BUPA CARE HOMES (CFG) PLC

(Registered No. 1969735)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS
for the year ended 31 December 2006

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

1. Review of the business and principal activities

Principal activities
BUPA Care Homes (CFG) Plc (the "Company") is a company domiciled in England and Wales The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group")

The principal activities of the Group are the owning and operating of nursing and residential homes for the elderly in the United Kingdom

Results and dividends
The surplus for the year, after taxation, amounted to £40,821,000 (2005 – £22,428,000) The Group has net assets of £459,175,000 (2005 - £418,173,000) and generated £78,407,000 (2005 - £61,323,000) of cash from operating activities

No ordinary dividend was declared and paid during the year (2005 – £nil)

Key performance indicators
We have made significant progress on the Group's overriding objectives and key elements to the strategy for growth The Board monitors progress on the overall strategy and the individual strategic elements by reference to the key performance indicators below

	2006	2005	Analysis
Revenue (£'000)	471,542	449,227	Revenue has increased in the year due to the annual fee increase for each resident
Operating surplus (£'000)	63,503	53,885	Operating profit has increased in the year due to growth in fee income and tight control of operating costs
Occupancy percentage (%)	91 5%	92 0%	The strategy is to maximise and maintain occupancy Occupancy percentage has fallen during the year However, this is in line with the industry norm
Available beds	17,355	17,556	The strategy is to provide an enhanced environment for our residents The movement during the year results from the refurbishment and repositioning of certain homes together with the closure of two underperforming homes

Definitions and method of calculation
Occupancy percentage is defined as the total occupied beds divided by total available beds for the year

Available beds are the number of beds available for occupation at the end of the year

Business environment
The Group offers a wide variety of services within the care homes In addition to elderly nursing care the Group provides specialist care to residents in such groups as dementia sufferers, young people with physical or learning disabilities and people with conditions such as Parkinson's and Huntingdon's diseases

The UK care home market provides 468,000 beds of which 71% are owned by private, for-profit operators Public purchasers (local authorities and the NHS) account for 68% of residents and 60% of income

There has been a continual decline in bed numbers over a number of years but more recently the Government has responded to this trend by seeking to address the under-funding issues that were causing low returns for operators This has resulted in a slow down in the reduction in bed numbers and improving returns for operators Currently the Government's social care policy is focused on providing independence and choice for older people and is designed to encourage alternatives to care homes

BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS
for the year ended 31 December 2006

1 Review of the business and principal activities (continued)

Business environment (continued)
Government policy with respect to employment legislation also has a significant impact on the sector and initiatives such as the national minimum wage have resulted in cost pressures in the sector The recent announcement of an increase in the minimum holiday entitlement will result in step changes in costs in 2007 and 2008 as many staff will be affected

The sector is heavily regulated and a new inspection regime has been introduced during the year In addition, the Department of Health has reviewed the national minimum standards under which the industry operates and is introducing a new star rating system where each individual home will be assessed

The care home market has been consolidating rapidly in recent years as providers seek economies of scale The Group forms part of one of the four major care home operators However, most of the marketplace remains fragmented with many small operators

Development
Organic profit growth has been achieved through a combination of fee increases that have offset a slight fall in occupancy together with tight cost management, particularly the costs of agency staff As a result the group has made good financial progress during the year

Three new homes have been opened over the past two years and work has commenced at another site during the year It is anticipated that there will be development at several further sites during 2007 During the year a major programme of extensions commenced which will continue in the future During the year the Group has acquired one care home in Cheshire

The Group has also invested in improving service quality including its 'Personal Best' programme which won the prestigious People Management Award presented annually by the Chartered Institute of Personnel and Development This programme encourages staff to provide a service that is personally tailored to each resident The Group has also retained its Investor in People accreditation during the year

Strategy
The Group will continue to deliver high quality and cost effective nursing care for the high dependency segment of the market Our strategy is to harness consumer demand and improve negotiations with funders by positioning the homes as the preferred choice in the locality wherever possible

The strategic objectives are as follows

Increase profitability of the underlying care home portfolio
There will be continued focus on income growth by optimising the mix of residents in each home to reflect local demand and negotiating commercially acceptable fee increases from public purchasers There will be continued improvement in cost efficiency in the areas that can be controlled Specific strategies include controlling the use of agency staff, adopting energy saving technology and obtaining efficiencies in the supply chain

Grow capacity in the care home market in the UK
It is intended that development of further new sites will be continued and acquisitions will be considered where suitable

Develop services to focus on the individual
There are a number of initiatives that are planned that are focused on individuality of care for the residents including improved care management, enhanced nutrition and varied activities

1. **Review of the business and principal activities (continued)**

Future outlook

The long term growth in the older population and rising affluence continue to offer opportunities for investment in the sector Current projections show a significant increase in the number of people over the age of 85 This will lead to an increase in the demand for high dependency care

There is now significant pressure on funding in both the NHS and local authorities following recent increases in public funding Consequently, we anticipate that in the short term there will be pressure on both the number of placements by commissioners and annual fee increases The self pay market is an important part of the sector and, with an increasingly wealthy elderly population, the demand will continue to grow requiring quality facilities and services to meet increasing expectations

There are a number of cost pressures facing the Group including additional holiday entitlement for staff, increasing national minimum wage and growing utility costs The Group will continue to negotiate for the best prices and seek to mitigate the cost wherever possible

Principal risks and uncertainties

The Group's risk management process

The Group is committed to applying best practice in risk management, and has a well established process for identifying business risks, evaluating controls, and establishing and executing action plans The management team undertakes an annual risk assessment in conjunction with the production of the annual three-year strategic plan This exercise identifies those risks that could affect the achievement of its business objectives Management evaluates the probability and likely impact of each potential risk For each of the risks identified, management notes the controls in place either to prevent the risk from occurring or to mitigate the effects should the risk materialise, in order to identify the residual exposure that the risk represents The residual exposure to the risk is graded on a sliding scale Management formulates action plans to improve controls for those risks graded as significant Risk assessments and action plans are formally reviewed on a quarterly basis Management teams update their risk footprints to include new risks, actions taken to strengthen controls and changes to the risk profile They also provide formal assurance through quarterly Business Review Meetings that there are adequate processes in place to identify and manage the significant risks facing their business units The outcome of the process is reviewed by the Audit Committee of the ultimate parent undertaking, The British United Provident Association Limited (BUPA), and reported to the BUPA Board

Care Homes profitability

The profitability of the Care Homes business is dependent on achieving an adequate funding stream from local authorities, which fund the fees of approximately 70% of residents Staffing costs constitute a large element of Care Homes cost base Consequently any increase in staffing costs, including an increase in the UK national minimum wage level, which could not be recovered by increased charges to local authorities or privately funded residents, would have an impact on profitability

Leadership

As the Group changes and grows, it needs to make sure it has the right people to move forward It is essential that the Group has managers with the right skills to help it expand and develop new delivery models and products The Group has a rigorous succession planning process which is designed to identify potential gaps and weaknesses in our management skills base as well as planning individual development The Directors view the development and training of the Group's people, and the recruitment of experienced individuals from outside the Group, as central to the organisation's future success The Group has sound selection, evaluation and reward processes to recruit, recognise and motivate above-average performers

BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS
for the year ended 31 December 2006

1. Revıew of the business and principal actıvitıes (continued)

Prıncipal risks and uncertaınties (contınued)

Management of change
The Group ıs undertakıng a number of change programmes The Care Homes busınesses are growıng rapıdly, partly by acquırıng and ıntegratıng other busınesses The Group mıtıgates the rısk ınherent ın change by havıng strıngent change management procedures Major project expendıture on new developments ıs approved by the Dırectors followıng a rıgorous assessment of plans Professıonal programme management resources are deployed where necessary BUPA's Internal Audıt functıon revıews the ımpact of major changes on BUPA's operatıonal controls Progress on key projects ıs revıewed by the Audıt Commıttee or Board of BUPA as approprıate

Acquısitions
The Group makes acquısıtıons where ıt consıders thıs wıll add to our range of offerıngs, our geographıcal spread thereby ıncreasıng the number of customers and enhancıng the value of the busıness ın the long term, and provıdıng valued servıces to customers Any major acquısıtıon ınvolves rısk untıl the acquıred busıness ıs successfully ıntegrated The Group controls acquısıtıon rısk by focusıng on product and servıce areas that are consıstent wıth, or adjacent to, ıts exıstıng offerıngs, and deploys a defined acquısıtıon methodology and expert staff Integratıon programmes are regularly revıewed by senıor management

Pandemic
As the Group ıs a major care servıces provıder, a pandemıc such as avıan flu could have a sıgnıficant effect A pandemıc could present the Group wıth major operatıonal dıfficultıes ın maıntaınıng an adequate staffing profile and protectıng resıdents, ın addıtıon to dısruptıng normal busıness actıvıtıes across the organısatıon The Group has extensıve plans ın place ın the event of an epıdemıc such as avıan ınfluenza and would make every effort to mınımıse ıts ımpact

2. Conversion to International Financial Reporting Standards
The consolıdated accounts have been prepared under Internatıonal Fınancıal Reportıng Standards (IFRS) as adopted by the European Unıon (EU) The Company ıs not requıred to report under IFRS as adopted by the EU and therefore the Company's financıal statements are prepared ın accordance wıth applıcable UK Generally Accepted Accountıng Prıncıples (UK GAAP) The Company financıal statements are presented on pages 47 to 57

3. Directors and directors' interests
Detaıls of the present dırectors and any other person who served as a dırector durıng the year are set out below

J P Davıes
M Ellerby
N R Taylor
N T Beazley
B D J Kent

4 Companies (Audit, Investigations and Community Enterprise) Act 2004
As at the date of thıs report, ındemnıtıes are ın force under whıch the Company has agreed to ındemnıfy certaın dırectors, to the extent permıtted by law and the Company's artıcles of assocıatıon, ın respect of all losses arısıng out of, or ın connectıon wıth, the executıon of theır powers, dutıes and responsıbılıtıes, as dırectors of the Company oı any of ıts subsıdıarıes

5. Polıtical and charitable donations
The Group made no polıtıcal or charıtable donatıons ın the year (2005 - £nıl)

6. Corporate governance

The Company was a wholly owned subsidiary of BUPA during the year A statement on BUPA Group corporate governance policies and the report of the remuneration committee are included in BUPA Group's annual report and accounts

7. Employees and remuneration

Details of the number of persons employed and gross remuneration are contained in note 5 to the financial statements

Every effort is made by the directors and management to inform, consult and encourage the full involvement of staff on matters concerning them as employees and affecting the Group's performance

The Group continues to pursue its stated policy of giving every consideration to the employment of disabled persons Employees who are registered disabled persons are, to the greatest possible extent, treated on the same basis as all other employees and given every opportunity to develop their full working potential within the Group, through training, career development and promotion Where employees have become disabled whilst in the service of the Group, every effort is made to rehabilitate them in their former occupation or some suitable alternative

8 Policy for paying creditors

The Group's policy is to settle terms of payments with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of their terms of payment and to abide by the terms of payment Trade creditors of the Group at 31 December 2006 were equivalent to 26 (2005 – 26) days purchases, based on the average daily amount invoiced by suppliers during the year

9. Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

10 Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the 2006 Annual General Meeting

Registered Office
Bridge House
Outwood Lane
Horsforth
Leeds
LS18 4UP

By Order of the Board

M Ellerby
Director

16 May 2007

BUPA CARE HOMES (CFG) PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the Group and parent Company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group financial statements are required by law and International Financial Reporting Standards as adopted by the EU to present fairly the financial position and the performance of the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company and of the loss of the parent company for that period

In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Under applicable law, the directors are also responsible for preparing a Directors' Report that complies with that law

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUPA CARE HOMES (CFG) PLC

We have audited the group and parent company financial statements (the "financial statements") of BUPA Care Homes (CFG) plc for the year ended 31 December 2006 which comprise the Group Income Statement, the Parent Company Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group Statement of Recognised Income and Expenses and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent Company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the other information contained in the financial statements and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended,

- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUPA CARE HOMES (CFG) PLC (CONTINUED)

- the parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

16 May 2007

1 The Embankment

Neville Street

Leeds LS1 4DW

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Continuing Operations			
Revenue	3	471,542	449,227
Operating expenses		(408,039)	(395,342)
Operating surplus	6	63,503	53,885
Gain on sale of property, plant and equipment	8	-	1,102
Provisions for liabilities in participating interests	9	(4,692)	(11,373)
Financial income	10	20,272	17,935
Financial expenses	11	(23,320)	(32,242)
Surplus before taxation expense		55,763	29,307
Taxation expense	12	(14,942)	(6,921)
Surplus from continuing operations		40,821	22,386
Discontinued operations			
Surplus from discontinued operations	13	-	42
Surplus for the year attributable to equity holders of the parent company		40,821	22,428

The accounting policies and notes on pages 13 to 46 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED BALANCE SHEET
As at 31 December 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Intangible assets	14	8,223	8,584
Property, plant and equipment	15	482,968	481,368
Other investments	16	23,155	23,155
Deferred tax assets	25	1,899	1,829
Other receivables	18	409,637	256,098
		925,882	771,034
Current assets			
Inventories	19	152	117
Trade and other receivables	20	279,200	211,843
Cash and cash equivalents	21	22,677	16,886
		302,029	228,846
Total assets		1,227,911	999,880
Non-current liabilities			
Obligations under finance leases	22	-	(9,966)
11 8% debenture stock	23	(50,000)	(50,000)
Amounts owed to Group undertakings		(130,973)	(34,348)
Post employment benefits liability	24	(3,912)	(3,848)
Deferred tax liabilities	25	(39,779)	(44,164)
Provisions for liabilities and charges	26	(41,877)	(37,207)
Preference shares	27	(70,000)	(70,000)
		(336,541)	(249,533)
Current liabilities			
Obligations under finance leases	22	-	(1,747)
Trade and other payables	29	(430,684)	(330,427)
Current tax liabilities		(1,511)	-
		(432,195)	(332,174)
Total liabilities		(768,736)	(581,707)
Net assets		459,175	418,173
Equity			
Share capital	30	40,553	40,553
Share premium	31	114,141	114,141
Merger reserve	31	16,963	16,963
Capital redemption reserve	31	2,110	2,110
Revaluation reserve	31	125,870	125,870
Income and expenditure reserve	31	159,538	118,536
Total equity attributable to the holders of the parent company		459,175	418,173

These financial statements were approved by the Board of Directors on 16 May 2007 and were signed on its behalf

Neil Taylor

N R Taylor
Director

The accounting policies and notes on pages 13 to 46 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash generated from operating activities	32	78,085	61,323
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,812)	(20,362)
Proceeds on disposal of property, plant and equipment		-	1,510
Acquisition of subsidiary		-	(71)
Purchase of separately acquired intangible assets		(391)	(354)
Interest received		362	342
Net cash used in investing activities		(15,841)	(18,935)
Cash flows from financing activities			
Loans to fellow Group undertakings		(198,830)	(49,967)
Loans from fellow Group undertakings		142,377	6,333
Net cash utilised in financing activities		(56,453)	(43,634)
Net increase/(decrease) in cash and cash equivalents		5,791	(1,246)
Cash and cash equivalents at beginning of year		11,025	12,271
Cash and cash equivalents at end of year	32	16,816	11,025

The accounting policies and notes on pages 13 to 46 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2006

	2006 £'000	2005 £'000
Recognised during the financial year		
Unrealised surplus on revaluation of properties	-	95,950
Actuarial gain/(losses) on pension schemes	257	(237)
Taxation (charge)/credit on income and expenses recognised directly in equity	(76)	(30,140)
Net income recognised directly in equity	181	65,573
Surplus for the financial year	40,821	22,428
Total recognised income and expense for the year attributable to equity holders	41,002	88,001

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

1. STATEMENT OF ACCOUNTING POLICIES

a) General information

BUPA Care Homes (CFG) Plc (the "Company") is a company domiciled in England and Wales The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiary companies (together referred to as the "Group")

The financial statements were approved by the Directors on 16 May 2007 The Board of Directors has reviewed and approved the Group's accounting policies, a summary of the more significant of which are set out below and have been applied consistently

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Companies Act 1985, IFRS as adopted by the EU and its interpretations

c) Basis of preparation

The financial statements are prepared under the historical cost convention, as modified to include the revaluation of land and buildings and on a going concern basis

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain accounting estimates It also requires management to exercise its judgement in applying the Group's accounting policies The estimates and assumptions are based on historical experience and other related variables, updated to reflect current trading performance The estimates and assumptions are reviewed on an ongoing basis and are considered to be prudent and appropriate but actual results may differ from these estimates Judgements made by management in applying the Group's accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent periods are described in v) below

International Financial Reporting Standard number 8 "Operating Segments" (IFRS8) is applicable for financial periods beginning on or after 1 January 2009 and is not effective for the Group in these financial statements The standard will require the Group to report information about its operating segments based on the components of the entity that management uses to make operating decisions The Group expects to adopt the standard with effect from 1 January 2009 The effects of adoption will be on the information disclosed about the Group's segment in the financial statements at the reporting date and hence cannot be given here

International Financial Reporting Interpretation Committee number 12 "Service Concessions Arrangements" (IFRIC12) is effective for financial periods beginning on or after 1 January 2008 It provides guidance for arrangements whereby a public sector entity grants contracts for the supply of public services to private sector operators and clarifies how operators should apply existing standards to account for the obligations and rights generated under service concession arrangements The Group anticipates applying this interpretation from 1 January 2008 The potential effect of adoption will depend upon the extent and position of such contracts as at date of adoption and cannot be reasonably estimated at the present time

d) Subsidiary companies

Subsidiary companies are entities controlled by the Group Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities Subsidiary companies are included in the consolidated financial statements using the purchase method, from the date that control commences until the date that control ceases Intra group balances and any gains, losses, income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

e) Revenue

Revenue represents income receivable from health and care provision services rendered and goods supplied

Revenue is stated net of value added tax and other sales taxes, net of rebates and discounts and after eliminating sales within the Group Income is recognised in the accounting period in which the Group obtains the right to consideration in exchange for its performance and by reference to the stage of completion of a transaction

f) Financial income and expenses

Financial expenses and charges include interest payable on borrowings

Financial income comprises interest receivable on funds invested

Interest income and expenses are recognised in the income statement as they accrue

g) Taxation

Income tax on the surplus or deficit for the year comprises current and deferred tax Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years

Deferred tax is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The following temporary differences are not recognised, goodwill not deductible for tax purposes, the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting surplus nor taxable profit or loss The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

A deferred tax asset is recognised only to the extent that it is probable that future taxable surpluses will be available against which the asset can be utilised

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group can to settle its current tax assets and liabilities on a net basis

h) Segmental reporting

A segment is a distinguishable component of the Group that is engaged in providing services that are subject to risks and rewards that are different from those of other segments The primary segments have been determined by reference to the Group's management approach and therefore reflect business activities The secondary reporting format is the geographical split of operations An explanation of the segments is included in note 4

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

i) Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary company or associated company at the date of acquisition Where goodwill can only be determined on a provisional basis for a financial year, adjustments are made to this balance for up to twelve months from the date of acquisition

Goodwill on acquisitions of subsidiary companies is capitalised and presented as part of intangible assets in the consolidated balance sheet Goodwill is stated at cost less accumulated impairment losses Impairment reviews are performed annually or more frequently if there is an indication that the carrying value may be impaired Impairment reviews are performed at the level of relevant cash-generating unit (CGU)

Any excess of the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities over cost that arises on an acquisition is recognised immediately in the income statement

Goodwill arising on acquisitions before the date of transition to IFRS as adopted by the EU and capitalised in the balance sheet has been retained at the amount recorded previously under UK GAAP, subject to impairment testing Goodwill previously written off to reserves under UK GAAP (on acquisitions prior to 31 December 1997) remains eliminated against reserves and is not included in calculating any subsequent gain or loss on disposal

i) Intangible assets (continued)

Other intangible assets
Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment Amortisation is charged to the income statement on a straight line basis as follows

Computer software	3 to 5 years

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised in the income statement to reduce the carrying amount to recoverable amount

Intangible assets other than goodwill acquired as part of a business combination are capitalised at fair value

j) Property, plant and equipment
Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation and impairment losses Valuations of care homes are on an existing use value basis Valuations of office buildings are on an open market value basis All other plant and equipment is stated at historic cost less subsequent depreciation

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in the income statement to the extent it reverses a previous decrease of the same asset recognised in the income statement and the balance recognised in the revaluation reserve Decreases in the carrying amount are recognised in reserves where they reverse previous increases of the same asset, all other decreases are recognised in the income statement

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

j) Property, plant and equipment (continued)

Depreciation

Freehold land and assets under construction are not depreciated Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amount less their residual values over their estimated useful lives, as follows

- Freehold buildings	50 years
- Leasehold buildings	terms of the lease
- Fixtures, fittings and equipment	3 to 50 years

The assets' residual values and useful lives are reviewed, where significant, at each balance sheet date and adjusted if appropriate

Impairment reviews are undertaken where there are indications that the carrying value may not be recoverable An impairment loss on assets carried at cost is recognised in the income statement to reduce the carrying value to the recoverable amount An impairment loss on assets carried at revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement

k) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases Assets obtained under finance leases, with the exception of leasehold land where no right to obtain title exists, are capitalised within property, plant and equipment at fair value at acquisition or, if lower, at the present value of the minimum lease payments and depreciated over their useful economic lives, or the lease term, whichever is shorter Obligations relating to finance leases, net of finance charges in respect of future periods, are included within other interest bearing liabilities due within or after one year as appropriate The interest element of the obligation is allocated over the lease term to reflect a constant rate of interest on the outstanding obligation

Leasehold land where no option to obtain title exists is treated as an operating lease

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease Lease incentives received are recognised in the income statement as an integral part of the total expense

l) Trade and other receivables

Trade and other receivables are carried at cost less impairment losses

m) Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined using the average method, and includes costs incurred in acquiring the inventories and in bringing them to their current location and condition

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

n) Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are classified as held for sale where their carrying amount will be recovered principally through a sale transaction rather than continuing use, where sale is highly probable and where the asset or disposal group is available for immediate sale in its present condition

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier

Non-current assets and disposal groups held for sale are recognised at the lower of carrying amount and fair value less costs to sell Impairment losses are included in the income statement

o) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other highly liquid investments with original maturities of three months or less which are subject to an insignificant risk of change in value Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

p) Interest bearing borrowings

Interest bearing borrowings are recognised initially at proceeds receivable less attributable transaction costs Subsequent to initial recognition, where borrowings are not hedged or are subject to cashflow hedges, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis The amortised cost of borrowings with a fair value hedge is amended by the fair value of the risk being hedged

q) Provisions for liabilities and charges

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability

r) Trade and other payables

Trade and other payables are carried at amortised cost

s) Payments on account

Payments on account are carried at cost and represent payments for goods and services to be rendered by Group undertakings

t) Employee post employment benefits

The Group operates defined contribution and defined benefit pension schemes

Defined contribution pension schemes

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

t) Employee post employment benefits (continued)

Defined benefit post employment schemes
The Group's net obligation in respect of defined benefit pension plans is calculated separately for each scheme and represents the present value of the defined benefit obligation less, for funded schemes, the fair value of scheme assets The discount rate used is the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefits will be paid

The charge to the income statement for defined benefit schemes represents the following current service cost calculated on the projected unit credit method, interest cost on scheme liabilities, less the expected return on scheme assets and gains and losses on curtailments

All actuarial gains and losses are recognised in full in the Statement of Recognised Income and Expense in the period in which they occur

u) Financial assets

The Group has classified its financial assets into the following categories at fair value through profit and loss, available for sale and loans and receivables Management determines the classification at initial recognition Assets are classified as current if they are expected to be realised within twelve months from the balance sheet date or, for loans and receivables, where they have a maturity of less than twelve months from balance sheet date

All financial assets are initially recognised at fair value, which includes financial costs for financial assets not classified at fair value through profit or loss Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership

Financial assets at fair value through the profit and loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if permissible, it is so designated at inception by management

The assets are carried at fair value, with gains and losses arising from changes in this value recognised in the income statement in the period in which they arise The fair values of quoted investments in active markets are based on current bid prices The fair value of unlisted securities, and quoted investments for which there is no active market, are established using valuation techniques These may include reference to other instruments that are substantially the same and discounted cash flow analysis Where the fair value of unquoted equity instruments cannot be reliably measured, the assets are carried at cost

Purchases and sales of financial assets at fair value through the profit or loss are recognised on the trade date The trade date is the date on which the Group commits to purchase or sell the asset

Derivatives are held at fair value through the profit or loss unless they are designated as hedges

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

u) Financial assets (continued)

Available for sale
Available for sale financial assets are those intended to be held for an indefinite period of time which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices

Purchases and sales of available for sale financial assets are recognised on the trade date This is the date on which the Group commits to purchase or sell the assets

Available for sale financial assets are carried at fair value with the exception of assets whose fair value cannot be reliably determined, which are carried at cost Fair values are determined in the same manner as for assets at fair value through profit or loss Changes in fair value are recognised in equity whilst an asset is held and are subsequently transferred to the income statement upon sale of the asset

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Group provides money, goods or services directly to a borrower or customer with no intention of trading the receivable Loans are recognised when cash is advanced to the borrowers

Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses

v) Accounting estimates and judgements

The preparation of accounts requires the use of certain accounting estimates and judgements as described in the accounting policies Significant sources of estimation and uncertainty are described below

- Pension assumptions Note 24 details the estimation techniques involved in calculating the Group's pension liability
- Goodwill impairment Note 14 contains information about the assumptions and estimates used to calculate the impairment of goodwill
- Property valuations The Group's properties are valued with regard to their trading potential Valuations are performed by independent external valuers who incorporate assumptions The principal assumptions relate to quantifying a fair, maintainable level of trade and profitability, levels of competition and assumed ability to renew existing licences, consents, certificates or permits
- Provisions Provisions for onerous leases are subject to an element of uncertainty as they include assumptions in respect of future operating costs and the Group's ability to sublet

2. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking of the Company is BUPA Iberia S L , a company registered in Spain

The ultimate parent undertaking of the Company is BUPA, a company registered in England and Wales in whose accounts these financial statements are consolidated The smallest group in which these accounts are consolidated is that headed by BUPA Finance Plc, a company registered in England and Wales Copies of the accounts of BUPA and BUPA Finance Plc can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ

3. REVENUE

An analysis of the Group revenue is as follows

	2006 £'000	2005 £'000
Fee income	471,542	449,062
Equipment leasing income	-	165
	471,542	449,227
Financial income	20,272	17,935
	491,814	467,162

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into three operating divisions – health care, leasing and property development The principal activities are as follows

- Health care – ownership and operation of nursing and residential homes for the elderly
- Leasing – Lease of goods to the health care operating companies, now discontinued
- Property development – construction of purpose built care homes for other Group undertakings

Segment information about these businesses is presented below

2006	Health care £'000	Discontinued leasing £'000	Property development £'000	Elimination £'000	Total £'000
Revenue					
External sales	471,542	-	-	-	471,542
Inter segment sales	-	1,421	4,172	(5,593)	-
	471,542	1,421	4,172	(5,593)	471,542
Operating surplus					
Segment result	63,503	885	430	(1,315)	63,503
Provisions for liabilities in participating interests					(4,692)
Financial income					20,272
Financial expenses					(23,320)
Surplus before taxation expense					55,763
Taxation expense					(14,942)
Surplus after tax					40,821

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Other information

2006	Health Care £'000	Discontinued Leasing £'000	Property development £'000	Elimination £'000	Total £'000
Assets acquired[a]	19,909	-	-	-	19,909
Depreciation	18,670	-	-	-	18,670
Balance Sheet					
Segment assets	1,120,027	101,022	8,226	(1,364)	1,227,911
Segment liabilities	(669,199)	(93,244)	(7,288)	995	(768,736)

2005	Health care £'000	Leasing £'000	Property development £'000	Discontinued operations £'000	Elimination £'000	Total £'000
Revenue						
External sales	450,525	165	-	(1,463)	-	449,227
Inter segment sales	-	1,231	4,472	-	(5,703)	-
	450,525	1,396	4,472	(1,463)	(5,703)	449,227
Operating surplus						
Segment result	54,079	842	165	(60)	(1,141)	53,885
Gain on sale of property, plant and equipment						1,102
Provisions for liabilities in participating interests						(11,373)
Financial income						17,935
Financial expenses						(32,242)
Surplus before taxation expense						29,307
Taxation expense						(6,921)
Surplus from discontinued operations						42
Surplus after tax						22,428

Other information

2005	Health Care £'000	Leasing £'000	Property development £'000	Elimination £'000	Total £'000
Assets acquired[a]	24,311	-	-	-	24,311
Depreciation	17,599	-	-	-	17,599
Balance Sheet					
Segment assets	886,116	107,411	7,611	(1,258)	999,880
Segment liabilities	(473,624)	(102,722)	(6,254)	893	(581,707)

[a] Assets acquired comprise the cost of property, plant and equipment and intangible assets that were bought during the year and are to be used during more than one year

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Discontinued operations

Discontinued operations had the following effect on the operating surplus of the health care segment, analysed into continuing and discontinued components

	Continuing 2006 £'000	Discontinued 2006 £'000	Total 2006 £'000
Revenue			
External sales	471,542	-	471,542
Result			
Operating surplus	63,503	-	63,503

	Continuing 2005 £'000	Discontinued 2005 £'000	Total 2005 £'000
Revenue			
External sales	449,062	1,463	450,525
Result			
Operating surplus	54,019	60	54,079

The operating surplus from discontinued operations stated above is equal to the surplus before tax from discontinued operations disclosed in note 13, which provides reconciliation to the net surplus from discontinued operations

Geographical segments

The Group's operations are located in the United Kingdom

5. STAFF COSTS AND DIRECTORS' REMUNERATION

(a) Employees

The average number of persons employed by the Group during the year (including directors), analysed by category, was as follows

	Number of employees 2006	2005
Health care	16,498	16,070
Other	400	400
	16,898	16,470

5. STAFF COSTS AND DIRECTORS' REMUNERATION (CONTINUED)

The aggregate payroll costs of these persons were as follows

	2006 £'000	2005 £'000
Wages and salaries	249,291	234,001
Social security costs	19,136	17,328
Other pension costs	2,698	2,350
	271,125	253,679

(b) Directors' remuneration

Emoluments	**2006 £'000**	2005 £'000
Aggregate emoluments	864	810
Company contributions paid to money purchase pension schemes	-	-

Long Term Incentive Plan	**2006 £'000**	2005 £'000
Amounts payable	-	385

Pensions	**2006 Number**	2005 Number
Members of money purchase pension schemes	-	-
Members of defined benefit pension schemes	2	2

Amounts in respect of highest paid director	**2006 £'000**	2005 £'000
Emoluments	645	840
Company contributions paid to money purchase pension schemes	-	-
Accrued pension at year-end	49	35

Amounts payable in respect of the Long Term Incentive Plan (LTIP) are earned during a two-year plan period, with 60% of the total fund value paid in April of year three and 40% paid in April of year five

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

6. OPERATING SURPLUS

	2006 £'000	2005 £'000
Operating surplus has been arrived after charging/(crediting):		
Depreciation of property, plant and equipment	17,479	16,843
Amortisation of other intangible assets	752	756
Impairment losses	439	-
Reversal of past impairment losses of property, plant and equipment	-	(3,160)
Staff costs	270,139	252,989
Contributions to defined contributions retirement benefit scheme	986	690
Operating lease rentals		
Plant and equipment	704	735
Land and buildings	34,153	34,205

7. AUDITORS REMUNERATION

	2006 £'000	2005 £'000
Fees for the audit of the Company	2	2
Fees for the audit of subsidiary undertakings	130	137

Fees for the audit of the Company and subsidiary undertakings represent the amount receivable by the Group's auditors The amount may not be borne by the Group The 2005 disclosure has been restated using a consistent basis

Fees paid to the Group's auditors, KPMG Audit Plc, and its associates for services other than the statutory audit of the Group are not disclosed in these accounts since the consolidated accounts of BUPA, the ultimate parent undertaking, are required to disclose non-audit fees on a consolidated basis

8. GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT

	2006 £'000	2005 £'000
Gain on sale of property, plant and equipment	-	1,102

9. PROVISIONS FOR LIABILITIES IN PARTICIPATING INTERESTS

	2006 £'000	2005 £'000
Provision for liabilities in The Care Homes Partnership (note 26)	4,692	11,373

10 FINANCIAL INCOME

	2006 £'000	2005 £'000
Bank deposits	362	342
Loans to Group undertakings	18,218	17,593
Termination of lease arrangement	1,692	-
	20,272	17,935

During the year, the Group terminated a lease agreement with a fellow Group undertaking (see note 15)

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

11 FINANCIAL EXPENSES

	2006	2005
	£'000	£'000
Bank loans and overdrafts	55	54
Finance leases	775	650
Debenture stock	5,900	5,900
Loans from Group undertakings	12,215	21,263
Preference dividend	4,375	4,375
	23,320	32,242

12. TAXATION EXPENSE

(i) Recognised in the income statement

	2006	2005
	£'000	£'000
Continuing		
Current taxation expense		
UK taxation on income for the year	20,293	12,883
Adjustments in respect of prior periods	(820)	243
Total current taxation expense	19,473	13,126
Deferred taxation expense		
Origination and reversal of temporary differences	(4,468)	(5,206)
Adjustments in respect of prior periods	(63)	(999)
Total deferred taxation	(4,531)	(6,205)
Taxation expense	14,942	6,921

	2006	2005
	£'000	£'000
Discontinued		
Current taxation expense		
UK taxation on income for the year	-	18

(ii) Reconciliation of effective tax rate

	2006	2005
	£'000	£'000
Continuing		
Surplus before taxation expense	55,763	29,307
Taxation at the domestic UK corporation tax rate of 30% (2005 – 30%)	16,729	8,792
Effects of		
Non deductible expenses	4,702	3,754
Transfer pricing adjustment	(598)	-
Accelerated capital allowances	(688)	(293)
Deferred tax on short term and other timing differences	148	630
Adjustments to tax charge in respect of prior period	(820)	243
Adjustments in respect of current deferred taxation	(4,468)	(5,206)
Adjustments in respect of deferred taxation of prior periods	(63)	(999)
Taxation expense on continuing activities at the effective rate of 26 8% (2005 – 23 6%)	14,942	6 921

12 TAXATION EXPENSE (CONTINUED)

(ii) Reconciliation of effective tax rate (continued)

	2006 £'000	2005 £'000
Discontinued		
Surplus before taxation expense	-	60
Taxation expense on discontinued activities at the effective rate of 30% (2005 – 30%)	-	18

(iii) Current and deferred taxation recognised directly in equity

	2006 £'000	2005 £'000
Deferred taxation charge in respect of		
Revaluation of property	-	30,211
Actuarial (gain)/loss on pension schemes	(76)	71

13 DISCONTINUED OPERATIONS

In March 2005, the Group terminated its contract with one local council in respect of six homes The results of the discontinued operations which have been included in the consolidated income statement were

	2005 £'000
Revenue	1,463
Expenses	(1,403)
Surplus before tax	60
Attributable tax	(18)
Net surplus attributable to discontinued activities	42

The effect of discontinued operations on segment results is disclosed in note 4

14. INTANGIBLE ASSETS

2006	Goodwill £'000	Software £'000	Total £'000
Cost			
At 1 January 2006	18,223	3,700	21,923
Additions	-	391	391
At 31 December 2006	18,223	4,091	22,314
Amortisation and impairment losses			
At 1 January 2006	10,899	2,440	13,339
Amortisation for the year	-	752	752
At 31 December 2006	10,899	3,192	14,091
Net Book Value			
At 31 December 2006	7,324	899	8,223
At 31 December 2005	7,324	1,260	8,584

14. INTANGIBLE ASSETS (CONTINUED)

2005	Goodwill £'000	Software £'000	Total £'000
Cost			
At 1 January 2005	17,815	3,346	21,161
Assets arising on business combinations	408	-	408
Additions	-	354	354
At 31 December 2005	18,223	3,700	21,923
Amortisation and impairment losses			
At 1 January 2005	10,899	1,684	12,583
Amortisation for the year	-	756	756
At 31 December 2005	10,899	2,440	13,339
Net Book Value			
At 31 December 2005	7,324	1,260	8,584
At 31 December 2004	6,916	1,662	8,578

Goodwill arising on acquisition before the date of transition to IFRS as adopted by the EU and capitalised on the balance sheet has been retained at the amount recorded previously under UK GAAP

Goodwill impairment
Goodwill is tested at least annually for impairment in accordance with International Accounting Standard No 36 "Impairment of Assets" (IAS36) and International Accounting Standard No 38 "Intangible Assets" (IAS38) The impairment tests at 31 December 2006 using value in use resulted in no charge to goodwill impairment expense within the income statement

In determining whether a goodwill impairment charge is required, the carrying value of goodwill is compared to the recoverable amount of CGUs, which is determined based on value in use calculations These calculations use cash flow projections based on financial budgets approved by management covering the next three year period In all cases, the growth rate is a conservative estimate which does not exceed the long-term average growth rate of the industry in which the CGUs operate The discount rates used are pre-tax and reflect the specific risks relating to the industry segments The rates are calculated with reference to the Group's weighted average cost of capital and are benchmarked against data available for listed groups in similar industries Any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amount of CGUs to exceed its recoverable amount

15. PROPERTY, PLANT AND EQUIPMENT

2006	Land & buildings £'000	Fixtures, fittings & equipment £'000	Assets in the course of construction £000	Total £'000
Cost or valuation				
At 1 January 2006	424,069	155,596	3,509	583,174
Reclassifications	3,741	-	(3,741)	-
Additions	7,069	12,217	232	19,518
At 31 December 2006	434,879	167,813	-	602,692
Depreciation				
At 1 January 2006	3,148	98,658	-	101,806
Charge for the year	6,318	11,161	-	17,479
Impairment losses	439	-	-	439
At 31 December 2006	9,905	109,819	-	119,724
Net Book Value				
At 31 December 2006	424,974	57,994	-	482,968
At 31 December 2005	420,921	56,938	3,509	481,368
Leased assets included above:				
Net Book Value				
At 31 December 2006	37,369	-	-	37,369
At 31 December 2005	36,633	10,368	-	47,001

Certain of the Group's freehold land and buildings were independently valued by Knight Frank, Chartered Surveyors in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors The valuations were effective from 31 December 2005 The principal assumptions inherent in such valuations are described in note 1 These valuations were incorporated into the balance sheet at 31 December 2005

On 31 December 2006, the Group terminated its leasing arrangement with fellow BUPA Group undertakings with regard to the leasing of equipment This equipment is now owned on a freehold basis by the Group As a result of this termination of the leasing arrangement, the Group made a profit of £1,692,000 reported as financial income

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
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15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2005	Land & buildings £'000	Fixtures, fittings & equipment £'000	Assets in the course of construction £000	Total £'000
Cost or valuation				
At 1 January 2005	328,907	146,884	4,572	480,363
Reclassifications	7,714	778	(8,492)	-
Additions	6,453	10,075	7,429	23,957
Revaluations	81,667	(741)	-	80,926
Disposals	(672)	(1,400)	-	(2,072)
At 31 December 2005	424,069	155,596	3,509	583,174
Depreciation				
At 1 January 2005	15,643	89,168	-	104,811
Charge for the year	5,302	11,541	-	16,843
Reversal of past impairment losses	(3,160)	-	-	(3,160)
Adjustments on revaluations	(14,294)	(730)	-	(15,024)
Disposals	(343)	(1,321)	-	(1,664)
At 31 December 2005	3,148	98,658	-	101,806
Net Book Value				
At 31 December 2005	420,921	56,938	3,509	481,368
At 31 December 2004	313,264	57,716	4,572	375,552

Analysis of cost or valuation of land and buildings:

	2006 Land & buildings £'000	2005 Land & buildings £'000
At open market value	411,412	411,412
At cost	23,467	12,657
Aggregate depreciation thereon	(9,905)	(3,148)
	424,974	420,921
Historical cost of revalued assets	241,345	241,345
Aggregate depreciation based on historical cost	(40,450)	(35,623)
Historical cost net book value	200,895	205,722

16. OTHER INVESTMENTS

	£'000
At 1 January 2006 and 31 December 2006	23,155

The Group acquired 11% of the shares of ANS 2003 Plc in September 2005 for a consideration of £23,155,000 from fellow Group undertakings The Directors performed a fair value calculation of the investment at 31 December 2006 and in their opinion the fair value of the investment is not significantly different to the book value

17. SUBSIDIARY COMPANIES

A list of the significant investments, including the name, country of incorporation and proportion of ownership interest is given in note 41 to the Company's financial statements

18 OTHER NON-CURRENT RECEIVABLES

Other non-current receivables comprise

	2006 £'000	2005 £'000
Amounts owed by Group undertakings	408,638	254,639
Advance operating property rental payments	999	1,459
	409,637	256,098

The amounts owed by Group undertakings include loans issued on 18 February 2000 to BUPA Investments Limited The loans are repayable in 2030 and bear interest at 6 4% per annum

19 INVENTORIES

	2006 £'000	2005 £'000
Finished goods	152	117

20. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise

	2006 £'000	2005 £'000
Trade receivables	21,345	15,524
Payments on account	-	22,575
Amounts owed by Group undertakings	244,558	160,993
Corporation tax	-	127
Other receivables	1,130	1,346
Prepayments and accrued income	11,711	10,822
Advance operating rental payments	456	456
	279,200	211,843

The average credit period taken on sales of goods and services provided is 15 days (2005 – 15) No interest is charged on receivables An allowance has been made for estimated irrecoverable amounts from sale of goods and services rendered amounting to £2,599,000 (2005 - £1,681,000) This allowance has been determined by reference to past default experience

The Directors consider that the amount of trade and other receivables approximates their fair value

Prepayments and accrued income includes payments to Group undertakings for future services Payments on account represented payment for goods and services to be rendered by Group undertakings Following the termination of the leasing arrangement described in note 15 the payments on account have been settled

Credit Risk

The Group's principal financial assets are bank balances, cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets

The Group's credit risk is primarily attributable to its trade receivables The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment

The credit risk on liquid funds is limited because the counterparts are banks with high credit ratings assigned by international credit-rating agencies

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers

21. CASH AND CASH EQUIVALENTS

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less The carrying amount of these assets approximates their fair value

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000
Amounts payable under finance lease				
Within one year	-	2,399	-	1,747
In the second to fifth year inclusive	-	7,302	-	6,093
After five years	-	5,179	-	3,873
	-	14,880	-	11,713
Less future finance charges	-	(3,167)	-	N/A
Present value of lease obligations	-	11,713	-	11,713
Less amount due for settlement within one year (shown under current liabilities)			-	(1,747)
Amount due for settlement after one year			-	9,966

Up until 31 December 2006, it was the Group's policy to lease certain of its property, plant and equipment under finance leases from BM Leasing (1992) Limited and BUPA Gatwick Park Properties Limited, fellow BUPA Group undertakings Following the termination of the leasing arrangement described in note 15, the obligations under finance leases have been settled

23 11.8% DEBENTURE STOCK

	2006	2005
	£'000	£'000
11 8% debenture stock	50,000	50,000

The 11 8% debenture stock is repayable at par in 2014 The stock is secured by a fixed charge over certain of the Group's assets, on a first floating charge over the businesses attached thereto and a general floating charge over the remainder of the assets of the Company and BUPA Care Homes (CFHCare) Limited The assets pledged as security include £75,672,000 of property, plant and equipment The fair value of the 11 8% debenture stock at 31 December 2006 was £66,332,000 (2005 - £70,613,000)

24 POST EMPLOYMENT BENEFITS LIABILITY

The assets and liabilities in respect of defined benefit pension schemes are as follows

	2006 **£'000**	2005 £'000
Present value of funded obligations	15,060	13,299
Fair value of scheme assets	(11,148)	(9,451)
Net recognised liabilities	3,912	3,848

The Group operates several funded defined benefit and defined contribution pension schemes for the benefit of employees and Directors The defined benefit schemes provide benefits based on final pensionable salary Contributions by Group companies to such schemes are made in accordance with the recommendations of independent scheme actuaries of the individual schemes Complete disclosure of each separate pension scheme's details is not practicable within this report The key factors relating to the Group funded pension arrangements are discussed below

The key principal defined benefit schemes in the United Kingdom are as follows

- The Care First Bedfordshire Limited Defined Benefit Scheme

The Group operates a defined benefit pension scheme, Care First Bedfordshire Limited Defined Benefit Scheme, for certain employees who transferred from Bedfordshire County Council and who were previously members of the relevant Local Government Superannuation Scheme (LGSS) The scheme has been established to provide benefits identical to those offered by the LGSS Under this scheme, contributions by employees and the Group are administered by JLT Benefits Solutions Limited which also provides actuarial advice Investment management is provided by Friends Provident Corporate Pensions Limited The scheme was established on 4 November 1996 and eligible staff joined the scheme with effect from 14 July 1998 The scheme is funded to cover future pension liabilities, allowing for future earnings and pension increases On the basis of a detailed valuation undertaken every three years and a periodic interim review, an independent actuary recommends the rates of contribution A full actuarial valuation was carried out at 1 July 2000 and updated to 31 December 2006 by a qualified actuary independent of the scheme's sponsoring employer

- The Powys County Council Pension Fund

The Group participates in the Local Government Pension Scheme, a defined benefit scheme based on final pensionable salary The latest independent actuarial valuation of the Powys County Council Pension Fund took place on 31 March 2004 and was updated to 31 March 2006 for International Accounting Standard number 19 "Employee Benefits" (IAS19) purposes

The Directors believe that the Group's share of the overall scheme deficit is lower than the recommended amount on the basis that the portion of the liabilities arising from the past service lives of members prior to their employment with the Group should be excluded The Directors do not have a reliable basis to calculate the amount to be excluded and accordingly the Group has recognised the whole of the deficit recommended by the independent actuary as at 31 March 2006

In the absence of a reliable independent actuarial valuation which is coterminous with the Group's year end, the Directors have used the preceding 31 March valuations to determine the deficits to be recognised on the balance sheet as at 31 December 2005 and 31 December 2006 The Directors believe that the deficit recognised is a prudent provision for the future pension liability in the context of the above

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

24. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

- The BUPA Pension Scheme

The BUPA Group operates defined benefit and defined contribution pension schemes for the benefit of staff The BUPA Pension Scheme is a defined benefit pension scheme which provides benefits based on final pensionable salary, with charges made to the profit and loss account comprising the current service cost calculated on the projected unit method, interest cost on plan liabilities, less the expected return on plan assets and gains and losses on curtailments

This scheme was closed to new entrants from 1 October 2002 Under this scheme, contributions by employees and the BUPA Group are administered by trustees in funds independent of the Group The scheme is funded to cover future pension liabilities allowing for future earnings and pension increases Detailed triennial valuations and periodic interim reviews are undertaken by an independent actuary The latest detailed triennial valuation of The BUPA Pension Scheme was carried out as at 1 July 2005 The attained age method was used in the 2005 triennial valuation On the basis of this valuation the independent actuary recommends the rate of contributions

The BUPA Pension Scheme was valued as at 31 December 2006 under the requirements of IAS19 as the BUPA Group prepares its consolidated financial statements under International Financial Reporting Standards This valuation showed a deficit before deferred tax of £68,900,000 (2005 - £138,500,000) with assets of £653,000,000 (2005 - £522,200,000) and liabilities of £721,900,000 (2005 - £660,700,000), which would not be materially different from a valuation performed under the requirements of Financial Reporting Standard number 17 under UK GAAP It is not possible to identify the Group's share of this deficit on a consistent and reliable basis Therefore the pension contributions paid by the Group relating to this scheme are charged to the profit and loss account

Details of the latest valuations of the scheme and main assumptions are included in the annual report and accounts of the ultimate holding company, BUPA

Employer contributions have been paid to The BUPA Pension Scheme at the rate of 25 64% of pensionable salary from 1 January 2006 until 31 March 2006 and at the rate of 26 34% from 1 April 2006 until 31 December 2006 The Group has a salary sacrifice arrangement, PeopleChoice Pensions, whereby the employer's contribution rate takes account of pension contributions paid as part of this arrangement There is a corresponding reduction in wages and salaries as a result

The total pension cost included in the income statement relating to this scheme amounted to £895,000 (2005 - £849,000)

(i) Actuarial assumptions

The assumptions used to value the post employment schemes are set by the schemes' actuaries The major financial assumptions used when valuing the obligations of the post employment benefit schemes under IAS19 are as follows

The Care First Bedfordshire Limited Defined Benefit Scheme

	2006	2005
Rate of increase in salaries	4 4%	4 1%
Rate of increase in pensions in payment where LPI applies	3 1%	2 8%
Discount rate	5 2%	4 9%
Inflation assumption	3 1%	2 8%
Loading for mortality improvements	5 0%	5 0%
Mortality table	PA92 c2020	PA92 c2020

24. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

The Powys County Council Pension Fund

	2006	2005
Inflation	3 0%	2 9%
Rate of general long-term increase in salaries	4 5%	4 4%
Rate of increase to pensions in payment	3 0%	2 9%
Rate of increase to deferred pensions	3 0%	2 9%
Discount rate	4 9%	5 3%

The assumptions used by the actuary are chosen from a range of possible assumptions which, due to the timescale covered, may not necessarily be borne out in practice

(ii) Present value of schemes' obligations

The movement in the present value of the schemes' obligations is

	2006 £'000	2005 £'000
At beginning of year	13,299	11,791
Current service cost	764	800
Interest on obligations	690	553
Contributions by employees	177	202
Actuarial losses	(72)	-
Changes in assumptions underlying the present value of scheme liabilities	630	736
Benefits paid	(428)	(783)
	15,060	13,299

(iii) Fair value of schemes' assets

The movement in the fair value of the funded schemes' assets is

	2006 £'000	2005 £'000
At beginning of year	9,451	8,425
Expected return on scheme assets	637	542
Actuarial gains	815	499
Contributions by employer	496	566
Contributions by employees	177	202
Benefits paid	(428)	(783)
	11,148	9,451

24. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

The fair value of the schemes' assets is
The Care First Bedfordshire Limited Defined Benefit Scheme

	Long–term rate of return 2006	**Value 2006 £000**	Long–term rate of return 2005	Value 2005 £000
Equities	8 0%	4,086	7 5%	3,528
Bonds and Gilts	5 0%	566	4 5%	432
Other (property, cash, etc)	5 0%	356	4 5%	321
		5,008		4,281

The Powys County Council Pension Fund

	Long–term rate of return 2006	**Value 2006 £000**	Long–term rate of return 2005	Value 2005 £000
Equities	7 3%	133,610	7 7%	105,920
Property	6 3%	12,230	6 7%	9,420
Government bonds	4 3%	64,970	4 7%	48,820
Corporate bonds	4 9%	50,110	5 3%	49,670
Other	4 6%	2,810	4 8%	4,530
Total		263,730		218,360
Group's share		6,140		5,170

(iv) Amount recognised in the consolidated income statement
The amounts charged to operating expenses for the year are

	2006 £'000	2005 £'000
Current service cost	764	800
Expected return on pension scheme assets	(637)	(542)
Interest on pension scheme liabilities	690	553
	817	811

24. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

(v) Amount recognised directly in equity

The amounts charged directly to equity are

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	815	499
Experience gains and losses arising on the scheme liabilities	72	-
Changes in assumptions underlying the present value of scheme liabilities	(630)	(736)
	257	(237)

The cumulative amounts of actuarial losses recognised directly in equity are £1,339,000 (2005 - £1,596,000)

(vi) History of experience gains and losses

	2006 £'000	2005 £'000
Present value of schemes obligations	(15,060)	(13,299)
Fair value of schemes assets	11,148	9,451
Net deficit	(3,912)	(3,848)
Experience gains and losses arising on		
Scheme obligations	72	-
Scheme assets	815	499
Total amounts recognised directly in equity	257	(237)

25. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2006	2005	**2006**	2005	**2006**	2005
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Accelerated capital allowances	-	-	8,811	8,188	8,811	8,188
Post employment liability	(1,174)	(1,154)	-	-	(1,174)	(1,154)
Revaluation of properties to fair value	-	-	30,968	35,976	30,968	35,976
Other	(725)	(675)	-	-	(725)	(675)
Net deferred tax (assets)/liabilities	(1,899)	(1,829)	39,779	44,164	37,880	42,335

Deferred tax assets relating to the carry forward of pension provisions, employee benefits, other provisions, unused tax losses and other deferred tax assets are recognised to the extent that it is probable that future taxable surpluses will be available against which the deferred tax assets can be utilised

The 2007 Finance Act announced a change in corporation tax from 30% to 28% Until this Act is substantively enacted there is no impact on the financial statements The impact of this will reduce corporation tax payable and deferred tax liabilities in the future

Unrecognised deferred tax assets

At 31 December 2006, the Group had no unrecognised deferred tax assets (2005 - £nil)

Movement in net deferred tax liabilities

2006	At beginning of year £'000	Recognised in income statement £'000	Recognised in equity £'000	At end of year £'000
Accelerated capital allowances	8,188	623	-	8,811
Post employment liability	(1,154)	(96)	76	(1,174)
Revaluation of land and buildings to fair value	35,976	(5,008)	-	30,968
Other	(675)	(50)	-	(725)
	42,335	(4,531)	76	37,880

2005	At beginning of year £'000	Recognised in income statement £'000	Recognised in equity £'000	Acquisitions through business combinations £'000	At end of year £'000
Accelerated capital allowances	9,468	(1,264)	-	(16)	8,188
Post employment liability	(1,010)	(73)	(71)	-	(1,154)
Revaluation of land and buildings to fair value	10,639	(4,874)	30,211	-	35,976
Other	(681)	6	-	-	(675)
	18,416	(6,205)	30,140	(16)	42,335

26. PROVISIONS FOR LIABILITIES AND CHARGES

2006	Onerous lease £'000	Participating interest £'000	Total £'000
At 1 January 2006	402	36,805	37,207
Utilised in the year	(22)	-	(22)
Provided in the year (note 9)	-	4,692	4,692
At 31 December 2006	380	41,497	41,877

2005	Onerous lease £'000	Participating interest £'000	Total £'000
At 1 January 2005	477	25,432	25,909
Utilised in the year	(75)	-	(75)
Provided in the year	-	11,373	11,373
At 31 December 2005	402	36,805	37,207

The Group has a participating interest in a joint venture with The Care Homes Partnership The provision represents the Group's share of the partnership's liabilities as at 31 December 2006

The onerous lease relates to an unoccupied property in Woking, Surrey

27. PREFERENCE SHARES

The non-equity preference shares represent the entire cumulative redeemable preference shares in BUPA Care Homes (CFHCare) Limited

BUPA Care Homes (CFHCare) Limited issued the cumulative redeemable preference shares at par value on 24 February 1998, carrying an initial dividend rate of 5 25% increasing to a maximum rate of 6 25% On a return of capital on a winding-up or otherwise, the holders of the preference shares shall be entitled, in priority to any payment to the holders of any other class of shares, to the repayment of a sum equal to the nominal paid up capital The holders of the preference shares shall have the right to receive notice of and attend, but not to speak or vote at, a General Meeting of BUPA Care Homes (CFHCare) Limited The preference shares shall be redeemable at par at the option of BUPA Care Homes (CFHCare) Limited or the holders of the preference shares on 24 August 2007 and thereafter on each anniversary of this date

28 BANK OVERDRAFT AND LOANS

The actions taken to manage the principal risks inherent in the Group's financing activities are disclosed in the accounts of BUPA Finance Plc, an intermediate parent company

29. TRADE AND OTHER PAYABLES

Trade and other payables due within one year comprise

	2006 £'000	2005 £'000
Trade payables	4,279	2,059
Amounts owed to Group undertakings	359,514	271,430
Other taxation and social security	5,844	4,271
Other payables	2,634	4,544
Accruals and deferred income	56,903	46,613
Non equity dividend	1,510	1,510
	430,684	330,427

Trade payables comprise amounts outstanding for trade purchases The average credit period taken for trade purchases is 26 days (2005 – 26) There is no material difference between the carrying amount of trade payables and their fair value

30. SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised		
Equity interests		
220,000,000 ordinary shares of 25 pence each	55,000	55,000
Non equity interests		
20,000,000 preference shares of £1 each	-	20,000

	2006 £'000	2005 £'000
Allotted, called up and fully paid		
Equity interests		
162,213,958 ordinary shares of 25 pence each	40,553	40,553

On 9 February 2006, the 20,000,000 £1 authorised non-issued preference shares were cancelled

31. EQUITY

2006	Share premium account £'000	Merger reserve £'000	Capital redemption reserve fund £'000	Revaluation reserve £'000	Income and expenditure reserve £'000
At 1 January 2006	114,141	16,963	2,110	125,870	118,536
Surplus for the financial year	-	-	-	-	40,821
Actuarial gain on pension schemes	-	-	-	-	257
Taxation charge on income and expenses recognised directly in equity	-	-	-	-	(76)
At 31 December 2006	114,141	16,963	2,110	125,870	159,538

2005	Share premium account £'000	Merger reserve £'000	Capital redemption reserve fund £'000	Revaluation reserve £'000	Income and expenditure reserve £'000
At 1 January 2005	114,141	16,963	2,110	60,131	100,658
Retained surplus for the financial year	-	-	-	-	22,428
Consolidation adjustment	-	-	-	-	(4,384)
Unrealised surplus on revaluation of property	-	-	-	95,950	-
Actuarial loss on pension schemes	-	-	-	-	(237)
Taxation (charge)/credit on income and expenses recognised directly in equity	-	-	-	(30,211)	71
At 31 December 2005	114,141	16,963	2,110	125,870	118,536

The consolidation adjustment relates to the correction of a consolidation entry which should have been charged to consolidated reserves in prior years

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2006 £'000	2005 £'000
Surplus before taxation expense	55,763	29,307
Adjustments for		
Depreciation of property, plant and equipment	17,479	16,843
Impairment losses	439	-
Gain on sale of property, plant and equipment	-	(1,102)
Reversal of past impairment losses	-	(3,160)
Amortisation and impairment of intangible assets	752	756
Provisions for liabilities in participating interests	4,692	11,373
Financial income	(20,272)	(17,935)
Financial expenses	23,320	32,242
Decrease in onerous lease provision	(22)	(75)
Increase in post employment benefits liability	321	245
Operating cash flows before movement in working capital	82,472	68,494
(Increase)/Decrease in working capital		
Inventories	(35)	(51)
Trade receivables	(5,821)	2,091
Other receivables	216	3,313
Prepayments and accrued income	(889)	600
Trade payables	2,220	(575)
Other tax and social security	1,573	300
Accruals and deferred income	10,129	(2,865)
Other payables	(1,910)	298
Advance operating lease rental	460	460
Cash generated from operations	88,415	72,065
Cash generated from discontinued operations	-	60
Corporation tax paid	-	(473)
Interest paid	(10,330)	(10,329)
Net cash from operating activities	78,085	61,323

Additions to property, plant and equipment amounting to £3,545,000 (2005 - £3,596,000) were financed by new finance leases As explained in note 15, these finance leases have been settled on 31 December 2006

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts

	2006 £'000	2005 £'000
Cash on hand and balances with bank	22,677	16,886
Restricted access deposits	(5,861)	(5,861)
	16,816	11,025

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

A charge is held over cash of £5,861,000 (2005 - £5,861,000) as security over future operating rental payments due to BUPA LeaseCo (Guernsey) Limited

33. COMMITMENTS

Capital commitments

	2006 £'000	2005 £'000
Contracted	7,000	-

Operating leases

At 31 December 2006 the Group had annual commitments under non-cancellable operating leases as set out below

	2006 £'000	2005 £'000
Minimum lease payment under operating leases recognised in income for less than one year		
Plant and equipment	704	735
Land and building	34,153	34,205
	34,857	34,940

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	2006 £'000	2005 £'000
Within one year	33,324	33,522
In the second to fifth year inclusive	133,295	133,295
After five years	771,233	804,556
	937,852	971,373

34. CONTINGENT LIABILITIES

The Group has given a guarantee and other undertakings, as part of the Group banking arrangements, in respect of the overdraft of certain other Group undertakings Under a group arrangement the Group is jointly and severally liable for Value Added Tax due by certain other group companies

The Group has disposed of leasehold interests in a number of close care properties in which it continues to hold a reversionary interest In so doing, it granted the right to certain purchasers to require the Group to repurchase properties at any time in the future at a price equal to 90% of the purchase price paid of the properties concerned These are not considered to be financing transactions, and no asset or liability is included on the balance sheet The outstanding repurchase commitments granted by the Group in this respect amounted to £637,000 (2005 - £637,000)

The obligations of the Group under the operating leases which have been granted to the Group by BUPA LeaseCo (Guernsey) Limited have been guaranteed by its parent and cross guaranteed by a number of its fellow subsidiaries

A charge is held over cash of £5,861,000 (2005 - £5,861,000) as security over future operating rental payments due to BUPA LeaseCo (Guernsey) Limited

On 19 July 2005 the Group entered into a £350m revolving credit facility along with various other members of the BUPA Group The Group has joint and several liability for all obligations under the agreement

On 10 February 2006 the Group replaced most of its existing senior debt facilities with a £1 1billion multi currency revolving credit facility The Group has joint and several liability for all obligations under the agreement

35. RELATED PARTY TRANSACTIONS

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note Transactions between the Group and its fellow Group undertakings are disclosed below

Trading transactions

During the year, BUPA Group undertakings entered into the following transactions with related parties who are not members of the Group

Sales of goods and services and rental income

Sales of goods and services and rental income for the year ended 31 December 2006 are as follows

	2006 £'000	2005 £'000
Fellow BUPA Group undertakings	12,286	6,689

Purchases of goods and services and rental charges

Purchases of goods and services and rental charges for the year ended 31 December 2006 are as follows

	2006 £'000	2005 £'000
BUPA	13,441	14,013
Fellow BUPA Group undertakings	39,463	39,477
	52,904	53,490

Interest received

Interest received for the year ended 31 December 2006 is as follows

	2006 £'000	2005 £'000
BUPA	-	30
Fellow BUPA Group undertakings	18,218	17,563
	18,218	17,593

Interest paid

Interest paid for the year ended 31 December 2006 is as follows

	2006 £'000	2005 £'000
Finance leases		
Fellow BUPA Group undertakings	775	650

	2006 £'000	2005 £'000
Loan and current account from Group undertakings		
BUPA	1,822	318
BUPA Finance Plc	1,061	1,069
Fellow BUPA Group undertakings	9,332	19,876
	12,215	21,263

35. RELATED PARTY TRANSACTIONS (CONTINUED)

Non-current other receivables

Non-current other receivables comprise

	2006 £'000	2005 £'000
Fellow BUPA Group undertakings	408,638	254,639

Current accounts receivable

Current accounts receivable comprise

	2006 £'000	2005 £'000
BUPA	-	2,903
BUPA Finance Plc	-	3
Fellow BUPA Group undertakings	244,558	158,087
	244,558	160,993

Payment on account

Payment on account debtor comprises

	2006 £'000	2005 £'000
Fellow BUPA Group undertakings	-	22,575

Lease creditor

Lease creditor comprises

	2006 £'000	2005 £'000
Fellow BUPA Group undertakings	-	11,713

Non-current accounts payable

Non-current accounts payable comprise

	2006 £'000	2005 £'000
BUPA Finance Plc	22,909	21,848
Fellow BUPA Group undertakings	108,064	12,500
	130,973	34,348

Current accounts payable

Current accounts payable comprise

	2006 £'000	2005 £'000
BUPA	48,304	27,593
BUPA Finance Plc	18,829	-
Fellow BUPA Group undertakings	292,381	243,837
	359,514	271,430

35. RELATED PARTY TRANSACTIONS (CONTINUED)

Sales and purchases of goods and services with related parties were made at market price discounted to reflect the quantity of goods purchased and the relationships between parties The amounts outstanding are unsecured and will be settled in cash No guarantees have been given or received No provisions have been made for doubtful debts in respect of the amounts owed by related parties

BUPA CARE HOMES (CFG) PLC

(Registered No. 1969735)

COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

BUPA CARE HOMES (CFG) PLC

COMPANY PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Operating expenses		(5)	(5)
Operating loss		(5)	(5)
Interest receivable and similar income	38	17,600	13,475
Interest payable and similar charges	39	(21,183)	(21,638)
Loss on ordinary activities before taxation		(3,588)	(8,168)
Tax on loss on ordinary activities	40	1,076	2,450
Loss for the financial year		(2,512)	(5,718)

The operating loss is all derived from continuing operations

There were no recognised gains and losses other than the loss for the financial year

There were no material differences between reported profit and loss and historical profit and loss on ordinary activities before and after taxation

The accounting policies and notes on pages 52 to 57 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

COMPANY BALANCE SHEET
as at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Investments	41	225,489	225,489
Current assets			
Debtors		371,770	273,885
Debtors due within one year	42	216,358	133,856
Debtors due after one year	42	155,412	140,029
Cash at bank and in hand		-	59
		371,770	273,944
Creditors: amounts falling due within one year	43	(317,581)	(220,563)
Net current assets		54,189	53,381
Total assets less current liabilities		279,678	278,870
Creditors amounts falling due after more than one year	44	(127,064)	(123,744)
Net assets		152,614	155,126
Capital and reserves			
Called up share capital	46	40,553	40,553
Share premium account	47	114,141	114,141
Capital redemption reserve	47	2,110	2,110
Profit and loss account	47	(4,190)	(1,678)
Shareholders' funds		152,614	155,126

These financial statements were approved by the Board of Directors on 16 May 2007 and were signed on its behalf by

N R Taylor
Director

The accounting policies and notes on pages 52 to 57 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

COMPANY CASH FLOW STATEMENT
as at 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash inflow from operating activities	48	868	5
Returns on investment and servicing of finance	48	11,700	7,572
Acquisitions and disposals	48	-	(71)
Cash inflow before financing		12,568	7,506
Financing	48	(12,821)	(7,524)
Decrease in cash	49	(253)	(18)

The accounting policies and notes on pages 52 to 57 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2006

	2006 **£'000**	2005 £'000
Loss for the financial year and net reduction in shareholders' funds	(2,512)	(5,718)
Opening shareholders' funds	155,126	160,844
Closing shareholders' funds	152,614	155,126

36 STATEMENT OF ACCOUNTING POLICIES

(a) Significant accounting policies
The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, under the historical cost accounting convention and on a going concern basis

As the Company is a wholly owned subsidiary undertaking of BUPA, a company registered in England and Wales, which publishes consolidated accounts, the Company has, pursuant to paragraph 17 of Financial Reporting Standard No 8 Related Party Disclosures (FRS 8), not included details of transactions with other companies which are subsidiary undertakings of the BUPA Group There were no other related party transactions

Accounting conventions
A summary of the more significant accounting policies, which have been applied consistently, is set out below

(b) Taxation including deferred taxation
The charge for taxation is based on the result for the year and takes into account deferred tax

Deferred tax is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more, tax with the following exception

- Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on current tax rates and laws

Trading losses surrendered to other Group subsidiary undertakings are made on a full payment basis

(c) Investments
Investments are carried at cost less provision for impairment in value

37. STAFF COSTS AND DIRECTORS' REMUNERATION

The emoluments of the Directors are disclosed in note 5 The Company has no other employee costs during the year

38. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006	2005
	£'000	£'000
Loan	17,600	13,475

39 INTEREST PAYABLE AND SIMILAR CHARGES

	2006	2005
	£'000	£'000
Bank	-	3
Loan note	5,900	5,900
Loan from Group undertaking	15,283	15,735
	21,183	21,638

40. TAX ON LOSS ON ORDINARY ACTIVITIES

(i) Analysis of tax credit in the year

	2006 £'000	2005 £'000
Current tax		
UK corporation tax on loss for the year	(1,193)	(2,450)
Adjustments in respect of prior periods	-	117
Total current tax	(1,193)	(2,333)
Deferred tax		
Adjustments in respect of prior periods	-	(117)
Origination and reversal of timing differences	117	-
Tax on loss on ordinary activities	(1,076)	(2,450)

(ii) Factors affecting the tax credit

The tax credit for the year is higher/lower than the standard rate of corporation tax in the UK of 30% The differences are explained below

	2006 £'000	2005 £'000
Loss on ordinary activities before tax	(3,588)	(8,168)
Tax credit on loss on ordinary activities at 30%	(1,076)	(2,450)
Effect of		
Deferred tax on short-term and other timing differences	(117)	-
Adjustments to tax charge in respect of prior period	-	117
	(1,193)	(2,333)

41 INVESTMENTS

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2006 and 31 December 2006	154,924	52,000	23,155	230,079
Provision				
At 1 January 2006 and 31 December 2006	(4,590)	-	-	(4,590)
Net book value at 31 December 2006	150,334	52,000	23,155	225,489
Net book value at 31 December 2005	150,334	52,000	23,155	225,489

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41. INVESTMENTS (CONTINUED)

At 31 December 2006, the Company owned the whole of the issued share capital of the following undertakings, either directly or indirectly, all of which operate in the United Kingdom

Name	Ordinary shares number	Nominal value £	Business activity	Place of registration
BUPA Care Homes Group Limited	50,000,000	1	Holding company of care homes operators	England and Wales
BUPA Care Homes (CFHCare) Limited*	124,999,999	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (CFCHomes) Limited *	53,368,562	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (Partnerships) Limited *	100	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (Bedfordshire) Limited	2	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (GL) Limited *	22,296,637	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (BNH) Limited *	157	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (AKW) Limited	1	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (Carrick) Limited	151,000	1	Owner and operator of care homes	Scotland
Crispins Nursing Homes Limited	1,000	1	Owner and operator of care homes	England and Wales
BUPA Care Homes (Developments) Limited	2,200,000	1	Developer of care homes	England and Wales
Surgichem Limited	100,000	1	Manufacturer and distributor of monitored drug dosage systems	England and Wales
Care First at Home Limited	100	1	Leasing assets to Group entities	England and Wales
Kyle Building Services Limited *	100	1	Developer of care homes	Scotland

* Investment held by subsidiary undertaking

In addition to the companies listed above, the Company either directly or indirectly owns a number of non-trading subsidiary companies Subsidiary undertakings are included at cost less provisions

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42. DEBTORS

	2006 £'000	2005 £'000
Amounts fallıng due within one year:		
Amounts owed by Group undertakıngs	216,358	132,960
Other debtors	-	896
	216,358	133,856
Amounts falling due after one year:		
Amounts owed by Group undertakıngs	155,412	139,912
Deferred tax	-	117
	155,412	140,029

The amounts fallıng due after one year owed by Group undertakıngs ınclude loans ıssued on 18 February 2000 to BUPA Investments Lımıted The loans are repayable ın 2030 and bear ınterest at 6 4% per annum

43. CREDITORS – amounts falling due within one year

	2006 £'000	2005 £'000
Bank loans and overdraft	194	-
Amounts owed to Group undertakıngs	317,098	220,204
Corporatıon tax	-	47
Accruals and deferred ıncome	289	312
	317,581	220,563

44 CREDITORS – amounts falling due after more than one year

	2006 £'000	2005 £'000
11 8% debenture stock	50,000	50,000
Amounts owed to Group undertakıngs	77,064	73,744
	127,064	123,744
Loans are repayable as follows		
In five years or more	50,000	50,000

The 11 8% debenture stock ıs repayable at par ın 2014 The stock ıs secured by a fixed charge over certaın of the Group's assets and a first floatıng charge over the busınesses attached thereto and a general floatıng charge over the remaınder of the assets of the Company and BUPA Care Homes (CFHCare) Lımıted

45. DEFERRED TAXATION

Deferred tax assets are analysed as follows

	Provided	
	2006	2005
	£'000	£'000
Other timing differences	-	(117)

The movement for the year in the net deferred tax asset is as follows

	2006
	£'000
At 1 January 2006	(117)
Deferred tax charge for the year	117
At 31 December 2006	-

The net deferred tax asset for 2005 is included within debtors

46. SHARE CAPITAL

	2006	2005
	£'000	£'000
Authorised		
Equity interests		
220,000,000 ordinary shares of 25 pence each	55,000	55,000
Non equity interests		
20,000,000 preference shares of £1 each	-	20,000

	2006	2005
	£'000	£'000
Allotted, called up and fully paid		
Equity interests		
162,213,958 ordinary shares of 25 pence each	40,553	40,553

On 9 February 2006 the 20,000,000 £1 authorised non issued preference shares were cancelled

47 RESERVES

	Share premium account £'000	Capital redemption reserve fund £'000	Profit and loss account £'000
At 1 January 2006	114,141	2,110	(1,678)
Loss for the year	-	-	(2,512)
At 31 December 2006	141,141	2,110	(4,190)

48. ANALYSIS OF CASH FLOW

	2006 £'000	2005 £'000
Reconciliation of operating loss to net cash inflow from operating activities		
Operating loss	(5)	(5)
(Increase)/Decrease in working capital		
Other debtors	896	-
Accruals and deferred income	(23)	10
Net cash inflow from operations	868	5
Returns on investments and servicing of finance		
Interest received	17,600	13,475
Interest paid	(5,900)	(5,903)
	11,700	7,572
Acquisitions and disposals		
Purchase of subsidiary undertakings	-	(71)
Financing		
Loan to fellow Group undertaking	(97,752)	(55,579)
Borrowing from fellow Group undertakings	84,931	48,055
	(12,821)	(7,524)

Cash comprises cash at bank and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

49. ANALYSIS AND RECONCILIATION OF NET DEBT

	2006 £'000	2005 £'000
Decrease in cash	(253)	(18)
Cash at beginning of year	59	77
Cash at the end of year	(194)	59