the Agent receives a payment that is insufficient to discharge all the amounts then due and payable by the Parent or an Obligor under the Finance Documents, the Agent shall apply that payment towards the obligations of the Parent or that Obligor under the Finance Documents in the following order:
- (i) first, in or towards payment pro rata of any unpaid fees, costs and expenses of the Agent, the Security Agent or the Arranger under the Finance Documents;
 - (ii) secondly, in or towards payment pro rata of any accrued interest, fee or commission due but unpaid under this Agreement;
 - (iii) thirdly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and
 - (iv) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (b) The Agent shall, if so directed by the Majority Lenders, vary the order set out in paragraphs (a)(ii) to (iv) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by the Parent or an Obligor.

29.6 NO SET-OFF BY THE PARENT OR OBLIGORS

All payments to be made by the Parent or an Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

29.7 BUSINESS DAYS

- (a) Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

29.8 CURRENCY OF ACCOUNT

- (a) Subject to paragraphs (b) to (e) below, the Base Currency is the currency of account and payment for any sum due from the Parent or an Obligor under any Finance Document.
- (b) A repayment of a Loan or Unpaid Sum or a part of a Loan or Unpaid Sum shall be made in the currency in which that Loan or Unpaid Sum is denominated on its due date.
- (c) Each payment of interest shall be made in the currency in which the sum in respect of which the interest is payable was denominated when that interest accrued.
- (d) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (e) Any amount expressed to be payable in a currency other than the Base Currency shall be paid in that other currency.

29.9 CHANGE OF CURRENCY

- (a) Unless otherwise prohibited by law, if more than one currency or currency unit are at the same time recognised by the central bank of any country as the lawful currency of that country, then:
- (i) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Agent (after consultation with the Company); and
 - (ii) any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Agent (acting reasonably).
- (b) If a change in any currency of a country occurs, this Agreement will, to the extent the Agent (acting reasonably and after consultation with the Company) specifies to be necessary, be amended to comply with any generally accepted conventions and market practice in the Relevant Interbank Market and otherwise to reflect the change in currency.

29.10 PAYMENTS TO THE SECURITY AGENT

Notwithstanding any other provision of any Finance Document, at any time after any Security created by or pursuant to any Security Document becomes enforceable, the Security Agent may require:

- (a) the Parent or any Obligor to pay all sums due under any Finance Document; or
- (b) the Agent to pay all sums received or recovered from the Parent or an Obligor under any Finance Document,

in each case as the Security Agent may direct for application in accordance with the terms of the Security Documents.

30. SET-OFF

A Secured Party may set off any matured obligation due from the Parent or an Obligor under the Finance Documents (to the extent beneficially owned by that Secured Party) against any matured obligation owed by that Secured Party to the Parent or that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Secured Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

31. NOTICES

31.1 COMMUNICATIONS IN WRITING

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

31.2 ADDRESSES

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (a) in the case of the Company, the Original Borrower or the Parent, that identified with its name below;
- (b) in the case of each Lender or any other Original Obligor, that

notified in writing to the Agent on or prior to the date on which it becomes a Party; and

- (c) in the case of the Agent and the Security Agent, that identified with its name below,

or any substitute address, fax number or department or officer as the Party may notify to the Agent (or the Agent may notify to the other Parties, if a change is made by the Agent) by not less than five Business Days' notice.

31.3 DELIVERY

- (a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:

- (i) if by way of fax, when received in legible form; or
- (ii) if by way of letter, when it has been left at the relevant address or 10 Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address,

and, if a particular department or officer is specified as part of its address details provided under Clause 31.2 (Addresses), if addressed to that department or officer.

- (b) Any communication or document to be made or delivered to the Agent or the Security Agent will be effective only when actually received by the Agent and then only if it is expressly marked for the attention of the department or officer identified with its signature below (or any substitute department or officer as it shall specify for this purpose).
- (c) All notices from or to the Parent or an Obligor shall be sent through the Agent.
- (d) Any communication or document made or delivered to the Company in accordance with this Clause will be deemed to have been made or delivered to the Parent and each of the Obligors.

31.4 NOTIFICATION OF ADDRESS AND FAX NUMBER

Promptly upon receipt of notification of an address and fax number or change of address or fax number pursuant to Clause 31.2 (Addresses) or changing its own address or fax number, the Agent shall notify the other Parties.

31.5 ELECTRONIC COMMUNICATION

- (a) Any communication to be made between the Agent and a Lender under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if the Agent and the relevant Lender:
 - (i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;
 - (ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and
 - (iii) notify each other of any change to their address or any other such information supplied by them.

- (b) Any electronic communication made between the Agent and a Lender will be effective only when actually received in readable form and in the case of any electronic communication made by a Lender to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose.

31.6 ENGLISH LANGUAGE

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

32. CALCULATIONS AND CERTIFICATES

32.1 ACCOUNTS

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Secured Party are prima facie evidence of the matters to which they relate.

32.2 CERTIFICATES AND DETERMINATIONS

Any certification or determination by a Secured Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

32.3 DAY COUNT CONVENTION

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or, in any case where the practice in the Relevant Interbank Market differs, in accordance with that market practice.

33. PARTIAL INVALIDITY

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

34. REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of any Secured Party, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

35. AMENDMENTS AND WAIVERS

35.1 REQUIRED CONSENTS

- (a) Subject to Clause 35.2 (Exceptions) any term of the Finance Documents (other than the Ancillary Documents) may be amended or waived only with the consent of the Majority Lenders, the Parent and the Obligors and any such amendment or waiver will be binding on all Parties.
- (b) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause.

35.2 EXCEPTIONS

- (a) An amendment or waiver that has the effect of changing or which relates to:
- (i) the definition of "Majority Lenders" in Clause 1.1 (Definitions);
 - (ii) an extension to the date of payment of any amount under the Finance Documents;
 - (iii) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable;
 - (iv) an increase in or an extension of any Commitment;
 - (v) a change to Clause 25 (Changes to the Obligors);
 - (vi) any provision which expressly requires the consent of all the Lenders;
 - (vii) Clause 2.2 (Secured Parties' rights and obligations), Clause 24 (Changes to the Lenders), Clause 28 (Sharing among the Secured Parties) or this Clause 35; or
 - (viii) the release of any Security created pursuant to any Security Document or of any Charged Assets (except as provided in any Security Document),
- shall not be made without the prior consent of all the Lenders.

- (b) An amendment or waiver which relates to the rights or obligations of the Agent, the Security Agent or the Arranger may not be effected without the consent of the Agent, the Security Agent or, as the case may be the Arranger.

36. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

SECTION 12
GOVERNING LAW AND ENFORCEMENT

37. GOVERNING LAW

This Agreement is governed by English law.

38. ENFORCEMENT

38.1 JURISDICTION

- (a) The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) (a "DISPUTE").
- (b) The Parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.
- (c) This Clause 38.1 is for the benefit of the Secured Parties only. As a

result, no Secured Party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Secured Parties may take concurrent proceedings in any number of jurisdictions.

38.2 SERVICE OF PROCESS

- (a) Without prejudice to any other mode of service allowed under any relevant law, the Parent and each Obligor (other than an Obligor incorporated in England and Wales):
- (i) irrevocably appoints the Company as its agent for service of process in relation to any proceedings before the English courts in connection with any Finance Document; and
 - (ii) agrees that failure by a process agent to notify the Parent or the relevant Obligor of the process will not invalidate the proceedings concerned.
- (b) The Company accepts the appointment as agent for service of process as set out in this Clause 38.2.

THIS AGREEMENT HAS BEEN ENTERED INTO ON THE DATE STATED AT THE BEGINNING OF THIS AGREEMENT.

SCHEDULE 1

THE ORIGINAL PARTIES

PART I

THE ORIGINAL GUARANTORS

NAME OF ORIGINAL GUARANTOR	REGISTRATION NUMBER (OR EQUIVALENT, IF ANY)
ALLIED HEALTHCARE HOLDINGS LIMITED	03370146
ALLIED HEALTHCARE (UK) LIMITED	1689856
ALLIED OXYCARE LIMITED	2230411
BALFOR MEDICAL LIMITED	3408741
CRYSTALGLEN LIMITED (T/A NURSES DIRECT)	2753961
MEDIGAS LIMITED	1143289
NIGHTINGALE NURSING BUREAU LIMITED	2158123
OMNICARE LIMITED	3073148
STAFFING ENTERPRISE LIMITED	2149723

PART II

THE ORIGINAL LENDERS - OTHER THAN UK NON-BANK LENDERS

NAME OF ORIGINAL LENDER	FACILITY A COMMITMENT	FACILITY B COMMITMENT
	(POUND)	(POUND)
BARCLAYS BANK PLC	15,000,000	10,000,000
LLOYDS TSB BANK plc	15,000,000	10,000,000
	-----	-----
TOTAL	30,000,000	20,000,000

PART III

THE ORIGINAL LENDERS - UK NON-BANK LENDERS

NAME OF ORIGINAL LENDER	FACILITY A COMMITMENT	FACILITY B COMMITMENT
	(POUND)	(POUND)

SCHEDULE 2

CONDITIONS PRECEDENT

PART I

CONDITIONS PRECEDENT TO INITIAL UTILISATION

1. PARENT AND ORIGINAL OBLIGORS
 - (a) A copy of the constitutional documents of the Parent and each Original

Obligor.

- (b) A copy of a resolution of the board of directors of the Parent and each Original Obligor:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is a party and resolving that it execute the Finance Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents to which it is a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, any Utilisation Request and Selection Notice) to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party.
- (c) A specimen of the signature of each person authorised by the resolution referred to in paragraph (b) above.
- (d) A copy of a resolution signed by all the holders of the issued shares in each Original Guarantor (other than the Company), approving the terms of, and the transactions contemplated by, the Finance Documents to which the Original Guarantor is a party.
- (e) A certificate of the Company (signed by a director) confirming that borrowing or guaranteeing, as appropriate, the Total Commitments would not cause any borrowing, guaranteeing or similar limit binding on the Parent or any Original Obligor to be exceeded.
- (f) A certificate of an authorised signatory of the Parent and the relevant Original Obligor certifying that each copy document relating to it specified in this Part 1 of Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

2. SECURITY

Confirmation from the Security Agent that it has received a copy of each Security Document, duly executed by the Parties to it.

3. LEGAL OPINIONS

- (a) A legal opinion of Linklaters, legal advisers to the Arranger and the Agent in England, substantially in the form distributed to the Original Lenders prior to signing this Agreement.

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- (b) A legal opinion of Gibbons, Del Deo, Dolan, Griffinger & Vecchione, P.C., legal advisers to the Arranger and the Agent in New York, substantially in the form distributed to the Original Lenders prior to signing this Agreement.

4. OTHER DOCUMENTS AND EVIDENCE

- (a) A copy of any other Authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable (if it has notified the Company accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document.
- (b) The Original Financial Statements of the Parent and the Company.
- (c) A copy of the latest audited accounts of the Group.
- (d) Evidence that the fees, costs and expenses then due from the Original Borrower pursuant to Clause 12 (Fees) and Clause 17 (Costs and expenses) have been paid or will be paid by the first Utilisation Date.
- (e) Evidence that the Existing Facilities have been (or will by the first Utilisation Date be) irrevocably cancelled and repaid in full and that all security granted in connection with the Existing Facilities has been or will be discharged and released by the first Utilisation Date.
- (f) A certificate from the Company attaching evidence of receipt by the Borrower, in the form of a bank statement dated not more than three Business Days before the date of this Agreement, of the entire proceeds of a loan from the Parent of not less than US\$55,500,000, that loan to be subordinated in full to the Facilities in accordance with the Subordination Deed.

- (g) A Funds Flow Statement in a form agreed to by the Agent detailing the proposed movement of funds on the date of this Agreement.
- (h) If the Original Obligor is incorporated in England and Wales, evidence of compliance with the procedures set out in Sections 155-158 of the Companies Act 1985 for permitting the financial assistance constituted by this Agreement and/or under the other Finance Documents, including:
 - (i) certified copies of the relevant directors' statutory declarations and auditors' reports;
 - (ii) certified copies of the up-to-date register of directors;
 - (iii) a letter from the auditors addressed to the Finance Parties for the purpose of Section 155(2) of the Companies Act 1985; and
 - (iv) confirmation that the relevant directors' statutory declarations have been/will be filed at Companies House.
- (i) Confirmation from the Agent that it has received a copy of the Subordination Deed, duly executed by the Parties to it.

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PART II

CONDITIONS PRECEDENT REQUIRED TO BE

DELIVERED BY AN ADDITIONAL OBLIGOR

1. An Accession Letter, duly executed by the Additional Obligor and the Company.
2. A copy of the constitutional documents of the Additional Obligor.
3. A copy of a resolution of the board of directors of the Additional Obligor:
 - (a) approving the terms of, and the transactions contemplated by, the Accession Letter and the Finance Documents and resolving that it execute the Accession Letter;
 - (b) authorising a specified person or persons to execute the Accession Letter on its behalf; and
 - (c) authorising a specified person or persons, on its behalf, to sign and/or despatch all other documents and notices (including, in relation to an Additional Borrower, any Utilisation Request or Selection Notice) to be signed and/or despatched by it under or in connection with the Finance Documents.
4. A specimen of the signature of each person authorised by the resolution referred to in paragraph 3 above.
5. If the Additional Guarantor is incorporated in England and Wales, or if so required by the Agent, a copy of a resolution signed by all the holders of the issued shares of the Additional Guarantor, approving the terms of, and the transactions contemplated by, the Finance Documents to which the Additional Guarantor is a party.
6. A certificate of the Additional Obligor (signed by a director) confirming that the borrowing guaranteeing, as appropriate, the Total Commitments would not cause any guaranteeing or similar limit binding on it to be exceeded.
7. A certificate of an authorised signatory of the Additional Obligor certifying that each copy document listed in this Part II of Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of the Accession Letter.
8. A copy of any other Authorisation or other document, opinion or assurance which the Agent considers to be necessary or desirable in connection with the entry into and performance of the transactions contemplated by the Accession Letter or for the validity and enforceability of any Finance Document.
9. If available, the latest audited financial statements of the Additional Obligor.
10. A legal opinion of Linklaters, legal advisers to the Arranger and the Agent in England.

11. If the Additional Obligor is incorporated in a jurisdiction other than England and Wales, a legal opinion of the legal advisers to the Arranger and the Agent in the jurisdiction in which the Additional Obligor is incorporated.

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12. If the Additional Obligor is incorporated in England and Wales, evidence of compliance with the procedures set out in Sections 155-158 of the Companies Act 1985 for permitting the financial assistance constituted by this Agreement and/or under the other Finance Documents, including:
- (a) certified copies of the relevant directors' statutory declarations and auditors' reports;
 - (b) certified copies of the up-to-date register of directors;
 - (c) a letter from the auditors addressed to the Finance Parties for the purpose of Section 155(2) of the Companies Act 1985;
 - (d) confirmation that the relevant directors' statutory declarations have been filed at Companies House; and
 - (e) if the Additional Obligor is a public limited company, a certificate of re-registration as a private limited company from the Registrar at Companies House.]
13. If the Additional Obligor is incorporated in a jurisdiction other than England and Wales, evidence of compliance with any similar or equivalent procedure for permitting financial assistance.
14. If the proposed Additional Obligor is incorporated in a jurisdiction other than England and Wales, evidence that the process agent specified in Clause 38.2 (Service of process), if not an Obligor, has accepted its appointment in relation to the proposed Additional Obligor.
15. A supplemental Debenture, duly executed by the Additional Obligor together with such other documents relating to the security granted pursuant to that supplemental Debenture as the Security Agent may require.

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SCHEDULE 3

REQUESTS

UTILISATION REQUEST

From: Allied Healthcare Holdings Limited

To: Barclays Bank PLC

Dated:

Dear Sirs

ALLIED HEALTHCARE GROUP LIMITED - (POUND)50,000,000 FACILITY AGREEMENT
DATED [] (THE "AGREEMENT")

1. We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.

2. We wish to borrow a Loan on the following terms:

Proposed Utilisation Date: [] or, if that is not a Business Day, the next Business Day)

Facility to be utilised: [Facility A]/[Facility B]*

Currency of Loan: []

Amount: [] or, if less, the Available Facility

Interest Period: []

3. We confirm that each condition specified in Clause 4.2 (Further conditions precedent) is satisfied on the date of this Utilisation Request.
4. The proceeds of this Loan should be credited to [account].
5. This Utilisation Request is irrevocable.

Yours faithfully

.....
 authorised signatory for
 Allied Healthcare Holdings Limited

 * Delete as appropriate

PART II
 SELECTION NOTICE

APPLICABLE TO A FACILITY A LOAN

From: Allied Healthcare Holdings Limited
 To: Barclays Bank PLC
 Dated:

Dear Sirs

ALLIED HEALTHCARE GROUP LIMITED - (POUND)50,000,000 FACILITY AGREEMENT
 DATED [_____] THE "AGREEMENT")

1. We refer to the Agreement. This is a Selection Notice. Terms defined in the Agreement have the same meaning in this Selection Notice unless given a different meaning in this Selection Notice.
2. We refer to the following Facility A Loan in identify currency with an Interest Period ending on [_____]**.*
3. We request that the above Facility A Loan be divided into [_____] Facility A Loans with the following Base Currency Amounts and Interest Periods:**

or

We request that the next Interest Period for the above Facility A Loan[s] is [_____]***

4. We request that the above Facility A Loan[s] [is][are] [denominated in the same currency for the next Interest Period]/[denominated in the following currencies: []]. As this results in a change of currency we confirm that each condition specified in Clause 4.2 (Further conditions precedent) is satisfied on the date of this Selection Notice. The proceeds of any change in currency should be credited to [account].
5. This Selection Notice is irrevocable.

Yours faithfully

.....
 authorised signatory for
 Allied Healthcare Holdings Limited

 * Insert details of all Facility A Loans in the same currency which have an Interest Period ending on the same date.

** Use this option if division of Loans is requested.

SCHEDULE 4

MANDATORY COST FORMULAE

1. The Mandatory Cost is an addition to the interest rate to compensate Lenders for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
2. On the first day of each Interest Period (or as soon as possible thereafter) the Agent shall calculate, as a percentage rate, a rate (the "ADDITIONAL COST RATE") for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Agent as a weighted average of the Lenders' Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the relevant Loan) and will be expressed as a percentage rate per annum.
3. The Additional Cost Rate for any Lender lending from a Facility Office in a Participating Member State will be the percentage notified by that Lender to the Agent. This percentage will be certified by that Lender in its notice to the Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender's participation in all Loans made from that Facility Office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that Facility Office.
4. The Additional Cost Rate for any Lender lending from a Facility Office in the United Kingdom will be calculated by the Agent as follows:

(a) in relation to a sterling Loan:

$$\frac{AB+C(B-D)+Ex0.01}{100-(A+C)} \text{ per cent. per annum}$$

(b) in relation to a Loan in any currency other than sterling:

$$\frac{Ex0.01}{300} \text{ per cent. per annum.}$$

Where:

- A is the percentage of Eligible Liabilities (assuming these to be in excess of any stated minimum) which that Lender is from time to time required to maintain as an interest free cash ratio deposit with the Bank of England to comply with cash ratio requirements.
- B is the percentage rate of interest (excluding the Margin and the Mandatory Cost and, if the Loan is an Unpaid Sum, the additional rate of interest specified in paragraph (a) of Clause 9.3 (Default interest)) payable for the relevant Interest Period on the Loan.
- C is the percentage (if any) of Eligible Liabilities which that Lender is required from time to time to maintain as interest bearing Special Deposits with the Bank of England.
- D is the percentage rate per annum payable by the Bank of England to the Agent on interest bearing Special Deposits.

- E is designed to compensate Lenders for amounts payable under the Fees Rules and is calculated by the Agent as being the average of the most recent rates of charge supplied by the Reference Banks to the Agent pursuant to paragraph 7 below and expressed in pounds per (pound)1,000,000.
5. For the purposes of this Schedule:
 - (a) "ELIGIBLE LIABILITIES" and "SPECIAL DEPOSITS" have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;

- (b) "FEES RULES" means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
- (c) "FEE TARIFFS" means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate); and
- (d) "TARIFF BASE" has the meaning given to it in, and will be calculated in accordance with, the Fees Rules.
6. In application of the above formulae, A, B, C and D will be included in the formulae as percentages (i.e. 5 per cent will be included in the formula as 5 and not as 0.05). A negative result obtained by subtracting D from B shall be taken as zero. The resulting figures shall be rounded to four decimal places.
7. If requested by the Agent, each Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Agent, the rate of charge payable by that Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of the Financial Services Authority (calculated for this purpose by that Reference Bank as being the average of the Fee Tariffs applicable to that Reference Bank for that financial year) and expressed in pounds per (pound)1,000,000 of the Tariff Base of that Reference Bank.
8. Each Lender shall supply any information required by the Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Lender shall supply the following information on or prior to the date on which it becomes a Lender:
- (a) the jurisdiction of its Facility Office; and
 - (b) any other information that the Agent may reasonably require for such purpose.

Each Lender shall promptly notify the Agent of any change to the information provided by it pursuant to this paragraph.

9. The percentages of each Lender for the purpose of A and C above and the rates of charge of each Reference Bank for the purpose of E above shall be determined by the Agent based upon the information supplied to it pursuant to paragraphs 7 and 8 above and on the assumption that, unless a Lender notifies the Agent to the contrary, each Lender's obligations in relation to cash

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ratio deposits and Special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a Facility Office in the same jurisdiction as its Facility Office.

10. The Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender or Reference Bank pursuant to paragraphs 3, 7 and 8 above is true and correct in all respects.
11. The Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Additional Cost Rate for each Lender based on the information provided by each Lender and each Reference Bank pursuant to paragraphs 3, 7 and 8 above.
12. Any determination by the Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Lender shall, in the absence of manifest error, be conclusive and binding on all Parties.
13. The Agent may from time to time, after consultation with the Company and the Lenders, determine and notify to all Parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all Parties.

SCHEDULE 5

FORM OF TRANSFER CERTIFICATE

To: Barclays Bank PLC as Agent

From: [] (the "Existing Lender") and []
(the "New Lender")

Dated:

ALLIED HEALTHCARE GROUP LIMITED - (POUND)50,000,000 FACILITY AGREEMENT
DATED [] (THE "AGREEMENT")

1. We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.
2. We refer to Clause 24.5 (Procedure for transfer):
 - (a) The Existing Lender and the New Lender agree to the Existing Lender transferring to the New Lender by novation all or part of the Existing Lender's Commitment, rights and obligations referred to in the Schedule in accordance with Clause 24.5 (Procedure for transfer).
 - (b) The proposed Transfer Date is [].
 - (c) The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 31.2 (Addresses) are set out in the Schedule.
3. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations set out in paragraph (c) of Clause 24.4 (Limitation of responsibility of Existing Lenders).
4. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes;]
 - (b) [a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (for the purposes of section 11(2) of the Taxes Act) the whole of any share of interest payable in respect of that advance that falls to it by reason of sections 114 and 115 of the Taxes Act; or]
 - (iii) [a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (for the purposes of section 11(2) of the Taxes Act) of that company.]*
5. This Transfer Certificate may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Transfer Certificate.

6. This Transfer Certificate is governed by English law.

* Include if the New Lender comes within paragraph (ii) of the definition of Qualifying Lender in Clause 13.1 (Definitions).

THE SCHEDULE

COMMITMENT/RIGHTS AND OBLIGATIONS TO BE TRANSFERRED

[insert relevant details]

[Facility Office address, fax number and attention details for notices and account details for payments.]

[Existing Lender]

[New Lender]

By:

By:

This Transfer Certificate is accepted by the Agent and the Transfer Date is confirmed as [_____].

Barclays Bank PLC

By:

SCHEDULE 6

FORM OF ACCESSION LETTER

To: Barclays Bank PLC as Agent

From: [Subsidiary] and Allied Healthcare Group Limited

Dated:

Dear Sirs

ALLIED HEALTHCARE GROUP LIMITED - (POUND)50,000,000 FACILITY AGREEMENT
DATED [_____] (THE "AGREEMENT")

1. We refer to the Agreement. This is an Accession Letter. Terms defined in the Agreement have the same meaning in this Accession Letter unless given a different meaning in this Accession Letter.
2. [Subsidiary] agrees to become an Additional [Borrower]/[Guarantor] and to be bound by the terms of the Agreement as an Additional [Borrower]/[Guarantor] pursuant to [Clause 25.2 (Additional Borrowers)]/[Clause 25.4 (Guarantors)] of the Agreement. [Subsidiary] is a company duly incorporated under the laws of [name of relevant jurisdiction].
3. [Subsidiary's] administrative details are as follows:
Address:

Fax No:

Attention:
4. This Accession Letter is governed by English law.
5. [This Guarantor Accession Letter is entered into by deed.]

SCHEDULE 7

SECURITY AGENCY PROVISIONS

1. DEFINITIONS

In this Schedule:

"SECURITY PROPERTY" means all right, title and interest in, to and under any Security Document, including:

- (a) the Charged Assets;
- (b) the benefit of the undertakings in any Security Document; and
- (c) all sums received or recovered by the Security Agent pursuant to any Security Document and any assets representing the same.

2. DECLARATION OF TRUST

The Security Agent and each other Secured Party agree that the Security Agent shall hold the Security Property in trust for the benefit of the Secured Parties on the terms of the Finance Documents.

3. DEFECTS IN SECURITY

The Security Agent shall not be liable for any failure or omission to perfect, or defect in perfecting, the Security created pursuant to any Security Document, including:

- (a) failure to obtain any Authorisation for the execution, validity, enforceability or admissibility in evidence of any Security Document; or
- (b) failure to effect or procure registration of or otherwise protect or perfect any of the Security created by the Security Documents under any laws in any territory.

4. NO ENQUIRY

The Security Agent may accept without enquiry, requisition, objection or investigation such title as the Parent or any Obligor may have to any Charged Assets.

5. RETENTION OF DOCUMENTS

The Security Agent may hold title deeds and other documents relating to any of the Charged Assets in such manner as it sees fit (including allowing the Parent or any Obligor to retain them).

6. INDEMNITY OUT OF SECURITY PROPERTY

The Security Agent and every receiver, delegate, attorney, agent or other similar person appointed under any Security Document may indemnify itself out of the Security Property against any cost, loss or liability incurred by it in that capacity (otherwise than by reason of its own gross negligence or wilful misconduct).

7. BASIS OF DISTRIBUTION

To enable it to make any distribution, the Security Agent may fix a date as at which the amount of the Liabilities is to be calculated and may require, and rely on, a certificate from any Secured Party giving details of:

- (a) any sums due or owing to any Secured Party as at that date; and
- (b) such other matters as it thinks fit.

8. RIGHTS OF SECURITY AGENT

The Security Agent shall have all the rights, privileges and immunities which gratuitous trustees have or may have in England, even though it is entitled to remuneration.

9. NO DUTY TO COLLECT PAYMENTS

The Security Agent shall not have any duty:

- (a) to ensure that any payment or other financial benefit in respect of any of the Charged Assets is duly and punctually paid, received or collected; or
- (b) to ensure the taking up of any (or any offer of any) stocks, shares, rights, moneys or other property accruing or offered at any time by way of interest, dividend, redemption, bonus, rights, preference, option, warrant or otherwise in respect of any of the Charged Assets.

10. PERPETUITY PERIOD

The perpetuity period for the trusts created by the Finance Documents shall be 80 years from the date of this Agreement.

11. APPROPRIATION

- (a) Each Party irrevocably waives any right to appropriate any payment to, or other sum received, recovered or held by, the Security Agent in or towards payment of any particular part of the Liabilities and agrees that the Security Agent shall have the exclusive right to do so.
- (b) Paragraph (a) above will override any application made or purported to be made by any other person.

12. INVESTMENTS

All money received or held by the Security Agent under the Finance Documents may, in the name of, or under the control of, the Security Agent:

- (a) be invested in any investment it may select; or
- (b) be deposited at such bank or institution (including itself, any other Secured Party or any Affiliate of any Secured Party) as it thinks fit.

13. SUSPENSE ACCOUNT

Subject to paragraph 14 below the Security Agent may:

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- (a) hold in an interest bearing suspense account any money received by it from the Parent or any Obligor; and
- (b) invest an amount equal to the balance from time to time standing to the credit of that suspense account in any of the investments authorised by paragraph 12 above.

14. TIMING OF DISTRIBUTIONS

Distributions by the Security Agent shall be made as and when determined by it.

15. DELEGATION

- (a) The Security Agent may:
 - (a) employ and pay an agent selected by it to transact or conduct any business and to do all acts required to be done by it (including the receipt and payment of money);
 - (b) delegate to any person on any terms (including power to sub-delegate) all or any of its functions; and
 - (c) with the prior consent of the Majority Lenders, appoint, on such terms as it may determine, or remove, any person to act either as separate or joint security agent with those rights and obligations vested in the Security Agent by this Agreement or any Security Document.

- (b) The Security Agent will not be:
- (i) responsible to anyone for any misconduct or omission by any agent, delegate or security agent appointed by it pursuant to paragraph (a) above; or
 - (ii) bound to supervise the proceedings or acts of any such agent, delegate or security agent,
- provided that it exercises reasonable care in selecting that agent, delegate or security agent.

16. UNWINDING

Any appropriation or distribution which later transpires to have been or is agreed by the Security Agent to have been invalid or which has to be refunded shall be refunded and shall be deemed never to have been made.

17. LENDERS

The Security Agent shall be entitled to assume that each Lender is a Lender unless notified by the Agent to the contrary.

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SCHEDULE 8

FORM OF COMPLIANCE CERTIFICATE

To: Barclays Bank PLC as Agent

From: Allied Healthcare Group Limited

Dated:

Dear Sirs

ALLIED HEALTHCARE GROUP LIMITED - (POUND) 50,000,000 FACILITY AGREEMENT
dated [] (the "Agreement")

We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.

1. [We confirm that no Default is continuing.]*
2. We confirm that:
 - (a) as at [] Net Worth was []
 - (b) the ratio of Net Borrowings to EBITDA for [that Relevant Period][the Relevant Period ended on []] was [] to 1
 - (c) the ratio of EBIT to Interest Expense for [that Relevant Period][the Relevant Period ended on []] was [] to 1
3. We confirm that the Material Subsidiaries for the Relevant Period ending on [] were []
4. Attached to this Compliance Certificate are the computations to justify compliance with Clause 21 (Financial covenants) and the named Material Subsidiaries.

Signed:.....

Finance Director of
Allied Healthcare Group Limited

Signed:.....

Director of
Allied Healthcare Group Limited

*insert applicable certification language

We have reviewed the Facility Agreement and audited consolidated financial statements of Allied Healthcare Group Limited for the year ended [].

* If this statement cannot be made, the certificate should identify any Default that is continuing and the steps, if any, being taken to remedy it.

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On the basis of that review and audit, nothing has come to our attention which would require any modification to the confirmations in paragraph 3 of the above Compliance Certificate [or which we know to be a continuing Default].

.....

for and on behalf of

name of auditors of Allied Healthcare Group Limited

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SCHEDULE 9

EXISTING SECURITY

NAME OF MEMBER OF GROUP	SECURITY	TOTAL PRINCIPAL AMOUNT OF INDEBTEDNESS SECURED
Allied Healthcare (UK) Limited	Charge created on 4 December 2002 pursuant to a rent deposit deed over all the interest held in a deposit held by Bridgestart Properties Ltd	(pound)2,500
Allied Healthcare (UK) Limited	Charge created on 17 June 2003 pursuant to a rent deposit deed over all the interest held in a deposit held by Bridgestart Properties Ltd	(pound)5,229
Allied Healthcare (UK) Limited	Charge created on 17 June 2003 pursuant to a rent deposit deed over all the interest held in a deposit held by Bridgestart Properties Ltd	(pound)12,587
Balfor Medical Limited	Charge created on 15 December 1999 pursuant to a rent deposit deed over all the interest held in a deposit held by Sir Euan Hamilton Anstruther-Gough Calthorpe	All monies due or to become due under the rent deposit deed

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SCHEDULE 10

TIMETABLES

"D - " refers to the number of Business Days before the relevant Utilisation Date/the first day of the relevant Interest Period.

	LOANS IN EURO	LOANS IN STERLING	LOANS IN OTHER CURRENCIES
Request for approval as an Optional Currency, if required (Clause 4.3 (Conditions relating to Optional Currencies))	Not Applicable	Not Applicable	D - 5 10:00 a.m.
Agent notifies the Lenders of the request (Clause 4.3 (Conditions relating to Optional Currencies))	Not Applicable	Not Applicable	D - 5 3:00 p.m.
Responses by Lenders to the request (Clause 4.3 (Conditions relating to Optional Currencies))	Not Applicable	Not Applicable	D - 4 1:00 p.m.
Agent notifies the Company if a currency	Not Applicable	Not Applicable	D - 4

is approved as an Optional Currency in accordance with Clause 4.3 (Conditions relating to Optional Currencies)

5:00 p.m.

Delivery of a duly completed Utilisation Request (Clause 5.1 (Delivery of a Utilisation Request)) or a Selection Notice (Clause 10.1 (Selection of Interest Periods))

D - 3
9.30 a.m.

D
9.30 a.m.

D - 3
9.30 a.m.

Agent determines (in relation to a Utilisation) the Base Currency Amount of the Loan, if required under Clause 5.4 (Lenders' participation) and notifies the Lenders of the Loan in accordance with Clause 5.4 (Lenders' participation)

D - 3
11:00 a.m.

D
9:30a.m.

D - 3
11:00 a.m.

Agent determines amount of the Facility A Loan in Optional Currency in accordance with Clause 6.3 (Change of currency)

D - 3
11:00 a.m.

D
11:00 a.m.

D - 3
11:00 a.m.

Agent determines amount of the Facility A Loan in Optional Currency in

D - 3
11:00 a.m.

D
11:00 a.m.

D - 3
11:00 a.m.

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accordance with Clause 6.4(a) (Same Optional Currency during successive Interest Periods)

LIBOR or EURIBOR is fixed

Quotation Day as of 11:00 a.m. (Brussels time)

Quotation Day as of 11:00 a.m.

Quotation Day as of 11:00 a.m.

Agent receives a notification from a Lender under Clause 6.2 (Unavailability of a currency)

Quotation Day 3:00 p.m.

Quotation Day 3:00 p.m.

Quotation Day 3:00 p.m.

Agent gives notice in accordance with Clause 6.2 (Unavailability of a currency)

Quotation Day 5:00 p.m.

Quotation Day 5:00 p.m.

Quotation Day 5:00 p.m.

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SCHEDULE 11

MATERIAL SUBSIDIARIES

NAME OF MATERIAL SUBSIDIARY	REGISTRATION NUMBER (OR EQUIVALENT, IF ANY)
ALLIED HEALTHCARE HOLDINGS LIMITED	03370146
ALLIED HEALTHCARE (UK) LIMITED	1689856
ALLIED OXYCARE LIMITED	2230411
BALFOR MEDICAL LIMITED	3408741
CRYSTALGLEN LIMITED (T/A NURSES DIRECT)	2753961
MEDIGAS LIMITED	1143289
NIGHTINGALE NURSING BUREAU LIMITED	2158123
OMNICARE LIMITED	3073148
STAFFING ENTERPRISE LIMITED	2149723

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PERMITTED LOANS AND PERMITTED GUARANTEES

NONE

SCHEDULE 13

FORM OF RESIGNATION NOTICE

To: Barclays Bank PLC as Agent
From: [resigning Obligor/the Parent] and Allied Healthcare Group Limited
Dated:

Dear Sirs

ALLIED HEALTHCARE GROUP LIMITED - (POUND)50,000,000 FACILITY AGREEMENT
DATED [] (THE "AGREEMENT")

- 1. We refer to the Agreement. This is a Resignation Letter. Terms defined in the Agreement have the same meaning in this Resignation Letter unless given a different meaning in this Resignation Letter.
2. Pursuant to [Clause 25.3 (Resignation of a Borrower)]/[Clause 25.5 (Resignation of a Guarantor)], we request that [resigning Obligor/the Parent] be released from its obligations as a [Borrower]/[Guarantor]/[guarantor] under the Agreement.
3. We confirm that no Default is continuing or would result from the acceptance of this request/
4. This Resignation Letter is governed by English law.

[Company] [Subsidiary/the Parent]
By: By:

THE COMPANY

Allied Healthcare Group Limited

Address: Stone Business Park
Brooms Road
Stone
Staffordshire ST15 0TL

Fax: + 44 17 8581 9031

Attention: Charles Murphy

By: /s/ SARAH EAMES

THE PARENT

Allied Healthcare International, Inc.

Address: Stone Business Park
Brooms Road
Stone
Staffordshire ST15 0TL

Fax: + 44 17 8581 9031

Attention: Charles Murphy

By: /s/ CHARLES MURPHY

THE ORIGINAL BORROWER

Allied Healthcare Holdings Limited

Address: Stone Business Park
Brooms Road
Stone
Staffordshire ST15 0TL

Fax: + 44 17 8581 9031

Attention: Charles Murphy

By: /s/ SARAH EAMES

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THE ORIGINAL GUARANTORS

Allied Healthcare Group Limited

By: /s/ SARAH EAMES

Allied Healthcare Holdings Limited

By: /s/ SARAH EAMES

Allied Healthcare (UK) Limited

By: /s/ CHARLES MURPHY

Allied Oxycare Limited

By: /s/ CHARLES MURPHY

Balfour Medical Limited

By: /s/ CHARLES MURPHY

Crystalglen Limited

By: /s/ CHARLES MURPHY

Medigas Limited

By: /s/ CHARLES MURPHY

Nightingale Nursing Bureau Limited

By: /s/ CHARLES MURPHY

Omnicare Limited

By: /s/ CHARLES MURPHY

Staffing Enterprise Limited

By: /s/ CHARLES MURPHY

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THE ARRANGER

Barclays Capital

By: /s/ MICHAEL JOYNER

Lloyds TSB Bank plc

By: /s/ DAVID CLEARY

THE ORIGINAL LENDERS

Barclays Bank PLC

By: /s/ MICHAEL JOYNER

Lloyds TSB Bank plc

By: /s/ DAVID CLEARY

ANCILLARY LENDERS

Barclays Bank PLC

By: /s/ MICHAEL JOYNER

Lloyds TSB Bank plc

By: /s/ DAVID CLEARY

THE AGENT

Barclays Bank PLC

Address: 5 The North Colonnade
Canary Wharf
London E14 4BB

Fax: +44 20 7773 4893

Attention: Global Loans Agency: Frank Rogers

By: /s/ MICHAEL JOYNER

THE SECURITY AGENT

Barclays Bank PLC

Address: 5 The North Colonnade
Canary Wharf
London E14 4BB

Fax: +44 20 7773 4893

Attention: Global Loans Agency: Frank Rogers

By: /s/ MICHAEL JOYNER

FLOATING SECURITY DOCUMENT

dated 19 July 2004

created by

ALLIED HEALTHCARE GROUP LIMITED
(Registered No. 3890177)
ALLIED HEALTHCARE HOLDINGS LIMITED
(Registered No. 3370146)
and each of the Companies listed in Schedule 1

as the Chargors

in favour of

BARCLAYS BANK PLC
acting as Security Agent

[LINKLATERS LOGO]

Ref: JMS/LSW/JULC

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THE SCHEDULES

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THIS DEED is dated 19 July 2004 and made between:

- (1) THE COMPANIES listed in Schedule 1 as the chargors (the "CHARGORS"); and
- (2) BARCLAYS BANK PLC (the "SECURITY AGENT", as security agent for the benefit of the Secured Parties).

Background

- (A) Each Chargor is entering into this Deed in connection with the Finance Documents.
- (B) The Board of Directors of each Chargor is satisfied that entering into this Deed is for the purposes and to the benefit of that Chargor and its business.
- (C) The Security Agent and each Chargor intend this document to take effect as a deed (even though the Security Agent only executes it under hand).
- (D) The Security Agent holds the benefit of this Deed on trust for the Secured Parties on the terms of the Finance Documents.

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS In this Deed, unless a contrary indication appears, terms used in the Facility Agreement have the same meaning and construction and:

"ADMINISTRATOR" means an administrator appointed under Schedule B1 to the Insolvency Act 1986.

"BANK ACCOUNTS" of a Chargor means all current, deposit or other accounts with any bank or financial institution in which it now or in the future has an interest and (to the extent of its interest) all balances now or in the future standing to the credit of or accrued or accruing on those accounts.

"BOOK DEBTS" of a Chargor means all book and other debts of any nature, and all other rights to receive money (excluding Bank Accounts), now or in the future due, owing or payable to it and the benefit of all related negotiable instruments, rights, Security, guarantees and indemnities of any kind.

"CHARGED ASSETS" means the assets from time to time subject, or expressed to be subject, to the Charges or any part of those assets.

"CHARGES" means all or any of the Security created or expressed to be created by or pursuant to this Deed.

"CURRENCY OF ACCOUNT" means the currency in which the relevant indebtedness is denominated or, if different, is payable.

"DELEGATE" means a delegate or sub-delegate appointed under Clause 9.2 (Delegation).

"ENFORCEMENT EVENT" means an Event of Default.

"FACILITY AGREEMENT" means the facility agreement dated on or about the date of this Deed between Allied Healthcare Group Limited as the Company, Allied Healthcare Holdings Limited as the Borrower, Allied Healthcare International, INC. as the Parent, the Original Guarantors named in that agreement, Barclays Capital and Lloyds TSB Bank plc as the Arranger, the Lenders named in that agreement, Barclays Bank PLC as the Agent and Barclays Bank PLC as the Security Agent.

"INSOLVENCY ACT" means the Insolvency Act 1986.

"LIABILITIES" of a Chargor means all present and future moneys, debts and liabilities due, owing or incurred by it to any Secured Party under or in connection with any Finance Document (in each case, whether alone or jointly, or jointly and severally, with any other person, whether actually or contingently and whether as principal, surety or otherwise).

"LPA" means the Law of Property Act 1925.

"PARTY" means a party to this Deed.

"PERFECTION REQUIREMENTS" means the making of appropriate registrations of this Deed with the Registrar of Companies.

"RECEIVER" means a receiver and manager or other receiver appointed in respect of the Charged Assets and shall, if allowed by law, include an administrative receiver.

1.2 CONSTRUCTION

The provisions in clause 1.2 (Construction) of the Facility Agreement apply to this Deed with all necessary changes.

1.3 THIRD PARTY RIGHTS

A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Deed.

2. UNDERTAKING TO PAY

2.1 PAYMENT OF LIABILITIES

Each Chargor shall pay each of its Liabilities when due in accordance with its terms or, if they do not specify a time for payment, immediately on demand by the Security Agent.

2.2 PROPORTIONATE PAYMENT

Each sum appropriated by the Security Agent in accordance with the Finance Documents in or towards payment of a particular part of the Liabilities shall to the extent of that appropriation discharge each Chargor's obligations in respect of that part of the Liabilities both to any Secured Party to which the same is owed, and to the Security Agent.

3. FLOATING CHARGE

3.1 CREATION

Each Chargor, with full title guarantee and as security for the payment of all Liabilities (whether of that or any other Chargor), charges in favour of the Security Agent (as trustee for the Secured Parties) by way of first floating charge its undertaking and all its assets, both present and future.

3.2 QUALIFYING FLOATING CHARGE

- (a) The floating Charge created by each Chargor pursuant to Clause 3.1 above (Creation) is a "qualifying floating charge" for the purposes of paragraph 14.2(a) of Schedule B1 to the Insolvency Act.
- (b) Paragraph 14 of Schedule B1 to the Insolvency Act shall apply to this Deed and the Security Agent may appoint an Administrator of any Chargor pursuant to that paragraph.

3.3 RANKING

The floating Charge created by each Chargor ranks in priority to any other Security over the Charged Assets of that Chargor except for Security ranking in priority in accordance with paragraph (f) of Schedule 2 (Rights of Receivers).

3.4 CONVERSION BY NOTICE

The Security Agent may convert the floating Charge over all or any of the Charged Assets into a fixed Charge by notice to the relevant Chargor specifying the relevant Charged Assets (either generally or specifically):

- (a) if it considers it desirable to do so in order to protect or preserve the Charges over those Charged Assets and/or the priority of those Charges; and/or
- (b) while an Enforcement Event is continuing.

3.5 AUTOMATIC CONVERSION

- (a) If:
 - (i) any Chargor takes any step to create any Security in breach of Clause 4.1 (Security) over any of the Charged Assets; or
 - (ii) any person takes any step to effect any expropriation, attachment, sequestration, distress or execution against any of those Charged Assets,

the floating Charge over the relevant Charged Assets shall automatically and immediately be converted into a fixed Charge.

- (b) The floating Charge created by this Clause 3 may not be converted into a fixed charge solely by reason of:
 - (i) the obtaining of a moratorium; or
 - (ii) anything done with a view to obtaining a moratorium,

under the Insolvency Act 2000.

4. RESTRICTIONS AND FURTHER ASSURANCE

4.1 SECURITY

No Chargor shall create or permit to subsist any Security over any Charged Asset, nor do anything else prohibited by Clause 22.3 (Negative pledge) of the Facility Agreement, except as permitted by that clause.

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4.2 DISPOSAL

No Chargor shall (nor shall any Chargor agree to) enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary) to sell, lease, license, sub-license, transfer or otherwise dispose of any Charged Asset except as permitted by Clause 22.4 (Disposals) of the Facility Agreement.

4.3 FURTHER ASSURANCE

Each Chargor shall promptly do whatever the Security Agent requires:

- (a) to perfect or protect the Charges or the priority of the Charges;
or
- (b) to facilitate the realisation of the Charged Assets or the exercise of any rights vested in the Security Agent or any Receiver,

including executing any transfer, conveyance, charge, assignment or assurance of the Charged Assets (whether to the Security Agent or its nominees or otherwise), making any registration and giving any notice, order or direction.

5. GENERAL UNDERTAKINGS

5.1 PERFECTION REQUIREMENTS

Each Chargor shall promptly comply with the Perfection Requirements.

5.2 PROTECTION OF ASSETS

Each Chargor shall keep or cause to be kept all its Charged Assets in good working order and condition, ordinary wear and tear excepted.

5.3 ACCESS

Each Chargor shall ensure that representatives of the Security Agent are able at all reasonable times to view the condition of any of its Charged Assets.

5.4 NO OTHER PREJUDICIAL CONDUCT

No Chargor shall do, or permit to be done, anything which could prejudice the Charges.

6. REPRESENTATIONS AND WARRANTIES

Each Chargor makes the representations and warranties set out in clause 19 (Representations) of the Facility Agreement to the Security Agent on the date of this Deed, to the extent it has made such representations and warranties in the Facility Agreement.

7. ENFORCEMENT

7.1 WHEN ENFORCEABLE

As between the Chargors and the Security Agent the Charges shall be enforceable, and the powers conferred by Section 101 of the LPA as varied and extended by this Deed shall be exercisable, while an Enforcement Event is continuing.

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7.2 POWER OF SALE

The statutory power of sale, of appointing a Receiver and the other statutory powers conferred on mortgagees by Section 101 of the LPA as varied and extended by this Deed shall arise on the date of this Deed.

7.3 SECTION 103 LPA

Section 103 of the LPA shall not apply to this Deed.

8. APPOINTMENT AND RIGHTS OF RECEIVERS

8.1 APPOINTMENT OF RECEIVERS

If:

- (a) requested by any Chargor;
- (b) any corporate action, legal proceedings or other procedure or step is taken in relation to the administration of any Chargor;
or

(c) any other Enforcement Event is continuing (whether or not the Security Agent has taken possession of the Charged Assets),

without any notice or further notice, the Security Agent may, by deed, or otherwise in writing signed by any officer or manager of the Security Agent or any person authorised for this purpose by the Security Agent, appoint one or more persons to be a Receiver. The Security Agent may similarly remove any Receiver and appoint any person instead of any Receiver. If the Security Agent appoints more than one person as Receiver, the Security Agent may give those persons power to act either jointly or severally.

8.2 SCOPE OF APPOINTMENT

Any Receiver may be appointed Receiver of all of the Charged Assets or Receiver of a part of the Charged Assets specified in the appointment. In the latter case, the rights conferred on a Receiver as set out in Schedule 2 (Rights of Receivers) shall have effect as though every reference in that Schedule to any Charged Assets were a reference to the part of those assets so specified or any part of those assets.

8.3 RIGHTS OF RECEIVERS

Any Receiver appointed pursuant to this Clause 8 shall have the rights, powers, privileges and immunities conferred by the Insolvency Act on administrative or other receivers duly appointed under the Insolvency Act, and shall also have the rights set out in Schedule 2 (Rights of Receivers).

8.4 AGENT OF CHARGOR

Any Receiver shall be the agent of the relevant Chargor for all purposes. That Chargor alone shall be responsible for the Receiver's contracts, engagements, acts, omissions, defaults and losses and for liabilities incurred by the Receiver.

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8.5 REMUNERATION

The Security Agent may determine the remuneration of any Receiver and direct payment of that remuneration out of moneys he receives as Receiver. The relevant Chargor alone shall be liable for the remuneration and all other costs, losses, liabilities and expenses of the Receiver.

9. SECURITY AGENT'S RIGHTS

9.1 SAME RIGHTS AS RECEIVER

Any rights conferred by any Finance Document upon a Receiver may be

exercised by the Security Agent, or to the extent permitted by law, an Administrator after the Charges become enforceable, whether or not the Security Agent shall have taken possession or appointed a Receiver of the Charged Assets.

9.2 DELEGATION

The Security Agent may delegate in any manner to any person any rights exercisable by the Security Agent under any Finance Document. Any such delegation may be made upon such terms and conditions (including power to sub-delegate) as the Security Agent thinks fit.

10. ORDER OF DISTRIBUTIONS

10.1 APPLICATION OF PROCEEDS

All amounts received or recovered by the Security Agent or any Receiver or Delegate in exercise of their rights under this Deed shall, subject to the rights of any creditors having priority, be applied in the order provided in Clause 10.2 (Order of distributions).

10.2 ORDER OF DISTRIBUTIONS

The order referred to in Clause 10.1 (Application of proceeds) is:

- (i) first, in or towards the payment of all costs, losses, liabilities and expenses of and incidental to the appointment of any Receiver or Delegate and the exercise of any of his rights, including his remuneration and all outgoings paid by him;
- (ii) second, in or towards payment pro rata of any unpaid fees, costs and expenses of the Agent, the Security Agent or the Arranger under the Finance Documents;
- (iii) thirdly, in or towards payment pro rata of any accrued interest, fee or commission due but unpaid under the Finance Documents;
- (iv) fourthly pro rata:
 - (A) in or towards payment of any principal due but unpaid under the Facility Agreement; and
 - (B) in or towards payment of any principal due but unpaid under any Ancillary Document:
 - (a) in respect of Ancillary Facilities provided by Barclays Bank PLC, in an aggregate amount of not more than (pound)7,500,000; and
 - (b) in respect of Ancillary Facilities provided by Lloyds TSB Bank plc, in an aggregate amount of not more

- (v) fifthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents; and
- (vi) sixthly, in payment of any surplus to any Chargor or other person entitled to it.

11. LIABILITY OF SECURITY AGENT, RECEIVERS AND DELEGATES

11.1 POSSESSION

If the Security Agent, any Receiver or any Delegate takes possession of the Charged Assets, it or he may at any time relinquish possession. Without prejudice to Clause 11.2 (Security Agent's liability), the Security Agent shall not be liable as a mortgagee in possession by reason of viewing or repairing any of the present or future assets of any Chargor.

11.2 SECURITY AGENT'S LIABILITY

Neither the Security Agent nor any Receiver or Delegate shall (either by reason of taking possession of the Charged Assets or for any other reason and whether as mortgagee in possession or otherwise) be liable to any Chargor, any Secured Party or any other person for any costs, losses, liabilities or expenses relating to the realisation of any Charged Assets or from any act, default, omission or misconduct of the Security Agent, any Receiver, any Delegate or their respective officers, employees or agents in relation to the Charged Assets or in connection with the Finance Documents except to the extent caused by its or his own gross negligence or wilful misconduct.

12. POWER OF ATTORNEY

12.1 APPOINTMENT

Each Chargor by way of security irrevocably appoints the Security Agent, every Receiver and every Delegate severally its attorney (with full power of substitution), on its behalf and in its name or otherwise, at such time and in such manner as the attorney thinks fit:

- (a) to do anything which that Chargor is obliged to do (but has not done) under any Finance Document to which it is party (including to execute charges over, transfers, conveyances, assignments and assurances of, and other instruments, notices, orders and directions relating to, the Charged Assets); and
- (b) to exercise any of the rights conferred on the Security Agent,

any Receiver or any Delegate in relation to the Charged Assets or under any Finance Document, the LPA or the Insolvency Act.

12.2 RATIFICATION

Each Chargor ratifies and confirms and agrees to ratify and confirm whatever any such attorney shall do in the exercise or purported exercise of the power of attorney granted by it in Clause 12.1 (Appointment).

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13. PROTECTION OF THIRD PARTIES

13.1 NO DUTY TO ENQUIRE

No person dealing with the Security Agent, any other Secured Party, any Receiver or any Delegate shall be concerned to enquire:

- (a) whether the rights conferred by or pursuant to any Finance Document are exercisable;
- (b) whether any consents, regulations, restrictions or directions relating to such rights have been obtained or complied with;
- (c) otherwise as to the propriety or regularity of acts purporting or intended to be in exercise of any such rights; or
- (d) as to the application of any money borrowed or raised.

13.2 PROTECTION TO PURCHASERS

All the protection to purchasers contained in Sections 104 and 107 of the LPA, Section 42(3) of the Insolvency Act or in any other applicable legislation shall apply to any person purchasing from or dealing with the Security Agent, any other Secured Party, any Receiver or any Delegate.

14. SAVING PROVISIONS

14.1 CONTINUING SECURITY

Subject to Clause 15 (Discharge of Security), the Charges are continuing Security and will extend to the ultimate balance of the Liabilities, regardless of any intermediate payment or discharge in whole or in part.

14.2 REINSTATEMENT

If any payment by a Chargor or any discharge given by a Secured Party (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) is avoided or reduced as a result of

insolvency or any similar event:

- (a) the liability of each Chargor and the Charges shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
- (b) each Secured Party shall be entitled to recover the value or amount of that security or payment from each Chargor, as if the payment, discharge, avoidance or reduction had not occurred.

14.3 WAIVER OF DEFENCES

Neither the obligations of each Chargor under this Deed nor the Charges will be affected by an act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under any Finance Document of any of the Charges (without limitation and whether or not known to it or any Secured Party) including:

- (a) any time, waiver or consent granted to, or composition with, any Obligor or other person;
- (b) the release of any other Obligor or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;

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- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce any rights against, or security over assets of, any Obligor or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor or any other person;
- (e) any amendment (however fundamental) or replacement of a Finance Document or any other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security; or
- (g) any insolvency or similar proceedings; or
- (h) any postponement, discharge, reduction, non-provability or other similar circumstance affecting any obligation of any Obligor or

other person under any Finance Document resulting from any insolvency, liquidation or dissolution proceedings or from any law, regulation or order.

14.4 IMMEDIATE RECOURSE

Each Chargor waives any right it may have of first requiring any Secured Party (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Chargor under this Deed. This waiver applies irrespective of any law or any provision of a Finance Document to the contrary.

14.5 APPROPRIATIONS

Until all the Liabilities have been irrevocably paid in full and all facilities which might give rise to Liabilities have terminated, each Secured Party (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by that Secured Party (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Chargor shall be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from any Chargor or on account of any Chargor's liability under this Deed.

14.6 DEFERRAL OF CHARGORS' RIGHTS

Until all the Liabilities have been irrevocably paid in full and all facilities which might give rise to Liabilities have terminated and unless the Security Agent otherwise directs, no Chargor will exercise any rights which it may have by reason of performance by it of its obligations under the Finance Documents:

- (a) to be indemnified by an Obligor;
- (b) to claim any contribution from any other Chargor or any other guarantor of any Obligor's obligations under the Finance Documents; and/or

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- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Secured Parties under the Finance Documents or of any guarantee or other security

taken pursuant to, or in connection with, the Finance Documents by any Secured Party.

14.7 ADDITIONAL SECURITY

The Charges are in addition to and are not in any way prejudiced by any other guarantees or security now or subsequently held by any Secured Party.

14.8 TACKING

Each Secured Party shall comply with its obligations under the Finance Documents (including any obligation to make further advances).

15. DISCHARGE OF SECURITY

15.1 FINAL REDEMPTION

Subject to Clause 15.2 (Retention of security), if the Security Agent is satisfied that all the Liabilities have been irrevocably paid in full and that all facilities which might give rise to Liabilities have terminated, the Security Agent shall at the request and cost of the Chargors release, reassign or discharge (as appropriate) the Charged Assets from the Charges.

15.2 RETENTION OF SECURITY

If the Security Agent considers that any amount paid or credited to any Secured Party under any Finance Document is capable of being avoided or otherwise set aside, that amount shall not be considered to have been paid for the purposes of determining whether all the Liabilities have been irrevocably paid.

15.3 CONSOLIDATION

Section 93 of the LPA shall not apply to the Charges.

16. ENFORCEMENT EXPENSES

16.1 EXPENSES

Each Chargor shall, within three Business Days of demand, pay to the Security Agent the amount of all costs, losses, liabilities and expenses (including legal fees) incurred by any Secured Party, any Receiver or any Delegate in relation to any Finance Document (including the administration, protection, realisation, enforcement or preservation of any rights under or in connection with this Deed, or any consideration by the Security Agent as to whether to realise or enforce the same, and/or any amendment, waiver, consent or release of any Finance Document and/or any other document referred to in this Deed).

16.2 VALUE ADDED TAX

Clause 13.6 (Value added tax) of the Facility Agreement (with any necessary consequential amendments) shall apply also to any amount payable under any Finance Document to any Receiver or Delegate.

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17. PAYMENTS

17.1 DEMANDS

Any demand for payment made by any Secured Party shall be valid and effective even if it contains no statement of the relevant Liabilities or an inaccurate or incomplete statement of them.

17.2 PAYMENTS

All payments by any Chargor under this Deed (including damages for its breach) shall be made in the Currency of Account and to such account, with such financial institution and in such other manner as the Security Agent may direct.

17.3 CONTINUATION OF ACCOUNTS

At any time after:

- (a) the receipt by any Secured Party of notice (either actual or otherwise) of any subsequent Security affecting the Charged Assets of any Chargor; or
- (b) the presentation of a petition or the passing of a resolution in relation to the winding-up of any Chargor,

any Secured Party may open a new account in the name of that Chargor with that Secured Party (whether or not it permits any existing account to continue). If that Secured Party does not open such a new account, it shall nevertheless be treated as if it had done so when the relevant event occurred. No moneys paid into any account, whether new or continuing, after that event shall discharge or reduce the amount recoverable pursuant to any Finance Document to which that Chargor is party.

17.4 JOINT AND SEVERAL LIABILITY

The liability of each Chargor under this Deed shall be joint and several. Each agreement and undertaking of any Chargor shall be construed accordingly.

18. RIGHTS, WAIVERS AND DETERMINATIONS

18.1 AMBIGUITY

Where there is any ambiguity or conflict between the rights conferred by law and those conferred by or pursuant to any Finance Document, the terms of that Finance Document shall prevail.

18.2 EXERCISE OF RIGHTS

No failure to exercise, nor any delay in exercising, on the part of any Secured Party, Receiver or Delegate, any right or remedy under any Finance Document shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in the Finance Documents are cumulative and not exclusive of any rights or remedies provided by law, including the right to appoint an Administrator under the Insolvency Act.

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18.3 DETERMINATIONS

Any certification or determination by any Secured Party or any Receiver or Delegate under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

19. SEPARATE AND INDEPENDENT OBLIGATIONS

The Security created by each Chargor by or in connection with any Finance Document is separate from and independent of the Security created or intended to be created by any other Chargor by or in connection with any Finance Document.

20. INDEMNITIES

20.1 ENVIRONMENTAL INDEMNITY

Each Chargor shall indemnify each Secured Party against any and all costs, losses, liabilities or expenses together with any associated VAT incurred by each Secured Party arising (directly or indirectly) out of or in connection with:

- (a) any breach or potential breach of or liability (whether civil and/or criminal) under any Environmental Law;
- (b) any responsibility on the part of any Secured Party in respect of any clean-up, repair or other corrective action; or
- (c) the business of any Chargor.

20.2 INDEMNITIES SEPARATE

Each indemnity in each Finance Document shall:

- (a) constitute a separate and independent obligation from the other obligations in that or any other Finance Document;
- (b) give rise to a separate and independent cause of action;
- (c) apply irrespective of any indulgence granted by any Secured Party;
- (d) continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any Liability or any other judgment or order; and
- (e) apply whether or not any claim under it relates to any matter disclosed by any Chargor or otherwise known to any Secured Party.

21. ACCESSION OF NEW CHARGOR

21.1 METHOD

Any wholly owned member of the Group may at any time become a party to this Debenture by complying with the requirements of clause 22.16 (Security and Guarantees) of the Facility Agreement and executing a Supplemental Debenture substantially in the form set out in Schedule 3 (Form of Deed of Accession and Supplemental Debenture of a New Chargor) of this Deed.

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21.2 NEW CHARGOR BOUND

The New Chargor (as defined in the Supplemental Debenture) shall become a Chargor under this Deed with effect from the time when the Supplemental Debenture takes effect, at which time:

- (a) the New Chargor shall become bound by all the terms of this Deed and shall assume the same obligations as a "Chargor" as if it were an original party to this Deed; and
- (b) the Chargors assume the same obligations in respect of the New Chargor as if it were an original party to this Deed.

22. COUNTERPARTS

This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

23. GOVERNING LAW

This Deed is governed by English law.

IN WITNESS whereof this Deed has been duly executed as a deed on the date stated at the beginning of this Deed.

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SCHEDULE 1

THE CHARGORS

NAME OF CHARGOR	REGISTRATION NUMBER (OR EQUIVALENT, IF ANY)
Allied Healthcare Group Limited	3890177
Allied Healthcare Holdings Limited	3370146
Allied Healthcare (UK) Limited	1689856
Allied Oxycare Limited	2230411
Balfor Medical Limited	3408741
Crystalglen Limited	2753961
Medigas Limited	1143289
Nightingale Nursing Bureau Limited	2158123
Omnicare Limited	3073148
Staffing Enterprise Limited	2149723

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SCHEDULE 2
RIGHTS OF RECEIVERS

Any Receiver appointed pursuant to Clause 9 (Appointment and rights of Receivers) shall have the right, either in his own name or in the name of the relevant Chargor or otherwise and in such manner and upon such terms and conditions as the Receiver thinks fit, and either alone or jointly with any other person:

(a) ENTER INTO POSSESSION

to take possession of, get in and collect the Charged Assets, and to require payment to him or to any Secured Party of any Book Debts or credit balance on any Bank Account;

(b) CARRY ON BUSINESS

to manage and carry on any business of that Chargor;

(c) CONTRACTS

to enter into any contract or arrangement and to perform, repudiate, rescind or vary any contract or arrangement to which that Chargor is a party;

(d) DEAL WITH CHARGED ASSETS

to sell, transfer, assign, exchange, hire out, lend or otherwise dispose of or realise the Charged Assets to any person (including a new company formed pursuant to paragraph (e) (Hive down)) either by public offer or auction, tender or private contract and for a consideration of any kind (which may be payable or delivered in one amount or by instalments spread over a period or deferred);

(e) HIVE DOWN

to form a new company and to subscribe for or acquire (for cash or otherwise) any investment in or of the new company and to sell, transfer, assign, exchange and otherwise dispose of or realise any such investments or part thereof or any rights attaching thereto;

(f) BORROW MONEY

to borrow or raise money either unsecured or on the security of the Charged Assets (either in priority to the Charges or otherwise);

(g) COVENANTS AND GUARANTEES

to enter into bonds, covenants, guarantees, indemnities and other commitments and to make all payments needed to effect, maintain or satisfy them;

(h) DEALINGS WITH TENANTS

to grant leases, tenancies, licences and rights of user, grant renewals and accept surrenders of leases, tenancies, licences or rights of user, and otherwise to reach agreements and make arrangements with, and to make allowances to, any lessees, tenants or other persons (including a new company formed pursuant to paragraph (e) (Hive down)) from whom any rents and profits may be receivable (including those relating to the grant of any licences, the review of rent in

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accordance with the terms of, and the variation of, the provisions of any leases, tenancies, licences or rights of user affecting the Charged Assets);

(i) RIGHTS OF OWNERSHIP

to manage and use the Charged Assets and to exercise and do (or permit that Chargor or any nominee of it to exercise and do) all such rights and things as the Receiver would be capable of exercising or doing if he were the absolute beneficial owner of the Charged Assets;

(j) INSURANCE, REPAIRS, IMPROVEMENTS ETC.

to insure the Charged Assets, to carry out decorations, repairs, alterations, improvements and additions to the Charged Assets and to purchase or otherwise acquire or do anything in connection with the Charged Assets;

(k) CLAIMS

to settle, adjust, refer to arbitration, compromise and arrange any claims, accounts, disputes, questions and demands with or by any person who is or claims to be a creditor of that Chargor or relating to the Charged Assets;

(l) LEGAL ACTIONS

to bring, prosecute, enforce, defend and abandon actions, suits and proceedings in relation to the Charged Assets or any business of that Chargor;

(m) REDEMPTION OF SECURITY

to redeem any Security (whether or not having priority to the Charges) over the Charged Assets and to settle the accounts of any person with an interest in the Charged Assets;

(n) EMPLOYEES ETC.

to appoint, hire and employ officers, employees, contractors, agents, advisors and others and to discharge any such persons and any such persons

appointed, hired or employed by that Chargor;

(o) INSOLVENCY ACT

to exercise all powers set out in Schedule 1, Schedule B1 or (in the case of a Scottish Receiver) Schedule 2 to the Insolvency Act as now in force (whether or not in force at the date of exercise and whether or not the Receiver is an administrative receiver) and any powers added to Schedule 1 or Schedule 2, as the case may be, after the date of this Deed; and

(p) OTHER POWERS

to do anything else he may think fit for the realisation of the Charged Assets or incidental to the exercise of any of the rights conferred on the Receiver under or by virtue of any Finance Document to which the relevant Chargor is party, the LPA or the Insolvency Act.

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SCHEDULE 3

FORM OF DEED OF ACCESSION AND SUPPLEMENTAL DEBENTURE FOR A NEW CHARGOR

THIS DEED OF ACCESSION AND SUPPLEMENTAL DEBENTURE is dated [] and made between:

- (1) [Insert the name of the New Chargor and its registration number] (the "NEW CHARGOR"); and
- (2) BARCLAYS BANK PLC (the "SECURITY AGENT"), as security trustee for the benefit of the Secured Parties).

BACKGROUND

- (E) This Deed is supplemental to a floating charge security document (the "DEBENTURE") dated [] 2004 between Allied Healthcare Group Limited, Allied Healthcare Holdings Limited and the other Chargors named therein and the Security Agent.

[NOTE: SET OUT DETAILS OF ANY PREVIOUS DEED OF ACCESSION AND SUPPLEMENTAL CHARGE.]

- (F) The New Chargor has agreed to charge in favour of the Security Agent, on the same terms as contained in the Debenture all its undertaking and all its assets, both present and future, to secure the Liabilities and to accede to the Debenture.
- (G) This Deed is a Finance Document (as defined in the Facility Agreement).

1. DEFINITIONS AND INTERPRETATION

1.1 DEFINITIONS

Unless a contrary indication appears or unless otherwise re-defined herein, terms used in the Debenture shall have the same meaning and construction in this Deed.

2. UNDERTAKING TO PAY

2.1 PAYMENT OF LIABILITIES

The New Chargor shall pay each of its Liabilities when due in accordance with its terms or, if they do not specify a time for payment, immediately on demand by the Security Agent.

2.2 PROPORTIONATE PAYMENT

Each sum appropriated by the Security Agent in accordance with the Finance Documents in or towards payment of a particular part of the Liabilities shall to the extent of that appropriation discharge the New Chargor's obligations in respect of that part of the Liabilities both to any Secured Party to which the same is owed, and to the Security Agent.

3. ACCESSION

The New Chargor hereby accedes to the terms of the Debenture and acknowledges and agrees that it is bound by Clauses 4.1 (Security), 4.2 (Disposal), 5 (General Undertakings) and 16 (Enforcement Expenses) of the Debenture as if it had been expressly named as a Chargor in the Debenture.

The New Chargor to Clauses 3.3 (Ranking), 3.4 (Conversion by notice), 3.5 (Automatic Conversion), 7.1 (When enforceable), 8 (Appointment and rights of Receivers), 9 (Security

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Agent's rights), 10 (Order of distributions), 11 (Liability of Security Agent, Receivers and Delegates), 14 (Saving provisions), 15 (Discharge of security), 16 (Enforcement expenses), 17 (Payments), 18 (Rights, waivers and determinations), 19 (Separate and obligations), 20 (Indemnities) and 21 (Accession of New Chargor) as if set out in full in this document and as if references to "Chargor" included the New Chargor.

4. FLOATING CHARGE

4.1 CREATION

The New Chargor, with full title guarantee and as security for the payment

of all Liabilities (whether of that or any other Chargor), charges in favour of the Security Agent (as trustee for the Secured Parties) by way of first floating charge all its undertaking and all its assets, both present and future.

4.2 QUALIFYING FLOATING CHARGE

- (a) The floating Charge created by the New Chargor pursuant to Clause 3.1 (Creation) above is a "qualifying floating charge" for the purposes of paragraph 14.2(a) of Schedule B1 to the Insolvency Act.
- (b) Paragraph 14 of Schedule B1 to the Insolvency Act shall apply to this Deed.

5. FURTHER ASSURANCE

The New Chargor shall promptly do whatever the Security Agent requires:

- (a) to perfect or protect the Charges or the priority of the Charges;
or
- (b) to facilitate the realisation of the Charged Assets or the exercise of any rights vested in the Security Agent or any Receiver,

including executing any transfer, conveyance, charge, assignment or assurance of the Charged Assets (whether to the Security Agent or its nominees or otherwise), making any registration and giving any notice, order or direction.

6. POWER OF ATTORNEY

6.1 APPOINTMENT

The New Chargor by way of security irrevocably appoints the Security Agent, every Receiver and every Delegate severally its attorney (with full power of substitution), on its behalf and in its name or otherwise, at such time and in such manner as the attorney thinks fit:

- (a) to do anything which the New Chargor is obliged to do (but has not done) under any Finance Document to which it is party (including to execute charges over, transfers, conveyances, assignments and assurances of, and other instruments, notices, orders and directions relating to, the Charged Assets); and
- (b) to exercise any of the rights conferred on the Security Agent, any Receiver or any Delegate in relation to the Charged Assets or under any Finance Document, the LPA or the Insolvency Act.

6.2 RATIFICATION

The New Chargor ratifies and confirms and agrees to ratify and confirm whatever any such attorney shall do in the exercise or purported exercise of the power of attorney granted by it in Clause 13.1 (Appointment).

7. JOINT AND SEVERAL LIABILITY

The liability of the New Chargor and each Chargor under this Deed shall be joint and several. Each agreement and undertaking of any Chargor shall be construed accordingly.

8. COUNTERPARTS

This Deed may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

9. GOVERNING LAW

This Deed is governed by English law.

IN WITNESS whereof this Deed has been duly executed as a deed by the New Chargor and signed by the Security Agent on the date stated at the beginning of this Deed.

THE NEW CHARGOR

SIGNED as a DEED by [_____] acting by

a Director and

a Director/the Secretary

.....
Director

.....
Director or Secretary

Address: [_____]

Fax No: [_____]

Attention: [_____]

THE SECURITY AGENT

SIGNED by

for and on behalf of BARCLAYS BANK PLC
in the presence of

Address: 5 The North Colonnade
Canary Wharf

.....
Authorised Signatory

.....
Witness

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London E14 4BB

Fax No: + 44 20 7773 4893

Attention: Global Loans Agency: Frank Rogers

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SIGNED as a DEED by ALLIED HEALTHCARE
GROUP LIMITED acting by

a Director
and

/s/ SARAH EAMES
Director

a Director/Secretary

/s/ CHARLES MURPHY
Secretary

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

SIGNED as a DEED by ALLIED HEALTHCARE
HOLDINGS LIMITED acting by

a Director
and

/s/ SARAH EAMES
Director

a Director/Secretary

/s/ CHARLES MURPHY

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

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SIGNED as a DEED by ALLIED HEALTHCARE
(UK) LIMITED acting by

a Director
and

/s/ DAVID JOHNSON
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

SIGNED as a DEED by ALLIED OXYCARE
LIMITED acting by

a Director
and

/s/ STEPHEN GULLICK
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

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SIGNED as a DEED by BALFOR MEDICAL
LIMITED acting by

a Director
and

/s/ DAVID JOHNSON
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

SIGNED as a DEED by CRYSTALGLEN LIMITED
acting by

a Director
and

/s/ DAVID JOHNSON
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

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SIGNED as a DEED by MEDIGAS LIMITED
acting by

a Director
and

/s/ DAVID JOHNSON
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

SIGNED as a DEED by NIGHTINGALE NURSING BUREAU LIMITED

a Director
and

/s/ STEVEN MASSEY
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

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SIGNED as a DEED by OMNICARE LIMITED
acting by

a Director
and

/s/ DAVID JOHNSON
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

SIGNED as a DEED by STAFFING ENTERPRISE
LIMITED acting by

a Director
and

/s/ DAVID JOHNSON
Director

a Director/Secretary

/s/ CHARLES MURPHY
Director

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

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SIGNED by

for and on behalf of BARCLAYS BANK PLC in the
presence of

/s/ MICHAEL JOYNER
Authorised Signatory

Address: 5 The North Colonnade
Canary Wharf
London E14 4BB

/s/ TIM AUSTRUP
Witness

Fax No: + 44 20 7773 4893

Attention: Global Loans Agency: Frank Rogers

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SUBORDINATION DEED

dated 19 July 2004

for

ALLIED HEALTHCARE INTERNATIONAL INC.

as Parent

and

BARCLAYS BANK PLC

as Agent

and

ALLIED HEALTHCARE GROUP LIMITED

as the Company

[LINKLATERS LOGO]

Ref: JMS/LSW/JULC

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THIS DEED is made on 19 July 2004 BETWEEN:

- (1) ALLIED HEALTHCARE INTERNATIONAL INC., (the "PARENT")
- (2) BARCLAYS BANK PLC as agent for the Finance Parties (the "AGENT")
- (3) ALLIED HEALTHCARE GROUP LIMITED (the "COMPANY").

BACKGROUND

- (A) The Parent has agreed that, subject to the terms and conditions of this Deed, the Junior Debt shall be subordinated in right of payment to the Senior Debt.
- (B) The Board of Directors of the Parent is satisfied that entering into this Deed is for the purposes and for the benefit of the Parent and its business.
- (C) The parties to this Subordination Deed intend that it shall take effect as a deed (even though the Agent only executes it under hand).

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATIONS

1.1 DEFINITIONS

In this Deed, terms defined and references construed in the Facility Agreement shall have the same meaning and construction and, except to the extent that the context requires otherwise:

"FACILITY AGREEMENT" means the Facility Agreement dated on or about the date of this Deed between, among others, the Parent, the Company and the Agent, in the form it takes at the date of this Deed.

"GUARANTEE" means any guarantee, letter of credit, bond, indemnity or similar assurance against loss, or any obligation, direct or indirect,

actual or contingent, to purchase or assume any indebtedness of any person or to make an investment in or loan to any person or to purchase assets of any person where, in each case, such obligation is assumed in order to maintain or assist the ability of such person to meet its indebtedness.

"JUNIOR DEBT" means the indebtedness of the Company to the Parent under or in connection with the Junior Finance Document.

"JUNIOR FINANCE DOCUMENT" means the term note issued by the Company to the Parent in the sum of US\$55,500,000 and dated on or about the date of this Deed, in the form it takes at the date of this Deed or as amended in accordance with Clauses 2.5 (No Amendment) and 3.5 (No Amendment).

"PERMITTED PAYMENTS" means payments and receipts permitted by Clause 4 (Permitted Payments) as long as they are so permitted.

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"SENIOR DEBT" means the indebtedness of the Company to the Finance Parties under or in connection with the Senior Finance Documents.

"SENIOR DEBT DISCHARGE DATE" means the first date on which all Senior Debt has been fully and irrevocably paid or discharged and no further Senior Debt is capable of becoming outstanding.

"SENIOR FINANCE DOCUMENTS" means the Facility Agreement and each other Finance Document.

1.2 CONSTRUCTION

(a) Except to the extent that the context requires otherwise, any reference in this Deed to:

- (i) any DOCUMENT (including this Deed) is a reference to that document as from time to time amended, supplemented, novated, restated or replaced and includes a reference to any document which amends, supplements, novates, restates or replaces, or is entered into, made or given under or in accordance with any of the terms of, that document;
- (ii) "INDEBTEDNESS" includes any obligation (whether present or future, actual or contingent, secured or unsecured, as principal, surety or otherwise) for the payment or repayment of money.

1.3 HEADINGS

Headings shall be ignored in construing this Deed.

1.4 NO CHARGE

Nothing in Clause 5.1 (Trust and Turnover) or Clause 6.4 (Distributions) is intended to create a charge or other security interest.

2. UNDERTAKINGS OF COMPANY

Until the Senior Debt Discharge Date, except with the consent of the Agent:

2.1 NO PAYMENTS

Subject to Clause 6 (Subordination on Insolvency), the Company shall not pay, prepay, repay or make any distribution in respect of, or purchase or acquire, any Junior Debt in cash or in kind, except for Permitted Payments.

2.2 SUBSIDIARIES

The Company shall ensure that none of its Subsidiaries purchases or acquires any Junior Debt.

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2.3 NO SET-OFF

The Company shall not exercise any set-off against any Junior Debt, except to the extent that payment of that Junior Debt would constitute a Permitted Payment.

2.4 NO SECURITY

The Company shall not create or have outstanding any Security over any of its assets for, or any Guarantee for, or in respect of, any Junior Debt.

2.5 NO AMENDMENT

The Company shall not amend, vary, waive, release or supplement any provision of the Junior Finance Document except to the extent permitted by Clause 3.5 (No Amendment).

2.6 NO OTHER ACTION

The Company shall not take or omit to take any action whereby the ranking and/or subordination contemplated by this Deed may be impaired.

3. UNDERTAKINGS OF THE PARENT

Until the Senior Debt Discharge Date, except with the consent of the Agent:

3.1 NO PAYMENT

Subject to Clause 6 (Subordination on Insolvency), the Parent will not demand or receive payment, prepayment, repayment or any distribution in respect of any Junior Debt in cash or in kind or apply any money or property in or towards discharge of any Junior Debt, except in each case for Permitted Payments.

3.2 NO SET-OFF

The Parent will not exercise any set-off against any Junior Debt, except to the extent that payment of that Junior Debt would constitute a Permitted Payment.

3.3 NO SECURITY

The Parent will not permit to subsist or receive any Security or Guarantee for, or in respect of, any Junior Debt.

3.4 NO OTHER ACTION

The Parent will not take or omit to take any action whereby the ranking and/or subordination contemplated by this Deed may be impaired.

3.5 NO AMENDMENT

The Parent will not amend, vary, waive, release or supplement any provision of the Junior Finance Document.

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3.6 NO CANCELLATION

The Parent will not cancel or transfer any Junior Debt or any commitment to provide any Junior Debt.

4. PERMITTED PAYMENTS

4.1 PERMITTED PAYMENTS

Subject to Clauses 4.2 (Suspension of Permitted Payments) and 6 (Subordination on Insolvency), the Company may pay, and the Parent may receive and retain payment in respect of, Junior Debt, to the extent that such payment:

(a) constitutes a scheduled payment of interest on the Junior Debt:

(i) not earlier than the date on which it was scheduled to be due in accordance with the original terms of the Junior Finance

Document; and

- (ii) on the basis that an amount equal to or greater than such interest payment is lent to the Company under the Junior Finance Document as new Junior Debt within 5 Business Days of the date of the payment of interest; or

(b) is approved by the Agent (acting on the instructions of the Majority Lenders).

4.2 SUSPENSION OF PERMITTED PAYMENTS

Except in the case of a payment made in accordance with Clause 6.2 (Filing of Claims) or 6.3 (Filing by Parent) after the occurrence of an event described in Clause 6.1 (Subordination Events), no payment or receipt shall constitute a Permitted Payment if an event of default, potential event of default or other termination event under any Senior Finance Document occurs.

4.3 SET-OFF

In this Clause 4, a payment or receipt includes a discharge by set-off.

5. TURNOVER OF NON-PERMITTED PAYMENTS

5.1 TRUST AND TURNOVER

If at any time the Parent receives a payment of the kind described in Clause 5.2 (Non-Permitted Payments), the Parent will:

- (a) notify the Agent of such receipt,
- (b) hold any payment so received on trust for the Finance Parties in a separate account, and
- (c) pay and distribute any payment so received, or (in the case of a set-off) pay an equivalent amount, on demand, to the Agent for application in or towards the Senior Debt until the Senior Debt Discharge Date.

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5.2 NON-PERMITTED PAYMENTS

The payments to which Clause 5.1 (Trust and Turnover) refers are as follows:

- (a) receipt by the Parent of a payment (including by way of set-off) or distribution in cash or in kind of, or on account of, any Junior Debt other

than a Permitted Payment;

- (b) receipt by the Parent (including by way of set-off) of the proceeds of enforcement of any Security, or payment under any Guarantee, for any Junior Debt; or
- (c) the making by the Company or any of its Subsidiaries of any payment or distribution, in cash or in kind, on account of the purchase or any acquisition of any Junior Debt.

6. SUBORDINATION ON INSOLVENCY

6.1 SUBORDINATION EVENTS

Until the Senior Debt Discharge Date, if:

- (a) any of the events set out in Clause 23.7 (Insolvency proceedings) of the Facility Agreement occurs with respect to the Company;
- (b) the Company makes a general assignment or an arrangement or composition for the benefit of all (or a particular type of) its creditors a moratorium is agreed or declared in respect of or affecting all or a material part of the indebtedness of the Company; or
- (c) any event occurs which, under the law of any relevant jurisdiction, has an analogous or equivalent effect to any event described in Clauses 6.1(a) to 6.1(b),

the following provisions of this Clause 6 shall apply.

6.2 FILING OF CLAIMS

The Agent may, and is irrevocably authorised on behalf of the Parent to:

- (a) claim, enforce and prove for the Junior Debt;
- (b) file claims and proofs, give receipts and take all such proceedings in respect of filing such claims or proofs and do all such things as the Agent sees fit to recover the Junior Debt; and
- (c) receive all distributions of the Junior Debt for application towards the Senior Debt.

6.3 FILING BY PARENT

If and to the extent that the Agent is not entitled, or elects not, to take any of the action described in Clause 6.2 (Filing of Claims), the Parent will do so promptly on request by the Agent.

6.4 DISTRIBUTIONS

- (a) the Parent will hold all payments and distributions in cash or in kind received or receivable by it in respect of the Junior Debt from the Company or its estate or from any other source on trust for the Finance Parties;
- (b) the Parent will pay and transfer such amounts on demand or, in the case of a set-off, pay an amount equal to that payment or distribution on demand, to the Agent for application towards the Senior Debt;
- (c) the Parent hereby directs the trustee in bankruptcy, liquidator, assignee or other person distributing the assets of the Company or Parent or their proceeds to pay distributions in respect of the Junior Debt directly to the Agent; and
- (d) the Parent will promptly do whatever the Agent reasonably requests to give effect to this Clause 6.4.

7. TREATMENT OF DISTRIBUTIONS

7.1 REALISATION

If the Agent receives any distribution otherwise than in cash in respect of the Junior Debt from the Company or any other source, it may deal with and/or apply the distribution as it sees fit, provided the same is in accordance with the Finance Documents. The Senior Debt shall not be reduced by the distribution until and except to the extent that any net realisation proceeds are applied towards the Senior Debt.

7.2 TRANSFER OF DISTRIBUTIONS

The Parent will at its own expense do all such things as the Agent may reasonably require as being necessary or desirable to transfer to the Agent all payments and distributions which must be turned over to the Agent or held on trust for the Finance Parties, including endorsements and execution of formal transfers, and will pay all reasonable costs and stamp duties in connection therewith.

7.3 FAILURE OF TRUST

If a trust in favour of, or a holding of property for, the Finance Parties under this Deed is invalid or unenforceable, the Parent will pay and deliver to the Agent an amount equal to the payment, receipt or recovery in cash, or in kind actually received by the Parent, which the Parent would otherwise have been bound to hold on trust for or as property of the Finance Parties.

8. ENFORCEMENT BY PARENT

Until the Senior Debt Discharge Date, except with the written consent of the Agent the Parent will not:

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8.1 NO ACCELERATION

Accelerate any Junior Debt or otherwise declare any Junior Debt prematurely due or payable by reason of any default or otherwise.

8.2 NO ATTACHMENT

Enforce any Junior Debt by way of attachment, set-off, execution or otherwise.

8.3 NO CREDITOR PROCESS

Sue for, or institute any process (including an injunction, specific performance, garnishment, execution or levy, whether before or after judgment) against the Company or its assets in respect of, any obligation (whether or not for the payment of money) owing to it in respect of any Junior Debt.

8.4 NO INSOLVENCY PROCEEDINGS

Initiate or support or take any of the steps set out in Clause 23.7 (Insolvency Proceedings) of the Facility Agreement involving the Company or its assets, whether by petition, convening a meeting, voting for a resolution or otherwise, except that the Parent may participate in any proceedings that a Finance Party has initiated or is a party to pursuant to the Senior Finance Documents.

9. VOTING

9.1 VOTING RIGHTS

Until the Senior Debt Discharge Date, the Agent may (and is hereby authorised to) exercise all powers of convening meetings, voting and representation in respect of the Junior Debt and the Parent shall promptly execute and/or deliver to the Agent such forms of proxy and of representation as it may require with a view to enabling such person as it may select to exercise those rights.

9.2 EXERCISE BY PARENT

Until the Senior Debt Discharge Date, if and to the extent that the Agent is not entitled to exercise a power conferred by Clause 9.1 (Voting Rights) the Parent:

- (a) will exercise the power as the Agent directs; and
- (b) will not exercise it so as to impair this subordination.

10. CONSENTS

10.1 NO-OBJECTION

The Parent shall not have any remedy against the Company or any Finance Party by reason of the entry by any of them into any Senior Finance Document, or any other agreement between any Finance Parties and the Company, or any waiver or consent, or

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any requirement or condition imposed by or on behalf of the Finance Parties on the Company under any Senior Finance Document, or such other agreement, which violates or is or causes an event of default or potential event of default (however described) under the Junior Finance Document. The Parent may not object to any such matter by reason of any provision of the Junior Finance Document.

10.2 WAIVERS

Any waiver or consent by or on behalf of any or all of the Finance Parties under any Senior Finance Document (including any waiver of any breach or default or condition precedent, and any consent to any extension of availability of the Senior Debt) will be deemed also to have been given by the Parent (on the same terms and conditions, with appropriate changes) if any transaction or circumstance would, in the absence of that waiver or consent by the Parent, violate or contravene the Junior Finance Document or constitute an event of default or potential event of default (however described) under the Junior Finance Document or lead to unavailability of any Junior Debt.

11. INFORMATION

11.1 DEFAULTS

The Parent will promptly notify the Agent of the occurrence of any event of default or potential event of default (however described) under the Junior Finance Document to which it is party.

11.2 AMOUNT OF JUNIOR DEBT

The Parent will on written request by the Agent from time to time notify the Agent in writing of details of the amount of the Junior Debt owed to it and give the Agent copies of all Junior Finance Document to which it is party as soon as entered into.

12. PROTECTION OF SUBORDINATION

12.1 CONTINUING SUBORDINATION

The subordination provisions in this Deed shall:

- (a) remain in full force and effect by way of continuing subordination; and
- (b) not be affected in any way by any settlement of account (whether or not any Senior Debt remains outstanding) or other matter or thing whatsoever.

12.2 SUBORDINATION UNAFFECTED

Without prejudice to the generality of Clause 12.1 (Continuing Subordination), neither the subordination in this Deed nor the obligations of the Parent shall be affected in any way by:

- (a) any time, indulgence, concession, waiver or consent given to, or composition with, the Company or any other person, whether by the Agent or any other person;

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- (b) any amendment to or change in any Security, guarantee or indemnity, or the terms of any Junior Debt or Senior Debt;
- (c) the making or absence of any demand for payment of any Junior Debt or Senior Debt on the Company or any other person, whether by the Parent or the Agent or any other person;
- (d) the enforcement or absence of enforcement of any Security, guarantee or indemnity or any rights under the Junior Debt or Senior Debt;
- (e) the taking, existence or release of any other Security, guarantee or indemnity;
- (f) the occurrence of the Event of Default set out in Clause 23.7 (Insolvency proceedings), or any step being taken in respect of that Event of Default; or
- (g) the illegality, invalidity or unenforceability of, or any defect in, any provision of any agreement or document relating to the Junior Debt or

Senior Debt or any Security, guarantee or indemnity (including the Junior Finance Document or any Senior Finance Document) or any of the rights or obligations of any of the parties under or in connection with any such document or any Security, guarantee or indemnity (including the Junior Finance Document or any Senior Finance Document).

12.3 IMMEDIATE RECOURSE

The Parent waives any right it may have of requiring any Finance Party to proceed against or enforce any other right or security or claim payment from any person before claiming the benefit of this Deed.

12.4 EXERCISE OF PARENT'S RIGHTS

Until the Senior Debt Discharge Date;

- (a) any rights of the Parent, by reason of the performance or enforcement of any of its obligations under Clause 5 (Turnover of Non-Permitted Payments), 6 (Subordination on Insolvency) or 7 (Treatment of Distributions), or any other provision of this Deed, to be indemnified by any person, to prove in respect of any liability as a result of the occurrence of any of the events set out in Clause 23.7 (Insolvency proceedings) of the Facility Agreement in relation to any person or to take the benefit of or enforce any Security, guarantees or indemnities, shall be exercised and enforced only in such manner and on such terms as the Agent may require; and
- (b) any amount received or recovered by the Parent:
 - (i) as a result of any exercise of any such rights; or
 - (ii) as a result of the occurrence of any of the events set out in Clause 23.7 (Insolvency proceedings) of the Facility Agreement in relation to any person,

shall be held in trust for and immediately paid to Agent.

12.5 DISCHARGE

The Company hereby irrevocably waives any right to appropriate any payments to, or other sum received, recovered or held by, the Agent in or towards discharge of a particular part of the Senior Debt and agrees that the Agent shall have the exclusive right to appropriate any such payment or other sum in accordance with this Deed.

12.6 SUSPENSE ACCOUNTS

Any amount received or recovered by any Finance Party, any Receiver or any Delegate in exercise of its rights under this Deed may be credited to an interest bearing suspense account. That amount may be kept there (with any interest earned being credited to that account) until the Finance Party is satisfied that all the Senior Debt has been discharged in full and that all facilities which might give rise to Senior Debt have terminated.

13. NO RIGHTS IN FAVOUR OF PARENT OR COMPANY

13.1 PRESERVATION OF JUNIOR DEBT

As between the Company and the Parent only, the Junior Debt shall remain owing or due and payable in accordance with the terms of the Junior Finance Document.

13.2 NO RIGHTS

Neither the Company nor the Parent shall have any rights under this Deed. None of the undertakings in this Deed by the Finance Parties are given to or for the benefit of the Company or any Parent.

13.3 NO LIABILITY

No Finance Parties will be liable to the Parent:

- (a) for the manner of exercise or for any non-exercise of the powers of any or all of the Finance Parties under this Deed; or
- (b) for failure to collect or preserve the Junior Debt,

and none of the undertakings in this Deed on the part of the Parent are given to or for the benefit of the Parent.

14. POWER OF ATTORNEY

14.1 APPOINTMENT

By way of security for their obligations, the Parent irrevocably appoints the Agent as its attorney to do anything which it:

- (a) has authorised the Agent to do under this Deed; and
- (b) is required to do by this Deed but has failed to do.

14.2 DELEGATION

The Agent may delegate the power of attorney in Clause 14.1 (Appointment).

15. CHANGES TO THE PARTIES

15.1 SUCCESSORS AND ASSIGNS

This Deed is binding on the successors and permitted assigns of the parties to it. Any reference to any party shall be construed accordingly.

15.2 COMPANY

The Company may not assign or transfer any or all of its rights (if any) or obligations under this Deed.

15.3 PARENT

The Parent will not at any time before the Senior Debt Discharge Date (except with the written consent of the Agent):

- (a) assign, novate, transfer or dispose of, or create or permit to subsist any security (fixed or floating) over, or declare or create any trust of, any or all of the Junior Debt owing to it or its proceeds or any interest in the Junior Debt or its proceeds, or any other rights or obligations under the Junior Finance Document, or any security therefore, or its commitment to provide the Junior Debt to or in favour of any person;
- (b) subordinate any or all of the Junior Debt or its proceeds to any sums owing by the Company to any person other than to the Senior Debt,

unless that person agrees with the parties to this Deed that it is bound by all the terms of this Deed as a Parent in the same capacity as the transferring Parent.

15.4 FINANCE PARTIES

Any Finance Party may assign, novate, transfer or otherwise dispose of all or any of its rights under this Deed.

15.5 MEMORANDUM ON DOCUMENTS

The Parent will ensure that a memorandum of this Deed will be endorsed on each Junior Finance Document to which it is party.

16. RIGHTS, AMENDMENTS, WAIVERS, CONSENTS AND DETERMINATIONS

16.1 RIGHTS ADDITIONAL

The rights and remedies provided in this Deed are cumulative and not exclusive of any other rights or remedies (whether provided by law or otherwise). Where there is any

ambiguity or conflict between the rights conferred by law and those conferred by or pursuant to this Deed, the terms of this Deed shall prevail.

16.2 EXERCISE OF RIGHTS

If the Agent fails to exercise or delays exercising any right under this Deed, it will not operate as a waiver of that right. Any single or partial exercise of any right will not preclude any other or further exercise of that right or the exercise of any other right.

16.3 AMENDMENTS, WAIVERS AND CONSENTS

Any provision of this Deed may be amended, supplemented or novated only if the Company, the Parent and the Agent agree in writing. Any waiver, consent or approval by the Agent under this Deed:

- (a) shall not be effective unless it is in writing;
- (b) may be given subject to any conditions thought fit by the person(s) giving it; and
- (c) shall be effective only in the instance and for the purpose for which it is given.

16.4 DETERMINATIONS

Any determination by any Finance Party under this Deed shall be conclusive save for manifest error.

17. MISCELLANEOUS

17.1 PARTIAL INVALIDITY

The illegality, invalidity or unenforceability of any provision of this Deed under the law of any jurisdiction shall not affect its legality, validity or enforceability under the law of any other jurisdiction nor the legality, validity or enforceability of any other provision of this Deed.

17.2 COUNTERPARTS

This Deed may be executed in any number of counterparts.

17.3 PERPETUITY PERIOD

The perpetuity period for each trust created by this Deed shall be 80

years.

17.4 WITHHOLDING

The terms of clause 13.2 (Tax gross-up) of the Facility Agreement shall apply, with any necessary amendments, to any sums payable by the Company or the Parent under this Deed.

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18. GOVERNING LAW AND JURISDICTION

18.1 GOVERNING LAW

This Deed shall be governed by and construed in accordance with the laws of England.

18.2 JURISDICTION

Any proceedings relating to a dispute which arises out of or in connection with this Deed ("PROCEEDINGS") shall be brought in the courts of England, save the Agent may also bring Proceedings, whether or not concurrently with other Proceedings, in:

(a) the courts of the state of New York or any Federal Court sitting in New York City; or

(b) any other courts which would have jurisdiction but for this Clause 18.2,

and, for the benefit of the Finance Parties, the Company and the Parent submits to the jurisdiction of each such court solely with respect to this Deed.

18.3 VENUE

For the benefit of the Finance Parties, the Company and the Parent irrevocably waives any objection which it may at any time have to the laying of the venue of any Proceedings in any court referred to in this Clause 18 and any claim that any such Proceedings have been brought in an inconvenient forum. Each party irrevocably waives all right to trial by jury in any Proceedings.

IN WITNESS whereof this Deed has been duly executed as a deed on the date stated at the beginning.

SIGNED as a DEED by ALLIED HEALTHCARE INTERNATIONAL INC. acting by

an Officer
and

a Secretary

/s/ CHARLES MURPHY
.....
Officer

/s/ LESLIE LEVINSON
.....
Secretary

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

SIGNED by

for and on behalf of BARCLAYS BANK PLC in
the presence of

/s/ MICHAEL JOYNER
.....
Authorised Signatory

/s/ TIM AUSTRUP
.....
Witness

Address: 5 The North Colonnade
Canary Wharf
London E14 4BB

Fax No: + 44 20 7773 4893

Attention: Global Loans Agency: Frank Rogers

SIGNED as a DEED by ALLIED HEALTHCARE GROUP LIMITED acting by

a Director
and

a Director/Secretary

/s/ SARAH EAMES
.....
Director

/s/ CHARLES MURPHY
.....

Address: Stone Business Park, Brooms Road, Stone
Staffordshire ST15 0TL

Fax No: +44 17 8581 9031

Attention: Charles Murphy

Rule 13a-14(a)/15d-14(a) Certification

I, Sarah L. Eames, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Allied Healthcare International Inc. (the "Registrant");
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the consolidated financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and
 - (c) disclosed in this Quarterly Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's third fiscal quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 12, 2004

/s/ Sarah L.

Eames

Sarah L. Eames
Chief Executive Officer, President
and Chief Operating Officer
(principal executive officer)

Rule 13a-14(a)/15d-14(a) Certification

I, Charles F. Murphy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Allied Healthcare International Inc. (the "Registrant");
2. Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the consolidated financial statements and other financial information included in this Quarterly Report fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and we have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation; and
 - (c) disclosed in this Quarterly Report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's third fiscal quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 12, 2004

/s/ Charles F. Murphy



Charles F. Murphy
Chief Financial Officer
(principal financial officer)

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Allied Healthcare International Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sarah L. Eames, Chief Executive Officer, President and Chief Operating Officer of the Company, certify, pursuant to 18. U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as at and for the quarter ended June 30, 2004.

Date: August 12, 2004

/s/ Sarah L. Eames

A solid black rectangular box used to redact the signature of Sarah L. Eames.

Sarah L. Eames
Chief Executive Officer, President and Chief
Operating Officer of the Company

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Allied Healthcare International Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles F. Murphy, Chief Financial Officer of the Company, certify, pursuant to 18. U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as at and for the quarter ended June 30, 2004.

Date: August 12, 2004

/s/ Charles F. Murphy

A solid black rectangular box used to redact the signature of Charles F. Murphy.

Charles F. Murphy
Chief Financial Officer of the Company
