BUPA CARE HOMES (CFG) PLC

(Registered No. 1969735)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

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BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS
for the year ended 31 December 2008

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

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 2008 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 £56,946,000 (2007 – £55,204,000). The Group has net assets of £495,939,000 (2007 - £478,972,000) and generated £72,468,000 (2007 - £73,299,000) of cash from operating activities.

An interim dividend of 21.6p (2007 - 77.7p) per ordinary shares amounting to £35,000,000 (2007 - £126,000,000) was paid during the year. No final dividend is proposed for the year (2007 - £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.

	2008	2007	Analysis
Revenue (£'000)	516,056	494,106	Revenue has increased in the year due to the annual fee increase for each resident.
Operating surplus (£'000)	74,224	71,164	Operating profit has increased in the year primarily due to the gain on the disposal of a closed care home site and higher fees, partially offset by higher utility and payroll costs.
Occupancy percentage (%)	90.4 %	91.9%	The strategy is to maximise and maintain occupancy. Occupancy percentage has fallen during the year and is consistent with the industry.
Available beds	17,540	17,339	The strategy is to provide an enhanced environment for our residents. The increase is as a result of extensions at several properties.

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 Laing & Buisson survey for the year to April 2008 showed a slight increase in care home demand after a decade of decline. This increase in demand is projected to accelerate over the next ten years, with privately run homes expected to see an increase of more than 5% by 2013 and nearly 15% by 2018.

Local Authority fee increases have been lower than in previous years and this resulting pressure on margins is expected to continue. In addition the NHS is also trying to restrict inflation in payments illustrated by raising the Registered Nursing Care Contribution by only 2.7% for the year starting 1 April 2008.

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

Business environment (continued)
The Group's occupancy has declined in line with the rest of the industry with a significant increase in the rate of deaths at the end of the year. The number of care home residents funded by the State in total has fallen slightly, however within this there has been a switch from Local Authority to NHS Continuing Care funding.

The Group has experienced significant cost pressures during the year in a number of areas. The National Minimum Wage increase in the year was greater than the local authority fee rate increase. Staff costs have also increased because of the introduction of four mandatory additional days of holiday. In addition there have been significant increases in catering and utility costs.

Development
During the year, the Group added 72 beds through extensions at homes and had major refurbishment projects at 59 existing homes. We expect the rate of investment in the estate to slow in the near future as the Group scales back its capital expenditure in the light of weaker economic conditions.

At the heart of the Group's approach to quality care is its commitment to treating each resident as an individual. Central to this philosophy is the use of tailored personal care plans that, alongside medical information, include information on each resident's interests, habits and preferred activities. The quality of care provision has been positively recognised by industry analysts Laing & Buisson using data provided by the care homes' regulator, the Commission for Social Care Inspection.

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 by focussing on developing and promoting dementia care
The Group will develop a dementia care programme by working closely with the Alzheimer's Society whilst continuing to focus on income growth. In addition, there will be continued focus on 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 staff training, 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 existing sites will be further developed through extensions and further refurbishment programmes.

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.

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 and changes in the market dynamics with more residents staying for shorter periods.

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

Future outlook (continued)

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. Annual fee increases from Local Authorities and the NHS are likely to be minimal in the short term.

There are a number of cost pressures facing the Group including increasing national minimum wage. The Group will continue to mitigate the cost wherever possible.

Principal risks and uncertainties

The Group's risk management process

The Group's risk management process falls within the overall process of its ultimate parent company, The British United Provident Association Limited (Bupa). The Bupa 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 and identifies those risks that could impact its achievement of its business objectives and strategic plan. 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 and updated to include new risks and actions taken to strengthen controls and changes to the risk profile. All significant strategic and operational risks identified are discussed twice a year at the Chief Executive's Committee. The outcome of the process is reviewed by the Audit Committee of Bupa, and reported to the Bupa Board.

Clinical risk

Bupa Group is dedicated to ensuring its customers are treated and cared for according to evidence-based best practice and the highest clinical standards. Bupa aims to follow the highest standards of clinical best practice appropriate to the markets where we operate and adopts a customer centred approach to care. The Group has a Medical Director responsible for ensuring clinical quality within the business. The Bupa Board has a Medical Advisory Panel that advises it on medical issues. The Panel includes one Executive Director and two Non-Executive Directors and a number of leading doctors. The Group Medical Director provides a quarterly report on clinical performance to the Medical Advisory Panel and an annual report to the Panel and the Board. The annual report makes commendations and recommendations for improvements which are followed up through the year. The Medical Advisory Panel receives and considers updates from the Group Medical Director regarding clinical incidents and the results of clinical audits undertaken across the Bupa Group. Clinical governance, encompassing both audits and proactive risk management, is integral to encouraging continuous quality improvement and ensuring the standard of clinical services.

Political risk

There is a risk of change to healthcare policy in key markets as a result of political decisions; such change may have favourable or adverse consequences for Bupa. As part of the strategic planning process, Bupa regularly analyses the impact of possible political change on its business model. Bupa seeks to maintain a constructive dialogue with governments in its main areas of operation, promoting the benefits of high quality private healthcare alongside public provision.

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

Principal risks and uncertainties (continued)

Growing economic weakness in key markets

Bupa is experiencing lower rates of growth in all our major markets as a result of economic recession together with rising unemployment and falling rates of inflation. To better anticipate the possible effects of these trends on future performance, sensitivity and stress testing for the key businesses within the Group is being carried out. While we expect the economic recession to have an adverse impact on our business, the fundamental dynamics remain strong.

Funding risk

The Bupa Group supports its current operations and future growth from a combination of internally generated profits and externally raised debt. To ensure appropriate diversification of funding risk, the Bupa Group has accessed a variety of debt capital markets to support its growth. These currently include the bank debt market, asset securitisations and the senior and perpetual (hybrid) bond market. The Bupa Group is committed to maintaining an appropriate investment grade rating with major credit rating agencies and closely targets key financial ratios, such as gearing and interest cover. Bupa also actively monitors regulatory solvency levels and ensures appropriate headroom. Current conditions in the capital markets lead to the increased risk that the Group will not be able to refinance its bank facilities on as favourable commercial terms.

Care Homes profitability

The profitability of the Care Homes business and therefore its ability to reinvest in the care of its residents is dependent on achieving an adequate funding stream from local authorities and Primary Care Trusts, which fund the fees of approximately 70% of residents. There is continuing difficulty in achieving an adequate level of settlement. 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 Bupa changes and grows, it needs to make sure it has the right people to move the business forward. The Board views the development and training of Bupa's people, and the recruitment of experienced individuals from outside the Group, as central to the organisation's future success. Bupa has sound selection, evaluation and reward processes to recruit, recognise and motivate above average performers and has a rigorous annual succession planning process.

Management of change

The Bupa Group is undertaking a number of change programmes. The Care Homes businesses are growing rapidly, partly by acquiring and integrating other businesses. The Group mitigates the risk inherent in change by having stringent change management procedures. Major project expenditure on new developments is approved by the directors following a thorough assessment of plans. Professional programme management resources are used and the internal audit function reviews the impact of major changes on Bupa's operational controls. Progress on key projects is reviewed by the Audit Committee or Board of Bupa as appropriate.

Acquisitions

The Bupa Group makes acquisitions where it considers this will enhance its services or geographical spread thereby increasing the value of the business in the long term. Any major acquisition involves risk until the acquired business is successfully integrated. The Group controls acquisition risk by focusing on product and service areas in which it has expertise. It has a defined acquisition methodology and expert staff, and integration programmes are regularly reviewed by senior management.

Pandemic

As the Bupa Group is a major health and care provider, a pandemic such as avian influenza could have a significant effect. A pandemic could present the Bupa Group with major operational difficulties in maintaining an adequate staffing profile and protecting residents, in addition to disrupting normal business activities across the organisation. The Bupa Group has extensive plans in place to mitigate as far as possible the impact of a pandemic such as avian influenza.

REPORT OF THE DIRECTORS
for the year ended 31 December 2008

2. Conversion to International Financial Reporting Standards

The consolidated accounts have been prepared under International Financial Reporting Standards as adopted by the European Union ("IFRS"). The Company is not required to report under IFRS and therefore the Company's financial statements are prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP). The Company financial statements are presented on pages 43 to 52.

3. Directors

Details of the present directors and any other person who served as a director during the year and subsequently are set out below:

N T Beazley	
J P Davies	(resigned 23 May 2008)
M Ellerby	
N R Taylor	
F D Gregory	
M A Merchant	(appointed 23 May 2008)
A V Morales	(appointed 1 January 2009)
J P E Akesson	(apponted 29 July 2008, resigned 1 January 2009)

4. Companies (Audit, Investigations and Community Enterprise) Act 2004

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the directors, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company or any of its subsidiaries.

5. Political and charitable donations

The Group made no political or charitable donations in the year (2007 - £nil).

6. Corporate governance

The Company was a wholly owned subsidiary of Bupa during the year. A statement on Bupa corporate governance policies and the report of the remuneration committee are included in Bupa'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 2008 were equivalent to 26 (2007 – 26) days purchases, based on the average daily amount invoiced by suppliers during the year.

BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS
for the year ended 31 December 2008

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 ought to have taken as a director to make himself 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 2009 Annual General Meeting.

Registered Office:
Bridge House
Outwood Lane
Horsforth
Leeds
LS18 4UP

By Order of the Board

M Ellerby
Director

27 April 2009

BUPA CARE HOMES (CFG) PLC

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

The directors are responsible for preparing the annual 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 IFRS 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 IFRS 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 profit or 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 judgments and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS;
- 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 and regulations, the directors are also responsible for preparing a Directors' Report that comply with that law and those regulations.

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.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the management report, which is incorporated into the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By Order of the Board

M Ellerby
Director
27 April 2009

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

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 2008 which comprise the Consolidated Income Statement, the Parent Company Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the consolidated Statement of Recognised Income and Expense 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 Report of Directors and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, 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 7.

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 Report of Directors 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 Report of Directors 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 IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;

- 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 2008 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;

- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Report of the Directors is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
27 April 2009

1 The Embankment
Neville Street
Leeds LS1 4DW

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2008

	Note	**2008 £'000**	2007 £'000
Revenue	3	516,056	494,106
Operating expenses before exceptional items		(448,072)	(424,032)
Exceptional items - gain on curtailments/settlements	23	-	1,090
Other income	6	6,240	-
Operating expenses		(441,832)	(422,942)
Operating surplus	7	74,224	71,164
Provisions for liabilities in participating interests	9	(2,534)	831
Financial income	10	36,016	31,963
Financial expenses	11	(34,881)	(36,836)
Surplus before taxation expense		72,825	67,122
Taxation expense	12	(15,879)	(11,918)
Surplus for the year attributable to equity holders of the parent Company		56,946	55,204

The operating profit is all derived from continuing operations.

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

The accounting policies and notes on pages 14 to 42 form part of these financial statements.

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Note	**2008** **£'000**	2007 £'000
Non-current assets			
Intangible assets	14	8,175	8,221
Property, plant and equipment	15	632,891	624,869
Other investments	16	23,155	23,155
Deferred tax assets	24	249	834
Other receivables	18	414,160	417,638
		1,078,630	1,074,717
Current assets			
Inventories	19	5,727	139
Trade and other receivables	20	278,819	181,076
Cash and cash equivalents	21	6,433	7,462
		290,979	188,677
Total assets		1,369,609	1,263,394
Non-current liabilities			
11.8% debenture stock	22	(50,000)	(50,000)
Amounts owed to Bupa Group undertakings		(252,640)	(241,617)
Post employment benefits liability	23	(627)	(1,427)
Deferred tax liabilities	24	(55,862)	(61,944)
Provisions for liabilities and charges	25	(176)	(40,993)
Preference shares	26	(70,000)	(70,000)
		(429,305)	(465,981)
Current liabilities			
Trade and other payables	28	(435,930)	(312,082)
Current tax liabilities		(8,435)	(6,359)
		(444,365)	(318,441)
Total liabilities		(873,670)	(784,422)
Net assets		495,939	478,972
Equity			
Share capital	29	40,553	40,553
Share premium	30	114,141	114,141
Merger reserve	30	16,963	16,963
Capital redemption reserve	30	2,110	2,110
Revaluation reserve	30	210,708	215,503
Income and expenditure reserve	30	111,464	89,702
Total equity attributable to the holders of the parent Company		495,939	478,972

These financial statements were approved by the Board of Directors on 27 April 2009 and were signed on its behalf:

Neil Taylor

N R Taylor
Director

The accounting policies and notes on pages 14 to 42 form part of these financial statements.

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2008

	Note	**2008 £'000**	2007 £'000
Net cash generated from operating activities	31	72,468	73,299
Cash flows from investing activities			
Purchase of property, plant and equipment		(36,200)	(31,877)
Purchase of separately acquired intangible assets		(168)	(380)
Proceeds on disposal of property, plant and equipment		6,730	-
Interest received		87	216
Net cash used in investing activities		(29,551)	(32,041)
Cash flows from financing activities			
Net loans to fellow Group undertakings		34,254	69,527
Settlement of provision for liabilities in participating interests		(43,200)	-
Dividends paid		(35,000)	(126,000)
Net cash used in financing activities		(43,946)	(56,473)
Net decrease in cash and cash equivalents		(1,029)	(15,215)
Cash and cash equivalents at beginning of year		1,601	16,816
Cash and cash equivalents at end of year	31	572	1,601

The accounting policies and notes on pages 14 to 42 form part of these financial statements.

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2008

	2008 **£'000**	2007 £'000
Actuarial (loss)/gain on pension schemes	(282)	1,331
Unrealised (loss)/gain on revaluation of properties	(6,000)	119,937
Taxation on income and expenses recognised directly in equity	1,303	(30,675)
Net income recognised directly in equity	(4,979)	90,593
Surplus for the financial year	56,946	55,204
Total recognised income and expense for the year attributable to equity holders	51,967	145,797

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

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 2008 comprise the Company and its subsidiary companies (together referred to as the "Group"). The Group's consolidated financial statements are prepared under IFRS and the financial statements comply with Article 4 of the IAS Regulation. The appropriate provisions of the Companies Act have also been complied with.

The financial statements were approved by the directors on 27 April 2009. 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. For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the parent Company.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Companies Act 1985, IFRS and its interpretations.

c) Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of property, financial assets at fair value through profit or loss, available for sale financial assets and on a going concern basis. The directors' assessment of the Group's and Company's ability to continue as a going concern has taken into consideration the effect of the current economic climate on the Group. The principal risks that the Group is challenged with have been set out in the Directors report, including such risks as the growing economic weakness in key markets and funding risk, along how the directors plan to mitigate these risks. The directors are confident that the Company and Group have adequate financial resources available to continue in operational existence for the foreseeable future. The going concern basis has continued to be adopted in the preparation of the financial statements.

The preparation of financial statements in conformity with IFRS 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.

New financial reporting requirements

International Accounting Standard 39 (amended 2008) "Financial Instruments: Recognition and Measurement" (IAS39) and International Financial Reporting Standard 7 (amended 2008) "Financial Instruments: Disclosure" (IFRS7) were issued on 13 October 2008 in urgent response to the current global financial crisis with immediate effect. Entities are now permitted to reclassify non-derivative financial assets classified as held for trading and available for sale financial investments in the following situations only:

- where the financial investment meets the definition of a loan or receivable at the date of reclassification and the Company has the intent and ability to hold it for the foreseeable future or to maturity; and
- in certain rare circumstances for other financial investments (that is, those that do not meet the definition of a loan or receivable at the date of reclassification).

The Group has chosen not to reclassify its financial investments for the year ended 31 December 2008, however now has the option to do so in the future.

Financial reporting standards applicable to the Group for future financial periods

International Accounting Standard 1 (revised 2007) "Presentation of Financial Statements" (IAS1) replaces IAS 1 (revised 2005) and is effective for financial periods beginning on or after 1 January 2009. This standard allows the Group to choose between introducing a single statement of comprehensive income or an income statement and a separate statement of comprehensive income (previously named the statement of recognised income and expense). This standard also introduces the statement of financial position (previously named the balance sheet).

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(c) Basis of preparation (continued)

The effect on the Group accounts will relate to the presentation of the primary statements and disclosure in the corresponding notes.

International Accounting Standard 23 (amended 2007) "Borrowing Costs" (IAS23) supersedes IAS23 (revised 1993) and is effective for financial periods beginning on or after 1 January 2009, making it mandatory to capitalise borrowing costs that are directly attributable to a qualifying asset as defined by IAS 23. Implementation of IAS 23 would result in a reduction in the Group's finance costs and hence an increase in surplus before taxation expense, which would be partially offset by a higher depreciation charge. Over a period of time the cumulative increase in the annual depreciation charge would eventually fully offset the cumulative annual increase in surplus as a result of a reduction in finance costs. It is not anticipated that the adoption of this standard will have a material impact on the Group financial statements in the period of initial application.

International Financial Reporting Standard 8 "Operating Segments" (IFRS 8) is applicable for financial periods beginning on or after 1 January 2009 and requires comparative data to be restated. The standard requires the Group to report information about its operating segments based on the components of the entity that management uses to make operating decisions. The information to be disclosed comprises factors used to identify the Group's reportable segments, the types of products and services from which each segment derives its revenues, the segment surplus, including revenues and expenses, and segment assets. This will affect the categorisation of the Group's results in the segmental information note and so details of the impact of adoption are not given here.

Interpretation IFRIC 13 "Customer Loyalty Programmes" is effective for financial periods beginning on or after 1 July 2008. This interpretation relates to International Accounting Standard 18 "Revenue" (IAS 18) and applies to customer loyalty programmes, where a loyalty scheme or incentive allows a customer to redeem 'award credits' in the future. It clarifies the need to treat such programmes as 'multiple arrangements' whereby the consideration received should be allocated between the initial sale and the award credits. The Group expects to adopt the standard with effect from 1 January 2009. The impact of adoption is not expected to be material to the Group financial statements.

Interpretation IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" clarifies the recognition of pension scheme surpluses on the balance sheet under International Accounting Standard 19 "Employee Benefits" (IAS 19) and the interaction with pension scheme funding. It is effective for financial periods beginning after 31 December 2008 and so will apply to Bupa from 1 January 2009. During 2008, the Trustees of The Bupa Pension Scheme agreed to revise the terms of the trust deed to recognise that Bupa has an unconditional right to a refund of contributions. As a result IFRIC 14 will have no impact on the Group's financial statements. The pension regulator is currently considering this amendment to the trust deed.

d) Subsidiary companies

Subsidiary companies include all entities over which the Group or Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their 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.

Investments in subsidiary companies are carried at cost in the Company's accounts. Where appropriate, dividends received from pre-acquisition profits of subsidiaries are treated as a recovery of the investment and are recognised as a reduction of the cost.

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.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

f) Financial income and expenses

Financial expenses 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 which, 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 recognised 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 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.

i) Current/non-current classification

Assets and liabilities are classified as current if they are expected to be realised within twelve months from the balance sheet date, the primary purpose of the asset or liability is to be traded or, for loans and receivables, where they have a maturity of less than twelve months from the balance sheet date. All other assets and liabilities are classed as non-current.

j) 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 may be made to this balance for up to twelve months from the date of acquisition.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

j) Intangible assets (continued)

Goodwill (continued)
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 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.

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 7 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.

k) 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 are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date. Valuations of care homes are on an existing use value basis. Valuations of office buildings are on an open market value basis. Borrowing costs relating to the acquisition on construction of qualifying assets are recognised in the income statements as they arise. 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.

Depreciation
Freehold land and assets under construction included within freehold or leasehold properties as appropriate are not depreciated. Depreciation on other items of property plant and equipment 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	-	shorter of useful life and 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.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

k) Property, plant and equipment (continued)

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.

l) 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 option 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 capitalised as appropriate within trade and other receivables and are recognised in the income statement on a straight line basis over the term of the lease.

m) Trade and other receivables

Trade and other receivables are carried at cost less impairment losses.

n) 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.

o) 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.

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.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal, abandonment or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

p) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other highly liquid investments (including money market funds) 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.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

q) Interest bearing liabilities

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 corresponding fair value hedge is amended for the fair value of the risk being hedged.

r) 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.

s) Trade and other payables

Trade and other payables, excluding derivative liabilities, are carried at amortised cost. Derivative liabilities are stated at fair value.

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 schemes are recognised as an expense in the income statement as incurred.

Defined benefit post employment schemes

The Group's net obligation in respect of defined benefit pension schemes 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. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future funds from the scheme, or reductions in future contributions to the scheme.

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, 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 investments

The Group has classified its financial assets into the following categories: at fair value through profit and loss, available for sale, held to maturity 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 investments are initially recognised at fair value, which includes financial costs for financial investments not classified at fair value through profit or loss. Financial investments are derecognised when the rights to receive cash flows from the financial investments have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial investments and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

u) Financial investments (continued)

Financial investments at fair value through the profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

The investments 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 corroborated by independent third parties. These may include reference to the current fair value of 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.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity. Investments are designated as held to maturity where the Group has a positive intention and ability to hold investments to maturity. Held to maturity investments are measured at amortised cost using the effective interest method, less any impairment losses. Any discount or premium on purchase is amortised over the life of the investment through the income statement. The intent and ability to hold the asset to maturity is assessed at each reporting date.

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.

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 investments at fair value through profit or loss. Changes in fair value are recognised in equity whilst an investment is held and are subsequently transferred to the income statement upon derecognition of the investment.

Loans and receivables

Loans and receivables are non-derivative financial investments 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.

Impairment of financial investment

A financial investment is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial investment measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate at the date the investment was made.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

u) Financial investments (continued)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement.

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 23 details the estimation techniques involved in calculating the Group's net 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.
- Income taxes: The Group is subject to income taxes in the United Kingdom. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amount that was initially recorded, the difference is recognised in the period in which such determination is made.

The areas of judgement made in the process of applying the Group's accounting policies to categorise how transactions are displayed and that have the most significant effect on the amounts recognised in the financial statements are:

- Determining the nature of intangible assets arising on business combinations and period of amortisation; and
- Determining whether a substantial transfer of risks and rewards has occurred in relation to leased assets.

2. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking of the Company is Grupo Bupa Sanitas 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:

	2008	2007
	£'000	£'000
Fee income	516,056	494,106

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

- Health care – ownership and operation of nursing and residential homes for the elderly
- Property development – construction of purpose built care homes for other Group undertakings

Segment information about these businesses is presented below:

2008	Health care £'000	Property development £'000	Total £'000
Revenue			
External sales	516,056	-	516,056
Inter segment sales	-	-	-
	516,056	-	516,056
Operating surplus			
Segment result	74,224	-	74,224
Provisions for liabilities in participating interests			(2,534)
Financial income			36,016
Financial expenses			(34,881)
Surplus before taxation expense			72,825
Taxation expense			(15,879)
Surplus after tax			56,946

Other information

2008	Health care £'000	Property development £'000	Elimination £'000	Total £'000
Assets acquired	36,398	-	-	36,398
Depreciation and amortisation	21,400	-	-	21,400
Impairment losses recognised in income	532	-	-	532
Balance Sheet				
Segment assets	1,364,921	12,780	(8,092)	1,369,609
Segment liabilities	(872,988)	(10,719)	10,037	(873,670)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

2007	Health care £'000	Property development £'000	Total £'000
Revenue			
External sales	494,106	-	494,106
Inter segment sales	-	-	-
	494,106	-	494,106
Operating surplus			
Segment result	71,164	-	71,164
Provisions for liabilities in participating interests			831
Financial income			31,963
Financial expenses			(36,836)
Surplus before taxation expense			67,122
Taxation expense			(11,918)
Surplus after tax			55,204

Other information

2007	Health care £'000	Property development £'000	Elimination £'000	Total £'000
Assets acquired	39,934	-	-	39,934
Depreciation and amortisation	18,692	-	-	18,692
Impairment losses recognised in income	-	-	-	-
Reversal of past impairment losses recognised in income	726	-	-	726
Balance Sheet				
Segment assets	1,263,394	3,002	(3,002)	1,263,394
Segment liabilities	(784,422)	(888)	888	(784,422)

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	
	2008	2007
Health care	16,449	16,362
Other	406	401
	16,855	16,763

The aggregate payroll costs of these persons were as follows:

	2008	2007
	£'000	£'000
Wages and salaries	267,909	261,431
Social security costs	23,410	21,740
Other pension costs	2,450	1,026
	293,769	284,197

The other pension costs include the net curtailments/settlements of £nil (2007 – credit £1,090,000).

(b) Directors' remuneration

Emoluments	**2008**	2007
	£'000	£'000
Aggregate emoluments	1,004	992
Company contributions paid to money purchase pension schemes	-	-

Long Term Incentive Plan	**2008**	2007
	£'000	£'000
Amounts payable	-	486

Pensions	**2008**	2007
	Number	Number
Members of money purchase pension schemes	-	-
Members of defined benefit pension schemes	2	2

Amounts in respect of highest paid director	**2008**	2007
	£'000	£'000
Emoluments	681	1,046
Company contributions paid to money purchase pension schemes	-	-
Accrued pension at year-end	93	65

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.

6. OTHER INCOME

Other income of £6,240,000 relates to a gain on the sale of a closed care home site.

7. OPERATING SURPLUS

	2008 **£'000**	2007 £'000
Operating surplus has been arrived after charging/(crediting):		
Depreciation of property, plant and equipment	21,186	18,310
Amortisation of other intangible assets	214	382
Profit on disposal of fixed assets	6,240	-
Reversal of past impairment losses of property, plant and equipment	-	(726)
Impairment losses	532	-
Staff costs	293,769	284,197
Inventories recognised as expense	1,978	1,198
Operating lease rentals:		
Plant and equipment	851	704
Land and buildings	34,332	34,153

8. AUDITOR'S REMUNERATION

	2008 **£'000**	2007 £'000
Fees for the audit of the Company	3	2
Fees for the audit of subsidiary undertakings	115	130

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.

Fees paid to the Group's auditor, 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.

9. PROVISIONS FOR LIABILITIES IN PARTICIPATING INTERESTS

	2008 **£'000**	2007 £'000
Provision for liabilities in The Care Homes Partnership	2,534	(831)

10. FINANCIAL INCOME

	2008 **£'000**	2007 £'000
Bank deposits	87	216
Loans to Group undertakings	35,929	31,747
	36,016	31,963

BUPA CARE HOMES (CFG) PLC

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11. FINANCIAL EXPENSES

	2008 £'000	2007 £'000
Bank loans and overdrafts	46	71
Debenture stock	5,900	5,900
Loans from Group undertakings	24,560	26,490
Preference dividend	4,375	4,375
	34,881	36,836

12. TAXATION EXPENSE

(i) Recognised in the income statement

	2008 £'000	2007 £'000
Current taxation expense		
UK taxation on income for the year	21,365	21,639
Adjustments in respect of prior periods	(1,292)	(2,276)
Total current taxation expense	20,073	19,363
Deferred taxation expense		
Origination and reversal of temporary differences	(4,148)	(7,214)
Adjustments in respect of prior periods	(46)	247
Changes in tax rate	-	(478)
Total deferred taxation	(4,194)	(7,445)
Taxation expense	15,879	11,918

(ii) Reconciliation of effective tax rate

	2008 £'000	2007 £'000
Surplus before taxation expense	72,825	67,122
Taxation at the domestic UK corporation tax rate of 28.5% (2007 – 30%)	20,755	20,137
Effects of:		
Non taxable items	(2,958)	1,089
Transfer pricing adjustment	1,578	163
Adjustments to tax charge in respect of prior period	(1,292)	(2,276)
Deferred tax on other items	(2,158)	(6,964)
Adjustments in respect of deferred taxation of prior periods	(46)	247
Changes in tax rate	-	(478)
Taxation expense on continuing activities at the effective rate of 21.8% (2007 – 17.8%)	15,879	11,918

(iii) Current and deferred taxation recognised directly in equity

	2008 £'000	2007 £'000
Deferred taxation charge in respect of		
Revaluation of property	1,205	(30,304)
Actuarial gain on pension schemes	98	(371)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

13. DIVIDENDS

	2008 £'000	2007 £'000
Equity – ordinary		
Interim paid 21.6p per ordinary share (2007 – 77.7p)	35,000	126,000

No final dividend is proposed for the year.

14. INTANGIBLE ASSETS

	Goodwill £'000	Software £'000	Total £'000
2008			
Cost			
At 1 January 2008	18,223	4,471	22,694
Additions	-	168	168
At 31 December 2008	18,223	4,639	22,862
Amortisation and impairment losses			
At 1 January 2008	10,899	3,574	14,473
Amortisation for the year	-	214	214
At 31 December 2008	10,899	3,788	14,687
Net Book Value			
At 31 December 2008	7,324	851	8,175
At 31 December 2007	7,324	897	8,221
2007			
Cost			
At 1 January 2007	18,223	4,091	22,314
Additions	-	380	380
At 31 December 2007	18,223	4,471	22,694
Amortisation and impairment losses			
At 1 January 2007	10,899	3,192	14,091
Amortisation for the year	-	382	382
At 31 December 2007	10,899	3,574	14,473
Net Book Value			
At 31 December 2007	7,324	897	8,221
At 31 December 2006	7,324	899	8,223

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

14. INTANGIBLE ASSETS (CONTINUED)

Goodwill impairment

Goodwill is tested at least annually for impairment in accordance with International Accounting Standard 36 "Impairment of Assets" (IAS36) and International Accounting Standard 38 "Intangible Assets" (IAS38). The impairment tests at 31 December 2008 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 four year period. Cash flow projections beyond the four year period have been extrapolated by applying a terminal growth rate of 2%. This is a conservative estimate which does not exceed the long term average growth of the industry. The pre-tax discount rates used was 11.75% and reflect the specific risks relating to the industry segments. Market discount rates have been calculated with reference to the Group's weighted average cost of capital and have been adjusted to account for specific business risks. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on management's past experience.

15. PROPERTY, PLANT AND EQUIPMENT

2008	Land & buildings £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost or valuation			
At 1 January 2008	562,849	186,190	749,039
Additions	12,653	23,577	36,230
Disposals	(500)	(1,431)	(1,931)
At 31 December 2008	575,002	208,336	783,338
Depreciation			
At 1 January 2008	2,941	121,229	124,170
Charge for the year	8,226	12,960	21,186
Disposals	(10)	(1,431)	(1,441)
Impairment loss	6,532	-	6,532
At 31 December 2008	17,689	132,758	150,447
Net Book Value			
At 31 December 2008	557,313	75,578	632,891
At 31 December 2007	559,908	64,961	624,869
Leased assets included above:			
Net Book Value			
At 31 December 2008	63,155	-	63,155
At 31 December 2007	56,482	-	56,482

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 2007. The principal assumptions inherent in such valuations are described in note 1. These valuations were incorporated into the balance sheet at 31 December 2007. The directors have performed an impairment review of freehold land and buildings as at 31 December 2008. This review has resulted in an impairment of £6,532,000 against the value of certain freehold land and buildings. In the opinion of the directors this loss in value is of a permanent nature.

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for the year ended 31 December 2008

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2007	Land & buildings £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost or valuation			
At 1 January 2007	434,879	167,813	602,692
Additions	21,007	18,547	39,554
Disposals	-	(170)	(170)
Revaluations	106,963	-	106,963
At 31 December 2007	562,849	186,190	749,039
Depreciation			
At 1 January 2007	9,905	109,819	119,724
Charge for the year	6,736	11,574	18,310
Disposals	-	(164)	(164)
Adjustments on revaluations	(13,700)	-	(13,700)
At 31 December 2007	2,941	121,229	124,170
Net Book Value			
At 31 December 2007	559,908	64,961	624,869
At 31 December 2006	424,974	57,994	482,968
Leased assets included above:			
Net Book Value			
At 31 December 2007	56,482	-	56,482
At 31 December 2006	37,369	-	37,369

Analysis of cost or valuation of land and buildings:

	2008 Land & buildings £'000	2007 Land & buildings £'000
At open market value	562,359	562,849
At cost	12,653	-
Aggregate depreciation thereon	(11,167)	(2,941)
Impairments	(6,532)	-
	557,313	559,908
Historical cost of revalued assets	278,849	262,362
Aggregate depreciation based on historical cost	(50,525)	(45,277)
Historical cost net book value	228,324	217,085

16. OTHER INVESTMENTS

	£'000
At 1 January 2008 and 31 December 2008	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 2008 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 42 to the Company's financial statements.

18. OTHER NON-CURRENT RECEIVABLES

Other non-current receivables comprise

	2008 £'000	2007 £'000
Amounts owed by Group undertakings	414,082	417,099
Advance operating property rental payments	78	539
	414,160	417,638

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

	2008 £'000	2007 £'000
Work in progress	5,507	-
Finished goods	220	139
	5,727	139

20. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise

	2008 £'000	2007 £'000
Trade receivables	30,912	30,276
Amounts owed by Group undertakings	234,271	136,036
Other receivables	615	1,593
Prepayments and accrued income	12,565	12,715
Advance operating rental payments	456	456
	278,819	181,076

The average credit period taken on sales of goods and services provided is 21 (2007 – 21) days. No interest is charged on receivables. An allowance has been made for estimated irrecoverable amounts from sale of goods and services rendered amounting to £2,942,000 (2007 - £2,924,000). 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.

20. TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing of trade receivables is as follows

	2008 **£'000**	2007 £'000
Neither past due nor impaired	8,571	509
Ageing of impaired trade receivables		
0 – 30 days	11,173	13,899
30 – 60 days	8,853	12,479
60 – 90 days	2,172	2,816
90 – 120 days	1,321	1,297
Above 120 days	1,764	2,200
	33,854	33,200

The movement in the allowance for doubtful debts is as follows

	2008 **£'000**	2007 £'000
At the beginning of the year	2,924	2,599
Impairment losses recognised	18	325
At the end of the year	2,942	2,924

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. 11.8% DEBENTURE STOCK

	2008 **£'000**	2007 £'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 £90,487,000 (2007 - £92,497,000) of property, plant and equipment. The fair value of the 11.8% debenture stock at 31 December 2008 was £66,848,000 (2007 - £65,059,000).

23. POST EMPLOYMENT BENEFITS LIABILITY

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

	2008 **£'000**	2007 £'000
Present value of funded obligations	9,484	10,250
Fair value of scheme assets	(8,857)	(8,823)
Net recognised liabilities	627	1,427

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 who are also responsible for investments management and the provision of actuarial advice. The scheme was established on 4 November 1996 and eligible staff joined the scheme with effect from the 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 2006 and updated to 31 December 2008 by a qualified actuary independent of the scheme's sponsoring employer.

Employer contributions are currently paid at the rate of 33.3% of pensionable salaries for staff members and 34.3% of pensionable salaries for non-staff members. In addition an amount of £795,000 per annum is paid to fund the past service deficit. Member contributions are payable in addition at the rate of 6% of pensionable salaries per staff members and 5% of pensionable salaries for non-staff members. It is the policy of the Company to recognise actuarial gains and losses in the year in which they occur outside the profit and loss account and in the statement of recognised income and expense.

- 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 2007.

- 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 Bupa 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. A triennial valuation as at 1 July 2008 is currently being finalised. The previous triennial valuation of The Bupa Pension Scheme was carried out as at

23. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

1 July 2005 using the attained age method. On the basis of this valuation the independent actuary recommends the rate of contributions.

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 Bupa 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. A triennial valuation as at 1 July 2008 is currently being finalised. The previous triennial valuation of The Bupa Pension Scheme was carried out as at 1 July 2005 using the attained age method. On the basis of this valuation the independent actuary recommends the rate of contributions.

The Bupa Pension Scheme was valued as at 31 December 2008 under the requirements of International Accounting Standard "Employee Benefits" (IAS19) as the Bupa Group prepares its consolidated financial statements under International Financial Reporting Standards. This valuation showed a surplus before deferred tax of £115.0 million (2007 - surplus of £59.7 million) with assets of £753.2 million (2007 - £778.3 million) and liabilities of £638.2 million (2007 - £718.6 million). It is not possible to identify the Group's share of this surplus on a consistent and reliable basis, therefore, as permitted by IAS19, 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.

During the year employer contributions have been paid to The Bupa Pension Scheme at the rate of 26.34% of pensionable salary. 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.

From 1 October 2002 new employees were eligible to join The Bupa Retirement Savings Plan, a defined contribution scheme. The pension cost to the company in respect of this scheme equals the employer's contributions payable in the period.

The total pension cost included in the profit and loss account amounted to £302,000 (2007 - £294,000). The full disclosure requirements under IAS 19 are disclosed in the Annual Report and Accounts of the Bupa.

(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

	2008	2007	2006
Rate of increase in salaries	4.85%	4.70%	4.40%
Rate of increase in pensions in payment where LPI applies	2.85%	3.40%	3.10%
Discount rate	6.00%	5.70%	5.20%
Overall expected return on scheme assets	5.85%	7.84%	7.45%
Allowance for pension payment in increases of RPI or 5% per annum if less	2.85%	3.40%	3.10%
Allowance for revaluation of deferred pensions of RPI or 5% per annum if less	5.85%	7.84%	7.45%

The mortality assumptions adopted at 31 December 2008 imply the following life expectancies:

Male retiring at age 65 in 2008	21.7
Female retiring at age 65 in 2008	25.0
Male retiring at age 65 in 2028	23.7
Female retiring at age 65 in 2028	27.1

23. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

The Powys County Council Pension Fund

	2008	2007	2006
Inflation	2.8%	3.2%	3.0%
Rate of general long-term increase in salaries	4.3%	4.7%	4.5%
Rate of increase to pensions in payment	2.8%	3.2%	3.0%
Rate of increase to deferred pensions	2.8%	3.2%	3.0%
Discount rate	6.5%	5.3%	4.9%

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:

	2008 £'000	2007 £'000
At beginning of the year	10,250	15,060
Current service cost	570	752
Gain on curtailments/settlements	-	(1,090)
Interest on obligations	600	778
Contributions by employees	143	150
Actuarial gains	(518)	(4,878)
Changes in assumptions underlying the present value of scheme liabilities	(1,295)	(177)
Benefits paid	(266)	(345)
	9,484	10,250

The gain on curtailments/settlements of the prior year has been credited to the income statement as an exceptional item.

(iii) Fair value of schemes' assets

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

	2008 £'000	2007 £'000
At beginning of year	8,823	11,148
Expected return on scheme assets	683	762
Actuarial losses	(2,095)	(3,724)
Contributions by employer	1,569	832
Contributions by employees	143	150
Benefits paid	(266)	(345)
	8,857	8,823

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised were

The Care First Bedfordshire Limited Defined Benefit Scheme

	Long-term rate of return 2008	**Value 2008 £000**	Long-term rate of return 2007	Value 2007 £000
Equities	7.30%	3,441	8.50%	4,605
Bonds and Gilts	6.10%	647	5.50%	677
Other (property, cash)	3.00%	1,809	5.50%	631
	5.85%	5,897	7.84%	5,913

23. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

(iii) Fair value of schemes' assets (continued)

The Powys County Council Pension Fund

	Long–term rate of return 2008	**Value 2008 £000**	Long–term rate of return 2007	Value 2007 £000
Equities	6.8%	103,400	7.7%	138,070
Property	5.8%	19,500	6.7%	13,730
Government bonds	3.8%	74,000	4.7%	62,650
Corporate bonds	6.5%	66,300	5.3%	63,810
Other	2.5%	8,900	5.6%	13,270
Total	5.7%	272,100	6.4%	291,530
Group's share		2,960		2,910

(iv) Amount recognised in the consolidated income statement

The amounts charged/(credited) to operating expenses for the year are:

	2008 £'000	2007 £'000
Current service cost	570	752
Gain on curtailments/settlements	-	(1,090)
Expected return on pension scheme assets	(683)	(762)
Interest on pension scheme liabilities	600	778
	487	(322)

(v) Amount recognised directly in equity

The amounts (charged)/credited directly to equity are:

	2008 £'000	2007 £'000
Actual return less expected return on pension scheme assets	(2,095)	(3,724)
Experience gains and losses arising on the scheme liabilities	518	4,878
Changes in assumptions underlying the present value of scheme liabilities	1,295	177
	(282)	1,331

The cumulative amounts of actuarial loss recognised directly in equity are £290,000 (2007 - £8,000).

(vi) History of experience gains and losses

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Present value of schemes obligations	9,484	10,250	15,060	13,299	11,791
Fair value of schemes assets	(8,857)	(8,823)	(11,148)	(9,451)	(8,425)
Net deficit	627	1,427	3,912	3,848	3,366
Experience gains and losses arising on:					
Scheme obligations	1,383	4,878	72	-	(115)
Scheme assets	(2,095)	(3,724)	815	499	245
Total amounts recognised directly in equity	(282)	1,331	257	(237)	(1,359)

24. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Accelerated capital allowances	-	-	9,230	9,106	9,230	9,106
Post employment liability	(211)	(400)	-	-	(211)	(400)
Revaluation of properties to fair value	-	-	46,632	52,838	46,632	52,838
Other	(38)	(434)	-	-	(38)	(434)
Net deferred tax (assets)/liabilities	(249)	(834)	55,862	61,944	55,613	61,110

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.

Unrecognised deferred tax assets

At 31 December 2008, the Group had no unrecognised deferred tax assets (2007 - £nil).

Movement in net deferred tax liabilities

2008	At beginning of year £'000	Recognised in income statement £'000	Recognised in equity £'000	At end of year £'000
Accelerated capital allowances	9,106	124	-	9,230
Post employment liability	(400)	287	(98)	(211)
Revaluation of land and buildings to fair value	52,838	(5,001)	(1,205)	46,632
Other	(434)	396	-	(38)
	61,110	(4,194)	(1,303)	55,613

2007	At beginning of year £'000	Recognised in income statement £'000	Recognised in equity £'000	At end of year £'000
Accelerated capital allowances	8,811	295	-	9,106
Post employment liability	(1,174)	403	371	(400)
Revaluation of land and buildings to fair value	30,968	(8,434)	30,304	52,838
Other	(725)	291	-	(434)
	37,880	(7,445)	30,675	61,110

25. PROVISIONS FOR LIABILITIES AND CHARGES

2008	Onerous lease £'000	Participating interest £'000	Total £'000
At 1 January 2008	327	40,666	40,993
Provided in the year	-	2,534	2,534
Utilised in the year	(151)	(43,200)	(43,351)
At 31 December 2008	176	-	176

2007	Onerous lease £'000	Participating interest £'000	Total £'000
At 1 January 2007	380	41,497	41,877
Utilised in the year	(53)	(831)	(884)
At 31 December 2007	327	40,666	40,993

The Group has a participating interest in a joint venture with The Care Homes Partnership. This provision was utilised to settle the Group's share of the partnership's liabilities as at 31 December 2008. The onerous lease relates to an unoccupied property in Woking, Surrey.

26. 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.

27. 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.

28. TRADE AND OTHER PAYABLES

Trade and other payables due within one year comprise:

	2008 £'000	2007 £'000
Trade payables	202	5,106
Amounts owed to Group undertakings	352,670	227,595
Other taxation and social security	5,994	5,805
Other payables	3,934	3,232
Accruals and deferred income	71,620	68,834
Non equity dividend	1,510	1,510
	435,930	312,082

Trade payables comprise amounts outstanding for trade purchases. The average credit period taken for trade purchases is 26 (2007 – 26) days. There is no material difference between the carrying amount of trade payables and their fair value.

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29. SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised		
Equity interests		
220,000,000 ordinary shares of 25 pence each	55,000	55,000

	2008 £'000	2007 £'000
Allotted, called up and fully paid		
Equity interests		
162,213,958 ordinary shares of 25 pence each	40,553	40,553

30. EQUITY

2008	Share premium account £'000	Merger reserve £'000	Capital redemption reserve fund £'000	Revaluation reserve £'000	Income and expenditure reserve £'000
At 1 January 2008	114,141	16,963	2,110	215,503	89,702
Surplus for the financial year	-	-	-	-	56,946
Dividends paid	-	-	-	-	(35,000)
Actuarial loss on pension schemes	-	-	-	-	(282)
Taxation charge on income and expenses recognised directly in equity	-	-	-	-	98
Unrealised loss for the year	-	-	-	(6,000)	-
Deferred tax liability arising on revaluation of land and buildings	-	-	-	1,205	-
At 31 December 2008	114,141	16,963	2,110	210,708	111,464

2007	Share premium account £'000	Merger reserve £'000	Capital redemption reserve fund £'000	Revaluation reserve £'000	Income and expenditure reserve £'000
At 1 January 2007	114,141	16,963	2,110	125,870	159,538
Surplus for the financial year	-	-	-	-	55,204
Dividends paid	-	-	-	-	(126,000)
Actuarial gain on pension schemes	-	-	-	-	1,331
Taxation charge on income and expenses recognised directly in equity	-	-	-	-	(371)
Unrealised surplus for the year	-	-	-	119,937	-
Deferred tax liability arising on revaluation of land and buildings	-	-	-	(30,304)	-
At 31 December 2007	114,141	16,963	2,110	215,503	89,702

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2008 **£'000**	2007 £'000
Surplus before taxation expense	72,825	67,122
Adjustments for:		
Depreciation of property, plant and equipment	21,186	18,310
Impairment losses	532	-
(Gain)/loss on sale of property, plant and equipment	(6,240)	6
Reversal of past impairment losses	-	(726)
Amortisation and impairment of intangible assets	214	382
Provisions for liabilities in participating interests	2,534	(831)
Financial income	(36,016)	(31,963)
Financial expenses	34,881	36,836
Movement in onerous lease provision	(151)	(53)
Movement in post employment benefits liability	(1,082)	(1,154)
Operating cash flows before movement in working capital	88,683	87,929
(Increase)/Decrease in working capital:		
Inventories	(5,588)	13
Trade receivables	(636)	(8,931)
Other receivables	978	(463)
Prepayments and accrued income	150	(1,004)
Trade payables	(4,904)	827
Other tax and social security	189	(39)
Accruals and deferred income	2,754	4,255
Other payables	702	598
Advance operating lease rental	461	460
Cash generated from operations	82,789	83,645
Interest paid	(10,321)	(10,346)
Net cash from operating activities	72,468	73,299

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

	2008 **£'000**	2007 £'000
Cash on hand and balances with bank	6,433	7,462
Restricted access deposits	(5,861)	(5,861)
	572	1,601

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 (2007 - £5,861,000) as security over future operating rental payments due to Bupa LeaseCo (Guernsey) Limited.

32. COMMITMENTS

Capital commitments

There were no capital commitments at the end of either year.

Operating leases

Minimum lease payment under operating leases recognised in income for less than one year:

	2008 **£'000**	2007 £'000
Plant and equipment	851	847
Land and building	34,322	34,276
	35,173	35,123

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:

	2008 **£'000**	2007 £'000
Within one year	33,324	33,324
In the second to fifth year inclusive	133,295	133,295
After five years	704,494	737,909
	871,113	904,528

33. 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 (2007 - £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 (2007 - £5,861,000) as security over future operating rental payments due to Bupa LeaseCo (Guernsey) Limited.

At 31 December 2008, the Group was a party to a £1.1 billion multi-currency revolving credit facility and a separate £200m multi-currency revolving credit facility. The company has joint and several liability for all obligations under the agreements.

34. 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 2008 are as follows:

	2008 **£'000**	2007 £'000
Fellow Bupa Group undertakings	7,641	9,549

Purchases of goods and services and rental charges

Purchases of goods and services and rental charges for the year ended 31 December 2008 are as follows:

	2008 **£'000**	2007 £'000
Bupa	18,394	15,581
Fellow Bupa Group undertakings	32,799	36,054
	51,193	51,635

Interest received

Interest received for the year ended 31 December 2008 is as follows:

	2008 **£'000**	2007 £'000
Fellow Bupa Group undertakings	35,929	31,747

Interest paid

Interest paid for the year ended 31 December 2008 is as follows:

	2008 **£'000**	2007 £'000
Loan and current account from Group undertakings:		
Bupa	6,136	3,580
Fellow Bupa Group undertakings	18,424	22,910
	24,560	26,490

Non-current other receivables

Non-current other receivables comprise:

	2008 **£'000**	2007 £'000
Fellow Bupa Group undertakings	414,082	417,099

34. RELATED PARTY TRANSACTIONS (CONTINUED)

Current accounts receivable

Current accounts receivable comprise:

	2008 £'000	2007 £'000
Fellow Bupa Group undertakings	234,271	136,036

Non-current accounts payable

Non-current accounts payable comprise:

	2008 £'000	2007 £'000
Fellow Bupa Group undertakings	252,640	241,617

Current accounts payable

Current accounts payable comprise:

	2008 £'000	2007 £'000
Bupa	102,686	76,698
Bupa Finance Plc	41,128	23,576
Fellow Bupa Group undertakings	208,856	127,321
	352,670	227,595

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 2008

BUPA CARE HOMES (CFG) PLC

COMPANY PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Operating income		-	289
Operating profit		-	289
Income from shares in group undertakings	37	45,000	136,200
Interest receivable and similar income	38	7,282	18,321
Interest payable and similar charges	39	(13,759)	(21,938)
Profit on ordinary activities before taxation		38,523	132,872
Tax on profit on ordinary activities	40	(986)	(1,100)
Profit for the financial year		37,537	131,772

The operating profit is all derived from continuing operations.

There were no recognised gains and losses other than the profit 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 47 to 52 form part of these financial statements.

BUPA CARE HOMES (CFG) PLC

COMPANY BALANCE SHEET
as at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	42	227,489	225,489
Current assets			
Debtors due after one year	43	95,841	104,342
Creditors: amounts falling due within one year	44	(27,868)	(42,233)
Net current assets		67,973	62,109
Total assets less current liabilities		295,462	287,598
Creditors: amounts falling due after more than one year	45	(134,539)	(129,212)
Net assets		160,923	158,386
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	4,119	1,582
Shareholders' funds		160,923	158,386

These financial statements were approved by the Board of Directors on 27 April 2009 and were signed on its behalf by:

N R Taylor
Director

The accounting policies and notes on pages 47 to 52 form part of these financial statements.

BUPA CARE HOMES (CFG) PLC

COMPANY CASH FLOW STATEMENT
for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Net cash outflow from operating activities	49	-	-
Returns on investment and servicing of finance	49	(5,900)	(5,900)
Acquisitions and disposals	49	(2,000)	-
Equity dividend paid		(35,000)	(126,000)
Cash outflow before financing		(42,900)	(131,900)
Financing	49	46,366	125,678
Increase/(Decrease) in cash	50	3,466	(6,222)

The accounting policies and notes on pages 47 to 52 form part of these financial statements.

35. 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 8: Related Party Disclosures (FRS 8), not included details of transactions with other companies which are subsidiary undertakings of Bupa. 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.

36. STAFF COSTS AND DIRECTORS' REMUNERATION

None of the Directors receive any emoluments in relation to their services to the Company. The emoluments of the directors in relation to their services to the Group are disclosed in note 5. The Company has no other employee costs during the year.

37. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2008	2007
	£'000	£'000
Ordinary dividends	45,000	136,200

38. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008	2007
	£'000	£'000
Loan to Group undertakings	7,282	18,321

39. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £'000	2007 £'000
Loan note	5,900	5,900
Loan from Group undertaking	7,859	16,038
	13,759	21,938

40. TAX ON PROFIT ON ORDINARY ACTIVITIES

(i) Analysis of tax charge in the year

	2008 £'000	2007 £'000
Current tax		
UK corporation tax on profit for the year	(476)	(998)
Adjustments in respect of prior periods	1,462	2,098
Tax on profit on ordinary activities	986	1,100

(ii) Factors affecting the tax charge

The tax charge for the year is lower than the standard rate of corporation tax in the UK of 28.5% (2007 - 30%). The differences are explained below:

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	38,523	132,872
Tax charge on profit on ordinary activities at 28.5% (2007 - 30%)	10,979	39,862
Effect of		
Expenses not deductible for tax purposes	(12,824)	(40,860)
Transfer pricing adjustments	1,369	-
Adjustments to tax charge in respect of prior period	1,462	2,098
	986	1,100

41. DIVIDENDS

	2008 £'000	2007 £'000
Equity - ordinary		
Interim paid 21.6p (2007 – 77.7p) per £1 ordinary shares	35,000	126,000

42. INVESTMENTS

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2008 and 31 December 2008	154,924	52,000	23,155	230,079
Addition	2,000	-	-	2,000
At 31 December 2008	156,924	52,000	23,155	232,079
Provision				
At 1 January 2007 and 31 December 2008	4,590	-	-	4,590
Net book value				
At 31 December 2008	152,334	52,000	23,155	227,489
At 31 December 2007	150,334	52,000	23,155	225,489

At 31 December 2008, 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	2,000,002	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 *	156	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

42. INVESTMENTS (CONTINUED)

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. The other investments relate to 11% of the shares of ANS 2003 Plc acquired in September 2005 for a consideration of £23,155,000 from fellow Group undertakings.

During the year the Company acquired 2,000,000 additional ordinary shares with a nominal value of £1 each of Bupa Care Homes (Bedfordshire) Limited for a cash consideration of £2,000,000.

43. DEBTORS

	2008	2007
	£'000	£'000
Amounts falling due after one year:		
Amounts owed by Group undertakings	95,841	104,342

44. CREDITORS – amounts falling due within one year

	2008	2007
	£'000	£'000
Bank loans and overdraft	2,950	6,416
Amounts owed to Group undertakings	24,918	35,817
	27,868	42,233

45. CREDITORS – amounts falling due after more than one year

	2008	2007
	£'000	£'000
11.8% debenture stock	50,000	50,000
Amounts owed to Group undertakings	84,539	79,212
	134,539	129,212
Loans are repayable as follows:		
In five years or more	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 and 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 amount due to Group undertakings due after more than one year relates to a loan from Bupa Blackbird Investments LLP, with no fixed repayment date and bearing interest at a rate of six months LIBOR plus 40 base points.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2008

46. SHARE CAPITAL

	2008 **£'000**	2007 £'000
Authorised		
Equity interests		
220,000,000 ordinary shares of 25 pence each	55,000	55,000

	2008 **£'000**	2007 £'000
Allotted, called up and fully paid		
Equity interests		
162,213,958 ordinary shares of 25 pence each	40,553	40,553

47. RESERVES

	Share premium account £'000	Capital redemption reserve fund £'000	Profit and loss account £'000
At 1 January 2008	114,141	2,110	1,582
Retained profit for the financial year	-	-	37,537
Dividends paid on equity shares	-	-	(35,000)
At 31 December 2008	114,141	2,110	4,119

48. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2008 **£'000**	2007 £'000
Profit for the financial year	37,537	131,772
Dividends paid on equity shares	(35,000)	(126,000)
Net addition to shareholders' funds	2,537	5,772
Opening shareholders' funds	158,386	152,614
Closing shareholders' funds	160,923	158,386

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2008

49. ANALYSIS OF CASH FLOW

	2008 £'000	2007 £'000
Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	-	289
Increase in working capital		
Accruals and deferred income	-	(289)
Net cash flow from operations	-	-
Returns on investments and servicing of finance		
Interest paid	(5,900)	(5,900)
Acquisitions and disposals		
Additional investments in subsidiary undertakings	(2,000)	-
Financing		
Borrowing from fellow Group undertakings	46,366	125,678

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.

50. ANALYSIS AND RECONCILIATION OF NET DEBT

	2008 £'000	2007 £'000
Movement in bank loans and overdraft	3,466	(6,222)
Bank loans and overdraft at beginning of year	(6,416)	(194)
Bank loans and overdraft at the end of year	(2,950)	(6,416)