

Barchester Healthcare Limited

Annual report
Registered number 2792285
31 December 2005

SATURDAY



A45U8MDK
A25 20/01/2007 618
COMPANIES HOUSE

Contents

Directors and advisers	1
Chairman's statement	2
Directors' report	3
Statement of directors' responsibilities in respect of the Annual report and the financial statements	5
Report of the independent auditors to the members of Barchester Healthcare Limited	6
Consolidated income statement	8
Consolidated statement of recognised income and expense	9
Consolidated balance sheet	10
Consolidated cash flow statement	11
Notes	12
Company balance sheet	51
Company reconciliation of movements in shareholders' funds	52
Notes	53

Directors and advisers

Directors
Denis Brosnan (Chairman)
David Duncan (Finance Director)
John Hughes
Edward Irwin
Chris McHugh
Michael Parsons (Chief Executive)
Kenneth Wilson

Secretary
Jon Hather

Registered office
Suite 201
The Chambers
Chelsea Harbour
London
SW10 0XF

Auditors
KPMG LLP
Plym House
3 Longbridge Road
Marsh Mills
Plymouth
PL6 8LT

Solicitors
Berwin Leighton Paisner
Adelaide House
London Bridge
London
EC4R 9HA

Bankers
The Royal Bank of Scotland plc
AIB Group
Bank of Ireland
Bank of Scotland
Barclays Bank Plc

Chairman's statement

Results for the year ended 31 December 2005

The consolidated loss after taxation attributable to shareholders for the year was £2.980 million (2004: loss of £0.607 million) on a revenue of £289.172 million (2004: £130.429 million).

Group operating profits (excluding share of joint venture profit) were £43.119 million in the year (2004: £16.554 million).

The consolidated balance sheet at 31 December 2005 shows total equities and liabilities of £971.613 million (2004: £928.512 million).

The group is currently finalising a restructuring into an operating company/property company structure which commenced after the year end. This has allowed an increase in borrowing and a return of funds to the ultimate shareholders of Grove Limited (ultimate parent company).

Review of Barchester operations

At 31 December 2005 Barchester owned 166 nursing and care homes and a total of 10,489 beds in the United Kingdom, as compared with 163 homes (10,154 beds) at the end of 2004.

The group made two company acquisitions in the year.

The group has maintained its strong position in the private pay and specialist care markets. The private pay and specialist care markets are those in which the greatest long term potential has been identified and are least affected by Local Authority problems and funding shortfalls.

The group has a number of top quality care products including care of the frail elderly, the younger disabled, close care, domiciliary care and Memory Lane units specialising in dementia care. The directors believe that if the group targets specialist care, the group can achieve higher occupancy levels and larger fee premiums.

The group is still looking to expand through acquisitions, new build projects and extra capacity is being added to a number of existing homes.

Conversion to International Financial Reporting Standards

The consolidated accounts have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). 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 Practices (UK GAAP). The company financial statements are presented on pages 51 to 57.

Conclusion

The year under review was another successful one for the group which strengthens Barchester's position as one of the major care operators in the UK and confirms the group's status as number one in quality of assets and number one in the premium pay market.

The Directors are confident that the group will make further progress in 2006.

I would like to thank the management and staff for their commitment and skill.

Finally I would like to express my appreciation to my fellow Directors for their contribution during 2005.

Yours faithfully

Denis Brosnan
Chairman

22 December 2006

Directors' report

The directors present the annual report for the year ended 31 December 2005.

Principal activities

The principal activity of the company continues to be the administration of a group involved in the ownership and management of nursing and residential care facilities including domiciliary care of the frail elderly, the younger disabled and dementia care.

Business review

A review of the business during the year and of prospective future developments is contained within the Chairman's statement on page 2.

An important part of the company's activities is the strength of its property portfolio of healthcare facilities. In this context, the company's strategy includes the ongoing economic development of the property portfolio.

The company's customers are either privately funded or are wholly or mainly funded by the public sector. During the year the company has put significant effort into negotiating fees with local authorities and other public sector purchasing agencies.

Financial instruments

Financing is obtained from a mixture of bank loans and capital market issues in sterling at fixed and floating rates of interest. Facilities are monitored against predicted borrowing levels and are increased or cancelled as necessary to ensure that there is sufficient committed headroom to accommodate foreseen operational requirements. Uncommitted bank facilities, including overdrafts, are maintained and used to provide flexibility and more advantageous terms. The group's main financial covenants in longer term facilities are in respect of interest cover.

Treasury policy is that deposits will only be made and other financial instruments entered into with bank counterparties, which have been approved by the board.

It is group policy to reduce exposure to increases in interest rates by fixing a proportion of the debt using fixed rate debt instruments.

Proposed dividend

The directors do not recommend the payment of a dividend (2004: nil).

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the group exceeds the book values of those assets at 31 December 2005. The group does not adopt a policy of valuation.

Directors and directors' interests

The directors who held office during the year were as follows:

Mark Benn	(appointed 23 February 2005 and resigned 13 September 2006)
Denis Brosnan	
David Duncan	
John Hegarty	(resigned 13 September 2006)
John Hughes	(resigned 23 February 2005 and appointed 13 September 2006)
Edward Irwin	
Eamon McElroy	(resigned 23 February 2005)
Owen McGartoll	(resigned 23 February 2005, appointed 23 October 2006)
Chris McHugh	(appointed 23 February 2005, resigned 16 October 2006)
Michael Parsons	
Barry Sweetbaum	(resigned 28 July 2006)
Francesca Welbore Ker	(resigned 23 February 2005, appointed 13 September 2006)
Kenneth Wilson	

Directors' report *(continued)*

Directors and directors' interests *(continued)*

Jon Hather was appointed as company secretary on 23 February 2005.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

All of the aforementioned are directors of and hold ordinary shares and ordinary shares held under option in the ultimate parent company, Grove Limited, details of which are given within the financial statements of that company.

Employees

The directors recognise the importance of human resources. Practices to provide good communications and relations with employees include providing employees with information on matters of concern to them as employees.

The group continues to give full and fair consideration to applications from disabled persons. If an employee becomes disabled the company endeavours to continue their employment if this is practical and in appropriate cases training is given.

Political and charitable contributions

The group made no political or charitable contributions during the year.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Pursuant to Section 386 of the Companies Act 1985, a resolution is to be put to the forthcoming Annual General Meeting which, if passed, would result in the company not being required to appoint its auditors annually. KPMG LLP would then continue as the company's auditors.

By order of the board



D Duncan
Director

Suite 201
The Chambers
Chelsea Harbour
London
SW10 0XF

22 December 2006

Statement of directors' responsibilities in respect of the Annual report and the financial statements

The directors are responsible for preparing the Annual Report and the consolidated and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare consolidated and parent company financial statements for each financial year. Under that law they are required to prepare the consolidated financial statements in accordance with IFRSs as adopted by the EU 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 consolidated financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to 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.

In preparing each of the consolidated and parent company financial statements, the director 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 IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report that comply with that law and those regulations.



KPMG LLP

Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom

Report of the independent auditors to the members of Barchester Healthcare Limited

We have audited the group and parent company financial statements (the “financial statements”) of Barchester Healthcare Limited for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, 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 Annual Report in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities on page 5.

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 consolidated financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors’ Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with 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.

Report of the independent auditors to the members of Barchester Healthcare Limited *(continued)*

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2005 and of its loss 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 2005; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of IAS Regulations.

KPM G LLP

KPMG LLP
Chartered Accountants
Registered Auditor

22 December 2006

Consolidated income statement
for year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Revenue	<i>1</i>	289,172	130,429
Cost of sales		(220,425)	(100,053)
		<hr/>	<hr/>
Gross profit		68,747	30,376
Gain on disposal of land		420	-
Administrative expenses		(26,048)	(13,822)
		<hr/>	<hr/>
Operating profit	<i>3</i>	43,119	16,554
Financial income	<i>5</i>	1,149	40
Financial expenses	<i>5</i>	(45,061)	(15,863)
		<hr/>	<hr/>
Net financing costs		(43,912)	(15,823)
Share of profit/(loss) of jointly controlled entities	<i>9</i>	126	(70)
		<hr/>	<hr/>
(Loss)/profit before tax		(667)	661
Income tax expense	<i>6</i>	(2,313)	(1,268)
		<hr/>	<hr/>
Loss for the year	<i>19</i>	(2,980)	(607)
		<hr/>	<hr/>
Attributable to:			
Equity holders of the parent		(2,980)	(607)
		<hr/>	<hr/>
Loss for the year		(2,980)	(607)
		<hr/>	<hr/>

Consolidated statement of recognised income and expense
for year ended 31 December 2005

	<i>Note</i>	2005	2004
		£000	restated £000
Effective portion of changes in fair value of cash flow hedges net of recycling		(1,198)	-
Net income recognised directly in equity		(1,198)	-
Loss for the year		(2,980)	(607)
Total recognised income and expense	19	(4,178)	(607)
Total recognised income and expense for the period is attributable to:			
Equity holders of the parent		(4,178)	(607)

Consolidated balance sheet*at 31 December 2005*

	<i>Note</i>	2005 £000	Restated 2004 £000
Non-current assets			
Property, plant and equipment	7	725,935	686,769
Intangible assets	8	190,814	196,840
Investments in jointly controlled entity	9	2,537	2,380
Total non-current assets		919,286	885,989
Current assets			
Inventories	11	5,604	2,802
Trade and other receivables	12	22,652	17,448
Cash and cash equivalents	13	24,071	22,273
Total current assets		52,327	42,523
Total assets	1	971,613	928,512
Current liabilities			
Interest-bearing loans and borrowings	14	30,096	26,592
Trade and other payables	17	61,149	47,972
Other financial liabilities	15	1,198	-
Provisions	18	475	1,031
Tax payable		1,131	279
		94,049	75,874
Non-current liabilities			
Interest-bearing loans and borrowings	14	561,691	518,106
Trade and other payables	17	182,751	203,077
Provisions	18	1,142	1,517
Deferred tax liabilities	10	106,822	103,992
		852,406	826,692
Total liabilities		946,455	902,566
Equity			
Share capital	19	12,913	12,913
Share premium	19	6,643	6,643
Capital redemption reserve	19	186	186
Cash flow hedging reserve	19	(1,198)	-
Retained earnings	19	6,614	6,204
Total equity		25,158	25,946
Total equity and liabilities		971,613	928,512

These financial statements were approved by the board of directors on 22 December 2006 and were signed on its behalf by:



Michael Parsons
Director

Consolidated cash flow statement
for year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Cash flows from operating activities			
Loss for the year		(2,980)	(607)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		22,656	7,300
Financial income		(1,149)	(40)
Financial expense		45,061	15,863
Equity-settled share-based payment expense		3,390	213
Share of profit of jointly controlled entities		(126)	70
Gain on sale of property, plant and equipment		(420)	-
Taxation		2,313	1,268
Operating profit before changes in working capital and provisions		68,745	24,067
(Increase)/decrease in trade and other receivables		(4,407)	625
Increase in inventories		(1,572)	(166)
Decrease in trade and other payables		4,982	4,906
Decrease in provisions and employee benefits		2,242	2,146
Cash generated from operations		69,990	31,578
Interest paid		(32,906)	(10,894)
Tax paid		(1,371)	(3,445)
Net cash from operating activities		35,713	17,239
<i>Cash flows from investing activities:</i>			
Proceeds from sale of property, plant and equipment		2,394	1,275
Interest received		1,149	45
Acquisition of subsidiaries, net of cash acquired		(13,290)	(256,436)
Acquisition of property, plant and equipment		(37,342)	(27,634)
Net cash from investing activities		(47,089)	(282,750)
<i>Cash flows from financing activities:</i>			
Proceeds from new loan		50,000	108,723
Advances from ultimate parent undertaking		-	177,965
Repayment of borrowings		(36,348)	-
Payment of finance lease liabilities		(478)	(258)
Net cash from financing activities		13,174	286,430
Net increase in cash and cash equivalents		1,798	20,919
Cash and cash equivalents at 1 January		22,273	1,354
Cash and cash equivalents at 31 December	<i>13</i>	24,071	22,273

Notes

(forming part of the financial statements)

1 Accounting policies

Barchester Healthcare Limited (the "Company") is a company incorporated in the UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not about its Group.

Statement of compliance

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 51 to 57.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to Adopted IFRSs. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in 2005 and 2004 due to the transitional provisions of IFRS 1 in relation to IAS 32 and IAS 39.

Transition to Adopted IFRSs

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 30.

In addition to exempting companies from the requirement to restate comparatives for IAS 32 and IAS 39, IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to transition date have not been restated.
- Fair value or revaluation as deemed cost – At the date of transition, fair value has been used as deemed cost for properties previously measured at fair value, at the date of their acquisition by the Group as part of previous business combinations.
- Four share option grants were made before 7 November 2002 under the Replacement Share Option Plan have vested but not been exercised. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that derivative financial statements are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of IFRS that have significant effect on the financial statements are discussed in note 26.

Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

The consolidated financial statements have not been prepared applying the following standards which have been issued but are not yet effective.

- IFRS 7 'Financial Instruments'.
Disclosures issue date: August 2005
Effective date: January 2007

IFRS 7, replaces the disclosure aspects of IAS 32 and IAS 30.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

Intragroup balances and any unrelieved gains and losses or income and expenses arising from Intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Revenue

Revenue relates to income received from residents of the Group's nursing and care homes and from the sale of close care units, and arises entirely in the United Kingdom. Revenue from residents of the Group's nursing and care homes is recognised, as earned, through the provision of contracted services.

Each new lease which is granted on the close care units is recognised as a sale. Revenue from the sale of close care units is recognised on completion.

Segmental reporting

Barchester's internal organisational and management structure and its system of internal financial reporting to the board of directors is not based on geography. It reports between nursing and care homes as one segment and close care units as another segment, however the close care business is so immaterial that it has been deemed there is only one business segment and no geographical segments.

Expenses

Operating lease payments

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

Notes (continued)

1 Accounting policies (continued)

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs

Net financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested and dividend income (see Derivative financial instruments and hedging accounting policy).

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Employee benefits

Defined contribution plans

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

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Certain shares acquired by employees entitle the employee to a loan guarantee. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment.

The fair value of the share rights is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date and at settlement date and any changes in fair value recognised in profit or loss spread equally over the vesting period.

Income tax

Income tax on the profit or loss 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 substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on 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 provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided 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.

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

Notes (continued)

1 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the income statement to write off the cost less the estimated residual value on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- buildings 50 years
- plant and equipment 4 to 10 years
- fixtures and fittings 4 to 10 years
- assets under construction not depreciated

Policy for interest and capitalisation

The cost of land and buildings includes interest on the capital employed in nursing home developments and development costs associated with initiating and monitoring the construction of nursing homes. Such interest is capitalised only until the date of completion of the relevant home. The rate of interest used is the applicable cost of funds during the period.

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and Jointly Controlled Entities. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised.

Negative goodwill arising on an acquisition is recognised in the income statement.

Other intangibles

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Notes (continued)

1 Accounting policies (continued)

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Intellectual property 10 years

Intellectual property is defined as processes, procedures and know-how that enhance the performance of the Group. The following are included:

Computer software
Design rights
Training manuals
Operating procedures and processes.

The valuation of intellectual is based on a fully-loaded royalty relief method.

Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Notes (continued)

1 Accounting policies (continued)

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statements.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventory

Inventories are stated at the lower of cost and net realisable value. Costs are expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price, less the estimated costs of completion and selling expenses.

Trade and other receivables

Trade and other receivables are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. 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 only of the statement of cash flows.

Classification of financial instruments issued by the Group

Objectives and policies

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Notes (continued)

1 Accounting policies (continued)

Effect of first time adoption of IAS 32 and IAS 39 on 1 January 2005

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead the following policies were applied in respect of financial instruments issued by the Group, investments in debt and equity securities, derivative financial instruments and hedging.

In the comparative period other than the following exceptions all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for impairment. Interest differentials arising from interest rate swaps were recognised by adjusting net interest payable or receivable over the period of the contract.

The following adjustments necessary to implement the revised policy have been made as at 1 January 2005 with the net adjustment to net assets, after tax, taken through the 2005 statement of recognised income and expense. The main differences between the 2004 and 2005 bases of accounting are shown and described below:

Effect on the consolidated balance sheet at 1 January 2005:

	£000
Interest rate swaps classified as other financial liabilities	
Current	879
	<hr/> 879 <hr/>
Cash flow hedging reserve	879
	<hr/> 879 <hr/>

The nature of the main effects upon the consolidated balance sheet at 1 January 2005 and upon the 2005 consolidated income statement, statement of changes in equity/statement of recognised income and expense and cash flow statement are as follows.

- In 2005 hedging instruments and hedged items are accounted for separately in the balance sheet. Gains and losses in both are included in profit for the year when they arise (fair value hedges) or when the hedged transaction occurs having first recorded those on the hedging instrument in equity (cash flow hedges, to the extent effective). In 2004 hedging instruments were not recognised and hedged items were held at cost (amortised as appropriate) without any adjustment in respect of the hedged risk. On 1 January 2005 the hedged items and hedging instruments are brought separately on to the balance sheet in accordance with the 2005 policy. The cash flow statement is unaffected by this change in accounting policy.

The main effects on the primary statements in 2004, had IAS 32 and IAS 39 been adopted, would have been that the £879,000, would have been recognised directly in the primary statements as described above.

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings 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.

Provisions

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.

Notes (continued)

2 Acquisitions

Barchester Healthcare Homes Limited (100% owned subsidiary of Barchester Healthcare Limited) acquired 100% of the share capital of Lakeside Residential Home Limited, and its wholly subsidiary undertakings on 30 June 2005. The net assets acquired and consideration paid are set out below.

	Book value £000	Revaluation £000	Fair value £000
Property, plant and equipment	5,169	4,023	9,192
Inventories	12	-	12
Trade receivables	81	-	81
Cash and cash equivalent	295	-	295
Interest bearing loans and borrowing	(3,804)	-	(3,804)
Other payables	(387)	-	(387)
Deferred tax	-	(1,200)	(1,200)
	<u>1,366</u>	<u>2,823</u>	<u>4,189</u>
Goodwill on acquisition			<u>1,200</u>
Consideration paid, satisfied in cash			<u>5,389</u>

The purchase consideration and costs of acquisition were financed entirely by cash. Included in the consideration paid are professional fees amounting to £275,000.

The revaluation of property, plant and equipment and provision for deferred tax represents a revision to reflect the fair value of those assets and liabilities to the Group.

The fair values are provisional fair values

For the year ended 30 June 2005, Manor Lakeside Residential Home Limited and its wholly owned subsidiary undertakings reported revenue of £2,133,000 and a profit after tax of £407,000.

The profit after tax included in the Group accounts, since the acquisition date is £866,000.

Goodwill has arisen on the acquisition due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration.

For the year ended 31 December 2005, had the acquisitions been made on 1 January 2005, management estimate that Group revenue would have been £290,239,000 and loss after tax for the Group would have been £2,776,500.

Notes (continued)

2 Acquisitions (continued)

Barchester Healthcare Homes Limited acquired 100% of the share capital of Manor House Nursing Home (Stamford Bridge) Limited on 31 December 2005. The net assets acquired and consideration paid are set out below.

	Book value £000	Revaluation £000	Fair value £000
Property plant and equipment	3,919	3,582	7,501
Inventories	811	407	1,218
Trade receivables	716	-	716
Interest bearing loan and borrowing	(4,461)	-	(4,461)
Other payables	(427)	-	(427)
Deferred tax	(93)	(1,200)	(1,293)
	<u>465</u>	<u>2,789</u>	<u>3,254</u>
Goodwill on acquisition			<u>1,200</u>
Consideration paid, satisfied in cash			<u>4,454</u>

The purchase consideration and costs of acquisition were financed entirely by cash. Included in the consideration paid are professional fees amounting to £213,000.

The revaluation of property, plant and equipment, inventories and provision for deferred tax represents a revision to reflect the fair value of those assets and liabilities to the Group.

The fair values are provisional fair values.

For the year ended 30 April 2005, Manor House Nursing Home (Stamford Bridge) Limited reported revenue of £3,441,000 and a loss after tax of £297,000.

Goodwill has arisen on the acquisition due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration.

For the year ended 31 December 2005, had the acquisitions been made on 1 January 2005, management estimate that Group revenue would have been £292,613,000 and loss after tax for the Group would have been £3,277,000.

Notes (continued)

2 Acquisitions (continued)

Barchester Healthcare Homes Limited acquired 100% of the share capital of Andrew Frederick Care Homes Limited, and its wholly owned subsidiary undertakings on 1 April 2004. The net assets acquired and consideration paid are set out below.

	Book value £000	Revaluation £000	Fair value £000
Property, plant and equipment	8,032	6,291	14,323
Inventories	12	-	12
Trade and other receivables	314	-	314
Cash and cash equivalents	275	-	275
Interest bearing loans and borrowings	(6,235)	-	(6,235)
Other payables	(845)	(3)	(848)
Provisions (including deferred tax)	(3)	(1,900)	(1,903)
	<u>1,550</u>	<u>4,388</u>	<u>5,938</u>
Goodwill on acquisition			<u>1,900</u>
Consideration paid, satisfied in cash			<u>7,838</u>

The purchase consideration and costs of acquisition were financed entirely by cash.

The revaluation of property, plant and equipment, other payables and deferred tax represents a revision to reflect the fair value of those assets and liabilities to the Group.

For the year ended 30 September 2003, Andrew Frederick Care Homes Limited and its wholly owned subsidiary undertakings reported revenue of £4,281,000 and a profit after tax of £241,000. For the period from 1 October 2003 to 1 April 2004, revenue of £2,628,000 and a profit after tax of £135,000 were reported.

Goodwill has arisen on the acquisition due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration.

Notes (continued)

2 Acquisitions (continued)

Barchester Healthcare Homes Limited acquired 100% of the share capital of GLCC Limited on 4 June 2004. The net assets acquired and consideration paid are set out below.

	Book value £000	Revaluation £000	Fair value £000
Property, plant and equipment	7,321	7,896	15,217
Inventories	3	-	3
Trade and other receivables	669	-	669
Cash and cash equivalents	4	-	4
Interest bearing loans and borrowings	(5,930)	-	(5,930)
Other payables	(1,083)	(50)	(1,133)
Provisions (including deferred tax)	(114)	(2,421)	(2,535)
	<u>870</u>	<u>5,425</u>	<u>6,295</u>
Goodwill			2,300
Consideration paid, satisfied in cash			8,595

The purchase consideration and costs of acquisition were financed entirely by cash.

The revaluation of property, plant and equipment, other payables and provision for deferred tax represents a revision to reflect the fair value of those assets and liabilities to the Group.

For the year ended 30 September 2003, GLCC Limited reported revenue of £2,437,000 and a profit after tax of £820,000. For the period from 1 April 2004 to 4 June 2004, revenue of £609,000 and a profit after tax of £18,000 were reported.

Goodwill has arisen on the acquisition due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration.

Notes (continued)

2 Acquisitions (continued)

Barchester Healthcare Homes Limited acquired 100% of the share capital of Kent & Son (Homes) Limited on 4 April 2004. The net assets acquired and consideration paid are set out below.

	Book value £000	Revaluation £000	Fair value £000
Property, plant and equipment	4,329	9,956	14,285
Inventories	29	-	29
Trade and other receivables	1,748	-	1,748
Cash and cash equivalents	34	-	34
Interest bearing loans and borrowings	(36)	-	(36)
Other payables	(1,017)	-	(1,017)
Provisions (including deferred tax)	(187)	(3,000)	(3,187)
	<u>4,900</u>	<u>6,956</u>	<u>11,856</u>
Goodwill			<u>3,000</u>
			<u>14,856</u>
Consideration paid - loan notes			12,600
Consideration paid - cash			1,411
Costs of acquisition - cash			845
			<u>14,856</u>

The purchase consideration and costs of acquisition were financed by cash and loan notes.

The revaluation of property, plant and equipment represents a revision to reflect the fair value of those assets to the Group.

For the 53 week period ended 4 April 2004, Kent & Son (Homes) Limited reported revenue of £9,630,000 and a profit after tax of £1,343,000.

Goodwill has arisen on the acquisition due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration.

Notes (continued)

2 Acquisitions (continued)

Barchester Healthcare Homes Limited acquired 100% of the share capital of Murchison Associates Limited, and its wholly owned subsidiary undertakings on 29 April 2004. The net assets acquired and consideration paid are set out below.

	Book value £000	Revaluation £000	Fair value £000
Property, plant and equipment	8,888	7,513	16,401
Inventories	40	-	40
Trade receivables	106	-	106
Cash and cash equivalent	2	-	2
Interest bearing loans and borrowing	(8,009)	-	(8,009)
Other payables	(621)	(80)	(701)
Deferred tax	(295)	(2,148)	(2,443)
	<u>111</u>	<u>5,285</u>	<u>5,396</u>
Goodwill on acquisition			<u>2,300</u>
Consideration paid, satisfied in cash			<u>7,696</u>

The purchase consideration and costs of acquisition were financed entirely by cash.

The revaluation of property, plant and equipment and other payables and provision for deferred taxation represents a revision to reflect the fair value of those assets and liabilities to the group.

The profit after tax included in the group accounts, since the acquisition date is revenue of £1,814,000 and profit after tax of £455,000 were reported.

Goodwill has arisen on the acquisition due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration.

Notes (continued)

2 Acquisitions (continued)

Barchester Healthcare Homes Limited acquired 100% of the share capital of The Wheatlands Limited on 21 September 2004. The net assets acquired and consideration paid are set out below.

	Book value £000	Revaluation £000	Fair value £000
Property, plant and equipment	996	1,444	2,440
Inventories	57	-	57
Trade and other receivables	13	-	13
Interest bearing loans and borrowings	(262)	-	(262)
Other payables	(102)	(19)	(121)
Provisions	(36)	(521)	(557)
	<u>666</u>	<u>904</u>	<u>1,570</u>
Goodwill			<u>500</u>
Consideration paid, satisfied in cash			<u>2,070</u>

The purchase consideration and costs of acquisition were financed entirely by cash.

The revaluation of property, plant and equipment, other payables and provisions represents a revision to reflect the fair value of those assets to the Group.

For the year ended 31 October 2003, The Wheatlands Limited reported revenue of £873,000 and a profit after tax of £119,000. For the period from 1 November 2003 to 21 September 2004, revenue of £827,000 and profit after tax of £141,000.

Notes (continued)

2 Acquisitions (continued)

Barchester Healthcare Limited acquired 100% of the share capital of Westminster Health Care Holdings Limited and its subsidiaries on 19 October 2004. The net assets acquired and consideration paid are set out below.

	Book value £000	FV adjustment £000	Fair value £000
Intangibles	24,745	59,055	83,800
Property, plant and equipment	271,611	183,689	455,300
Inventory	2,361	-	2,361
Receivables	7,846	-	7,846
Cash and cash equivalent	20,043	(508)	19,535
Interest bearing loans and borrowings	(278,979)	(29,751)	(308,730)
Other payables	(29,752)	508	(29,244)
Provisions	(11,231)	(71,264)	(82,495)
	6,644	141,729	148,373
Goodwill			100,443
			248,816
Satisfied by:			
Loan notes			10,125
Cash			238,691
			248,816

The revaluation of tangible fixed assets, provisions and of bank loans represents a revision to reflect the fair value of those assets and liabilities to the group, including a provisional estimate in respect of certain tax liabilities.

The consolidated results of Westminster Health Care Holdings Ltd and its subsidiary undertakings for the period from 1 January 2004 to acquisition are shown below:

	£'000
Revenue	128,935
Operating profit	22,391
Profit before tax	2,591
Income tax	(1,732)
Profit for year	859

The subsidiary undertakings acquired by Barchester Healthcare Limited during 2004 contributed £6,465,000 to the Group's net operating cash flows paid £258,000 in respect of net returns on investments and securing of finance and utilised £6,289,000 for capital expenditure.

Goodwill has arisen on the acquisition due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration, together with fair value adjustments to property, plant and equipment and interest bearing loans.

Notes (continued)

3 Expenses and auditors' remuneration

Included in operating profit are the following:

	2005 £000	2004 £000
Impairment of goodwill	-	895
Impairment of tangible fixed assets	-	497
Increase in provisions for termination costs	-	2,206
	<hr/>	<hr/>

Auditors' remuneration:

	2005 £000	2004 £000
Group - audit	224	221
- fees receivable by the auditors in respect of other services	121	151
	<hr/>	<hr/>

Amounts paid to the company's auditors in respect of services to the company is £14,000 (2004: £13,300).

4 Staff numbers and costs

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

	Number of employees	
	2005	2004
Directors	9	10
Office staff	576	356
Care staff	11,971	6,484
	<hr/>	<hr/>
	12,556	6,850
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	152,286	74,442
Share based payments	4,286	597
Social security costs	10,816	4,748
Other pension costs	560	249
	<hr/>	<hr/>
	167,948	80,036
	<hr/>	<hr/>

	2005 £000	2004 £000
--	--------------	--------------

Remuneration of directors:

Wages and salaries	455	737
Company pension contribution to money purchase schemes	40	93
	<hr/>	<hr/>
	495	830
	<hr/>	<hr/>

During the year, the directors of the company received their remunerations wholly from Grove Investments UK Limited, of which Barchester Healthcare Limited is a related undertaking. The amounts disclosed above reflect the amounts attributable for their services to the consolidated Barchester Healthcare Group. Share options in Grove Limited were received by the directors and details are set out in the accounts of Grove Limited and in note 21.

The aggregate emoluments of the highest paid director were £205,000 (2004: £355,000) and company pension contributions of £17,560 (2004: £3,000) were made to a money pension scheme on his behalf.

Notes (continued)

5 Finance income and expense

	2005 £000	2004 £000
Interest income	1,149	40
<i>Financial income</i>	<u>1,149</u>	<u>40</u>
<i>Interest expense</i>		
On bank loans and overdrafts	(21,672)	(11,777)
On loan notes	(15,547)	(667)
On other loans	(6,486)	(1,307)
Other financing costs	(468)	(420)
Amortised loan issue costs	(842)	(1,679)
Finance charges payable in respect of finance leases	(46)	(13)
Financial expenses	<u>(45,061)</u>	<u>(15,863)</u>
<i>Net financial expenses</i>	<u>(43,912)</u>	<u>(15,823)</u>

The amount of interest capitalised in the year was £1,235,000 (2004: £1,029,000) as disclosed in note 7.

6 Income tax expense

Recognised in the income statement

	2005 £000	2004 £000
<i>Current tax expense</i>		
Current year	3,080	177
Adjustments in respect of prior years	(1,042)	(247)
	<u>2,038</u>	<u>(70)</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	605	1,116
Adjustments in respect of prior periods	(330)	222
	<u>275</u>	<u>1,338</u>
Total tax in income statement	<u>2,313</u>	<u>1,268</u>

Reconciliation of effective tax rate

	2005 £000	2004 £000
Loss/(profit) before tax	<u>(667)</u>	<u>661</u>
Tax using the UK corporation tax rate of 30% (2004 : 30%)	(200)	198
<i>Effects of:</i>		
Non-deductible expenses	3,958	1,105
Impact of different tax rates	(42)	-
Over provided in prior years	(1,372)	(25)
Share of tax in jointly controlled entities	(31)	(10)
	<u>2,313</u>	<u>1,268</u>

Notes (continued)

7 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2004	130,962	17,290	5,310	153,562
Acquisitions through business combinations	485,281	26,220	6,431	517,932
Additions	14,451	9,533	10,604	34,588
Transfer	7,768	663	(8,431)	-
Disposals	(5,042)	(374)	(182)	(5,598)
 Balance at 31 December 2004	 633,420	 53,332	 13,732	 700,484
 Balance at 1 January 2005	 633,420	 53,332	 13,732	 700,484
Acquisitions through business combinations	16,317	364	-	16,681
Additions	3,731	12,580	22,159	38,470
Transfer	24,922	3,264	(28,186)	-
Disposals	(1,411)	(3,703)	(70)	(5,184)
 Balance at 31 December 2005	 676,979	 65,837	 7,635	 750,451
 Depreciation and impairment				
Balance at 1 January 2004	992	8,092	-	9,084
Depreciation charge for the year	748	3,418	-	4,166
Impairment charge	497	-	-	497
Disposals	(32)	-	-	(32)
 Balance at 31 December 2004	 2,205	 11,510	 -	 13,715
 Balance at 1 January 2005	 2,205	 11,510	 -	 13,715
Depreciation charge for the year	3,936	10,294	-	14,230
Disposals	(17)	(3,412)	-	(3,429)
 Balance at 31 December 2005	 6,124	 18,392	 -	 24,516
 Net book value				
At 1 January 2004	129,970	9,198	5,310	144,478
 At 31 December 2004 and 1 January 2005	 631,215	 41,822	 13,732	 686,769
 At 31 December 2005	 670,855	 47,445	 7,635	 725,935

Notes (continued)

7 Property, plant and equipment (continued)

The net book value of land and buildings comprises:

	2005 £000	2004 £000
Freehold	628,612	609,895
Long leasehold	42,243	21,320
	<hr/> 670,855 <hr/>	<hr/> 631,215 <hr/>

Capitalised interest

The amount of interest capitalised in the year was £1,235,000 (2004: £1,029,000). The rate of interest used is 6.70% (2004: 6.70%) which is the applicable cost of funds during the year.

Leased plant and equipment

Included in the total net book value of plant is £1,438,000 (2004: £2,449,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets in the year was £784,000 (2004: £139,000).

Depreciation

On 1 January 2005, the directors revised their estimates of residual values for buildings. This resulted in the depreciation charge for the year increasing by £1,970,000 in comparison to the previous basis. This is a reasonable estimate of the ongoing annual difference.

Security

Bank loans, securitised loan notes and other loans are secured over all buildings of the group by way of fixed and floating charges.

Property, plant and equipment under construction

The additions to property, plant and equipment under construction is primarily in relation to construction of new facilities or extensions to existing facilities.

Impairment charge

In 2004 an impairment arose on a small number of properties following a review of the property portfolio by an independent third party who deemed their recoverable amount to be below their carrying value and was expected to stay below the carrying value for the foreseeable future.

Notes (continued)

8 Intangible assets

	Goodwill £000	Intellectual property £000	Total £000
Cost			
Balance at 1 January 2004	1,133	-	1,133
Acquisitions through business combinations	110,400	83,800	194,200
Adjustment to provisional value	4,327	-	4,327
Balance at 31 December 2004 restated	115,860	83,800	199,660
Balance at 1 January 2005	115,860	83,800	199,660
Acquisitions through business combinations	2,400	-	2,400
Balance at 31 December 2005	118,260	83,800	202,060
Amortisation and impairment			
Balance at 1 January 2004	183	-	183
Amortisation for the year	-	1,742	1,742
Impairment charge	895	-	895
Balance at 31 December 2004	1,078	1,742	2,820
Balance at 1 January 2005	1,078	1,742	2,820
Amortisation for the year	-	8,426	8,426
Balance at 31 December 2005	1,078	10,168	11,246
Net book value			
At 1 January 2004	950	-	950
At 31 December 2004 and 1 January 2005	114,782	82,058	196,840
At 31 December 2005	117,182	73,632	190,814

The amortisation and impairment charges are recognised in the administrative expenses line within the income statement.

A goodwill adjustment of £4,327,000 arose in the year due to the adjustment to the provisional fair values relating to the acquisition of Westminster Health Care Holdings Limited in 2004. The adjustment was to the provisional fair values stated at 31 December 2004. In 2005, it was deemed that the provisional value was incorrect and should not have been assigned to this acquisition. In line with IFRS 3, the adjustments relating to prior period acquisitions have been accounted for by adjusting comparative information.

Goodwill during 2005, has arisen due to the recognition of deferred tax on taxable temporary differences that are not expected to crystallise in the near future and therefore were not reflected in the purchase consideration.

The impairment arose on the historic goodwill from the acquisition of the trade and assets of Community Care Limited. It was considered to be impaired in 2004 and was fully written down.

The recoverability of goodwill is assessed in comparison to the Group as a whole. The Group has restructured since the acquisition of Westminster and the cash generating unit acquired has been assumed into that of the wider Group and is no longer separately identifiable.

Notes (continued)

9 Investments in subsidiaries and jointly controlled entities

A subsidiary of the company holds 50% of the issued ordinary share capital of Richmond Painswick Limited. K Cocknell and J Johnson, who are directors of Richmond Painswick Limited, own the other 50% between them. The Group's investment in the joint venture is made up as follows:

	2005 £000	2004 £000
Net book value of goodwill arising on acquisition of interest in joint venture	1,250	1,250
Current assets	5,668	2,665
Non current assets	7	-
Current liabilities	(4,388)	(1,535)
Investment in joint venture	2,537	2,380
Income	890	1
Expenses	(764)	(71)
	126	(70)

Interests in subsidiary undertakings:

The directors are of the opinion that the number of undertakings in respect of which disclosure is required would lead to a statement of excessive length. Therefore only undertakings whose results or financial position principally affect figures in the accounts, have been disclosed below.

The results of all companies listed below are consolidated into those of the Group from the date of acquisition.

Registered in				Principal activity during the year	Class and percentage of shares held	
					Group	Company
Barchester Limited	Healthcare Homes	England and Wales		Ownership and management of nursing and care homes	Ordinary - 100%	Ordinary - 100%
Westminster Holdings Limited	Health Care	England and Wales		Ownership and management of nursing and care homes	Ordinary - 100%	Ordinary - 100%
Esprit Fort Limited		England and Wales		Ownership and management of a nursing and care home	Ordinary - 100%	-
Adlington Manor Limited		England and Wales		Ownership and management of a nursing and care home	Ordinary - 100%	-
Davill Healthcare Limited		England and Wales		Ownership and management of a nursing and care home	Ordinary - 100%	-
Westergate Care Limited		England and Wales		Ownership and management of nursing and care homes	Ordinary - 100%	-
Living With Care Limited		England and Wales		Ownership and management of a nursing and care home	Ordinary - 100%	-

Notes (continued)

9 Investments in subsidiaries and jointly controlled entities (continued)

	Country of incorporation	Principal activity during the year	Class and percentage of shares held	
			Group	Company
Yorkshire Care Group Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-
Richmond Health Care Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-
Murchison Associates Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-
Kent & Son (Homes) Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-
Andrew Frederick Care Homes Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-
The Wheatlands Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-
GLCC Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-
Avalon Nursing Homes Limited	England and Wales	Ownership and management of nursing and care homes	Ordinary - 100%	-
Westminster Health Care (UK) Limited	England and Wales	Management services and intermediate holding company	Ordinary - 100%	-
Westminster Health Care (NB) Limited	England and Wales	Provision of healthcare services	Ordinary - 100%	-
Burleigh House Properties Limited	England and Wales	Provision of healthcare services	Ordinary - 100%	-
Westminster Health Care (NH) Limited	England and Wales	Provision of healthcare services	Ordinary - 100%	-
Westminster Health Care Limited	England and Wales	Senior living services	Ordinary - 100%	-
Westminster Beaumont Properties Limited	England and Wales	Senior living services	Ordinary - 100%	-
Westminster Beaumont Properties (Chorleywood) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Westminster Beaumont Properties (Edgbaston) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Westminster Beaumont Properties (Southgate) Limited	England and Wales	Senior living services	Ordinary - 100%	-
Westminster Health Care Finance Limited	Cayman Islands	Financing	Ordinary - 100%	-
Lakeside Residential Home (2002) Limited	Jersey	Management of a nursing and care home	Ordinary - 100%	-
Lakeside Residential Home Limited	Jersey	Ownership of a nursing and care home	Ordinary - 100%	-
Manor House Nursing Home (Stamford Bridge) Limited	England and Wales	Ownership and management of a nursing and care home	Ordinary - 100%	-

Notes (continued)

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
Property, plant and equipment	-	-	91,322	88,278	91,322	88,278
Intangible assets	-	-	25,140	25,140	25,140	25,140
Stocks	(33)	(33)	-	-	(33)	(33)
Interest-bearing loans and borrowings	(8,910)	(8,910)	-	-	(8,910)	(8,910)
Provisions	(125)	(142)	-	-	(125)	(142)
Tax value of loss carry-forwards	(665)	(341)	-	-	(665)	(341)
Amounts provided on acquisition of undertakings	-	-	93	-	93	-
Tax (assets) / liabilities	(9,733)	(9,426)	116,555	113,418	106,822	103,992

Movement in deferred tax during the year

	1 January 2005 £000	Recognised in income £000	Business combinations £000	31 December 2005 £000
Property, plant and equipment	88,278	582	2,462	91,322
Intangible assets	25,140	-	-	25,140
Stocks	(33)	-	-	(33)
Interest-bearing loans and borrowings	(8,910)	-	-	(8,910)
Amounts provided on acquisition of undertakings	-	-	93	93
Provisions	(142)	17	-	(125)
Tax value of loss carry-forwards utilised	(341)	(324)	-	(665)
	103,992	275	2,555	106,822

Movement in deferred tax during the prior year

	1 January 2004 £000	Recognised in income £000	Business combinations £000	31 December 2004 £000
Property, plant and equipment	10,452	1,820	65,070	77,342
Property, plant and equipment – amount provided on acquisition	-	-	10,936	10,936
Intangible assets	-	-	25,140	25,140
Stocks	-	(33)	-	(33)
Interest-bearing loans and borrowings	-	-	(8,910)	(8,910)
Deferred government grants	-	(142)	-	(142)
Provisions	(34)	(307)	-	(341)
Tax value of loss carry-forwards utilised				
	10,418	1,338	92,236	103,992

Notes *(continued)*

11 Inventories

	2005 £000	2004 £000
Raw materials and consumables	830	342
Assets held for resale	4,774	2,460
	<u>5,604</u>	<u>2,802</u>

Assets held for resale consist of close care units which have been developed by the Group and are held pending resale under long term lease arrangements.

12 Trade and other receivables

	2005 £000	2004 £000
Trade receivables due from related undertakings	2,794	320
Trade receivables	14,492	12,366
Other receivables and prepayments	5,366	4,762
	<u>22,652</u>	<u>17,448</u>

The amounts owed by related undertakings are unsecured and not subject to any fixed repayment date.

13 Cash and cash equivalents

	2005 £000	2004 £000
Cash and cash equivalents per balance sheet and cash flow statement	24,071	22,273

Included within cash is £11,459,000 which has been assigned for specific uses.

Notes (continued)

14 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 16.

	2005 £000	2004 £000
Non-current liabilities		
Secured bank loans (net of £3,038,000 unamortised issue costs; 2004: £4,728,000)	301,167	292,665
Finance lease liabilities	1,082	1,524
Securitised loan notes – 7.495% 2005 to 2030 (net of £7,063,000 unamortised issue costs; 2004: £7,390,000)	209,454	213,865
Eurobonds (net of £12,000 unamortised issue costs; 2004: £nil)	49,988	-
Other loan notes	-	10,052
	<u>561,691</u>	<u>518,106</u>
Current liabilities		
Current portion of secured bank loans (net of £1,768,000 unamortised issue costs; 2004: £1,696,000)	9,732	4,304
Current portion of finance lease liabilities	578	614
Securitised loan notes – 7.495% 2004 to 2030 (net of £327,000 unamortised issue costs; 2004: £317,000)	3,210	1,863
Other loan notes	14,608	13,243
Revenue rate unsecured loan notes	1,968	6,568
	<u>30,096</u>	<u>26,592</u>

Terms and debt repayment schedule

Analysis of total borrowings (excluding other financial liabilities, finance leases and interest bearing inter-company borrowings):

	2005 £000	2004 £000
Bank loans and other loans falling due (net of unamortised issue costs):		
In one year or less	30,096	26,592
Between one and two years	62,406	8,790
Between two and three years	101,598	98,933
Between three and four years	101,275	98,164
Between four and five years	101,470	98,354
In five years or more	194,942	213,865
	<u>591,787</u>	<u>544,698</u>

Amounts falling due in more than five years are not payable by instalments and the balance in full is due on 5 July 2030 at the option of the company these can be reclassified before the due date, subject to repayment penalties.

The bank loans, securitised loan notes and other loans are secured over certain assets of the group by way of fixed and floating charges, and obligations under finance leases are secured over the assets to which they relate. Bank loans are repayable in quarterly instalments of £2,500,000 commencing 31 March 2006, increasing to £3,333,000 from 31 March 2008 and the balance payable on 31 December 2008.

The Euro Bonds were issued on 3 February 2005 and bear a LIBOR based interest. The other loan notes bear interest with reference to LIBOR.

Notes (continued)

14 Other interest-bearing loans and borrowings (continued)

The bank loans all bear interest at a margin over LIBOR. The following were the rates applying at the year end:

	Amount outstanding at 2005 year end £000	Amount Outstanding at 2004 year end £000	Margin %
Bank loans (gross of unamortised finance costs)			
Facility A	197,620	197,688	1.25
Facility B	40,000	40,000	1.40
Facility C	25,500	30,000	1.75
Facility D	13,517	12,000	1.75
Facility E	6,750	-	1.75
Junior bridging loan	47,000	47,000	8.00
	<u>330,387</u>	<u>326,688</u>	

Securitised loan notes are stated at fair value as at the time of acquisition of Westminster Health Care Holdings Limited.

Finance lease liabilities

The maturity of obligations under finance leases is as follows:

	2005 £000	2004 £000
Within one year	578	614
Between one and two years	577	578
Between two and five years	505	946
	<u>1,660</u>	<u>2,138</u>

15 Other financial liabilities

	2005 £000	2004 £000
Current		
Fair value of interest rate swap agreements classified as other financial liabilities	<u>1,198</u>	<u>-</u>

The Group classifies interest rate swaps as cash flow hedges and states them at fair value. The company has entered into two swap agreements, one for £18,000,000 at a fixed rate of 5.585% terminating in June 2008 and an additional £45,000,000 at a fixed rate of 5.07% terminating in May 2009.

The swaps can be terminated at any time with no penalties on early redemption.

Notes (continued)

16 Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business.

Financing is obtained from a mixture of bank loans and capital market issues in sterling at fixed and floating rates of interest. Facilities are monitored against predicted borrowing levels and are increased or cancelled as necessary to ensure that there is sufficient committed headroom to accommodate foreseen operational requirements. Uncommitted bank facilities are maintained and used to provide flexibility and more advantageous terms. The Group's main financial covenants in longer term facilities are in respect of interest cover.

Treasury policy is that deposits will only be made and other financial instruments entered into with bank counterparties, which have been approved by the board.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

Hedging

Interest rate swaps have been entered into to fix the interest payable by the Group. The Group classifies interest rate swaps as cash flow hedges and states them at fair value. The fair value of swaps at 31 December 2005 was £1.198 million (2004: £0.879 million). The amount at 31 December 2004 was recognised as a fair value derivative on 1 January 2005 in line with the transitional arrangements of IFRS 1. The amount at 31 December 2005 has been recognised in full as a fair value derivative.

The disclosures set out below exclude short-term receivable and payables.

Interest rate profile of financial instruments at the year end

The interest rate profile of the financial liabilities of the Group is set out in the table below:

	2005 Sterling £000	2004 Sterling £000
Floating rate financial liabilities	378,461	378,970
Fixed rate financial liabilities	214,524	215,728
	<hr/> 592,985 <hr/>	<hr/> 594,698 <hr/>
<i>Fixed rate financial liabilities</i>		
Weighted average interest rate %	7.5%	7.5%
	<hr/>	<hr/>
Weighted average period for which rate is fixed – years	23.3	24.2
	<hr/>	<hr/>

The floating rate borrowings bear interest at rates based on LIBOR for periods ranging from one day to six months.

The interest rate profile of the financial assets of the group is set out in the table below:

	2005 Currency Sterling £000	2004 Currency Sterling £000
Floating rate assets	24,071	22,273
	<hr/>	<hr/>

Notes (continued)

16 Financial instruments (continued)

The cash and liquid resources, where interest bearing, attract interest at floating rates based on LIBOR for three months or less.

Fair value

The estimated fair value of the Group's financial instruments is set out below:

Financial assets

	2005		2004	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Cash at bank	12,612	12,612	6,281	6,281
Cash at bank which is restricted in its use	11,459	11,459	15,992	15,992
	<u>24,071</u>	<u>24,071</u>	<u>22,273</u>	<u>22,273</u>

Financial liabilities

	2005		2004	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Borrowings due within one year	30,096	34,021	26,592	26,661
Borrowings due after one year	562,889	590,302	568,106	576,000
	<u>592,985</u>	<u>624,323</u>	<u>594,698</u>	<u>602,661</u>

Cash at bank and liquid resources

The carrying value approximates to fair value because of the short maturity of obtaining the cash.

17 Trade and other payables

	2005 £000	2004 £000
Non-Current		
Non trade payables due to parent company and fellow subsidiaries of the parent company	182,751	203,077
Current		
Trade payables due to related parties	289	-
Other trade payables	5,906	4,678
Non-trade payables and accrued expenses	35,841	30,598
Interest payable	19,113	12,696
	<u>61,149</u>	<u>47,972</u>

Notes (continued)

18 Provisions

	Onerous lease £000	Other provisions £000	Total £000
Balance at 1 January 2005	1,954	594	2,548
Provisions made during the year	-	100	100
Provisions used during the year	(591)	(440)	(1,031)
Balance at 31 December 2005	1,363	254	1,617
Current	375	100	475
Non-current	988	154	1,142
	1,363	254	1,617

Expected timing of any resulting outflows

The onerous lease relates to rent due on a building that is no longer required. The lease runs to 2018. The provision in the financial statements assumes that the lease will be able to be sublet for all but one year. An assumption has also been made as to the timing of when the lease can be sublet.

A provision of £100,000 has been recognised for expected costs relating to the Westminster acquisition. It is expected that this expenditure will be incurred in the next financial year.

The other provision of £154,000 relates to the anticipated transfer of one of the home acquisitions from an EMI unit to an independent hospital. The provision is expected to be released by 2008.

Notes (continued)

19 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Capital redemption reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2004	12,913	6,643	186	-	6,598	26,340
Total recognised income and expense	-	-	-	-	(607)	(607)
Adjustment in respect of IFRS 2, equity settled share adjustment	-	-	-	-	213	213
Balance at 31 December 2004	12,913	6,643	186	-	6,204	25,946
Balance at 1 January 2005	12,913	6,643	186	-	6,204	25,946
Adjustment in respect of adoption of IAS 32 and IAS 39 on 1 January 2005, net of tax	-	-	-	(1,198)	-	(1,198)
Total recognised income and expense	-	-	-	-	(2,980)	(2,980)
Adjustment in respect of IFRS 2, equity settled share adjustment	-	-	-	-	3,390	3,390
Balance at 31 December 2005	12,913	6,643	186	(1,198)	6,614	25,158

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

20 Share capital

Ordinary shares of 25p each	2005 £000	2004 £000
<i>Authorised</i>		
87,100,000 shares	21,775	21,775
<i>Allotted, called up and fully paid</i>		
51,650,824 shares	12,913	12,913

Notes (continued)

21 Employee share schemes

Share based payments

Grants were made during the year under the 2005 Consultants Share Option Plan, the 2004 Approved Share Option Plan, the Unapproved 2004 Share Option Plan and the Senior Executive Share Subscription Grant.

Additionally four share option grants were made before 7 November 2002 under the Replacement Share Option Plan which have vested but not been exercised. The recognition and measurement principles in IFRS 2 have not been applied to these grants.

The terms and conditions of grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/ Employees entitled/ nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
Senior Executive Share Subscription Grant to key management on 1 May 2004	1,725,000	No vesting conditions other than continued employment	4.91 years
Senior Executive Share Subscription Grant to key management on 1 January 2005	1,998,714	No vesting conditions other than continued employment	4.25 years
Senior Executive Share Subscription Grant to key management on 1 March 2005	100,000	No vesting conditions other than continued employment	4.08 years
Consultants Share Option grant to key management on 1 May 2005	120,000	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008	4.92 years
Approved Share Options grants to key management on 31 August 2004	589,414	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008	5.58 years
Approved Share Options grants to key management on 8 February 2005	1,680,710	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008	5.16 years
Share Options Grants to key management on 31 August 2004	3,358,586	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008*	5.58 years
Share Options Grants to key management on 8 February 2005	724,290	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008*	5.16 years

* - Performance conditions for these awards were removed in December 2005 and these awards vested at that point.

The number and weighted average exercise prices of share options are as follows:

	2005 Weighted average exercise price	2005 Number of options	2004 Weighted average exercise price	2004 Number of options
Outstanding at the beginning of the period	1.63	7,009,850	1.10	1,354,791
Granted during the period	2.80	4,623,714	1.75	5,673,000
Forfeited during the period	-	-	-	-
Exercised during the period	1.75	(1,650,000)	-	-
Lapsed during the period	2.46	(535,440)	1.15	(17,941)
Outstanding at the end of the period	2.13	9,448,124	1.63	7,009,850
Exercisable at the end of the period	1.46	3,715,568	1.10	1,340,850

Notes (continued)

21 Employee share schemes (continued)

The weighted average share price at the date of exercise of share options exercised during the period was £1.75 (*no exercises took place in 2004*). The options outstanding at the year end have an exercise price in the range of £0.96 to £2.80 and a weighted average contractual life of 4.92 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using a binomial lattice model, with the following inputs:

	2005 Consultants Share Option Scheme	2004 Consultants Share Option Scheme	2005 Approved and Unapprove d Share Options Scheme	2004 Approved and Unapproved Share Options Scheme
Fair value at measurement date	£1.17	N/A	£1.19	£0.79
Weighted average share price	£2.80	N/A	£2.80	£1.75
Exercise price	£2.80	N/A	£2.80	£1.75
Expected volatility	40%	N/A	40%	40%
Expected Option life (expressed as weighted average life used in the modelling under binomial lattice model)	4.42 years	N/A	4.66 years	5.08 years
Expected dividends	0%	N/A	0%	0%
Risk free interest rate (based on national government bonds)	4.69%	N/A	4.52%	4.92%

The expected volatility is based on average historic volatilities over the three years before grant date of three similar listed entities, namely Care UK, Careforce Group and ADL Plc.

The share options have been granted under a non-market based performance condition.

The fair value of the Senior Executive Share Subscription Plan at the reporting date is determined using a Black-Scholes formula to value the loan guarantee on the Executive Plan, which is a "put option". The model inputs were the share price of £2.80, the loan strike price of £2.80, expected volatility of 40%, expected dividend yield of 0%, a term of 4.25 years and a risk-free rate of 4.18%. The fair value of the liability is remeasured at each reporting date and at settlement date.

Notes (continued)

21 Employee share schemes (continued)

Employee expenses

The total expenses recognised for the period arising from share based payments are as follows:

	2005 £000	2004 £000
Consultant Share Options granted in 2005	17	-
Approved Share Options granted in 2004	68	23
Share Options granted in 2004	2,466	190
Approved Share Options granted in 2005	236	-
Share Options granted in 2005	816	-
Senior Executive Share Subscription Shares as at 31/12/2005	288	87
Social Security expense linked to share based payments	395	190
	<hr/>	<hr/>
Total expense recognised as employee costs	4,286	490
	<hr/>	<hr/>
Total carrying amount of liabilities for cash settled arrangements	683	277
	<hr/>	<hr/>
Total intrinsic value of liabilities in respect of vested benefits	505	112
	<hr/>	<hr/>

22 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2005 £000	2004 £000
Less than one year	-	-
Between one and five years	345	460
More than five years	23,551	24,671
	<hr/>	<hr/>
	23,896	25,131
	<hr/>	<hr/>

During the year £1,343,000 was recognised as an expense in the income statement in respect of operating leases (2004 £243,000).

23 Capital commitments

Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2005 £000	2004 £000
Contracted but not provided (land and buildings)	3,477	14,428
	<hr/>	<hr/>

Notes (continued)

24 Contingencies

Certain subsidiary companies have sold retirement apartments under arrangements that offer the group the repurchase of the apartments, in certain circumstances, at the higher of a discount to the cost or a discount to the market value. As at 31 December 2005 the total potential repurchase commitment notified to the group was £1,924,000 (2004: £1,494,000). Due to uncertainties relating to the amount and timing of outflow the aggregate maximum repurchase obligation is estimated at £14,472,000 (2004: £14,168,000). The directors do not estimate any impairment of the recoverable value of the underlying properties.

25 Pension scheme

Certain group companies operate defined contribution pension schemes. The assets of the scheme are held separately from those of the company in an independently administered fund. The group also pays amounts directly to other employees for contribution into their own pension funds. The pension cost charge for the year represents contributions payable by the group and amounted to £560,000 (2004: £249,000).

At the year end there were £64,205 (2004: £125,000) of outstanding contributions.

26 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Note 7 gives detailed analysis about the useful economic lives of depreciable assets. Note 8 gives an analysis about goodwill. Note 21 gives detailed analysis about the assumptions given for employee share schemes.

Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the group's accounting policies are described below:

Finance and operating leases

The close care units, treat each new lease as a "sale", recognising the full amount of profit on completion.

27 Related parties

Identity of related parties

The Group has a related party relationship with its parent undertaking, the parent's subsidiaries, its own subsidiaries, jointly controlled entity and with its directors.

Included in non-current trade and other payables are loans of £182,751k (2004: £203,077k) due to the parent company, Grove Limited, and fellow subsidiaries of Grove Limited, in relation to long term funding arrangements.

Transactions with key management personnel

There were no transactions with key management personnel, except for remuneration and share and share option transactions which are disclosed in note 21.

Other related party transactions

A loan from Barchester Healthcare Homes Limited of £775,000 was given to Richmond Painswick Limited (Joint Venture). Interest of £35,000 was charged in the year on this loan.

Notes (continued)

28 Ultimate parent company and parent company of larger group

The Company is a wholly owned subsidiary undertaking of Grove Limited, a company incorporated and registered in Jersey.

The largest group in which the results of the company are consolidated is that headed by Grove Limited. The consolidated accounts of Grove Limited are available to the public and may be obtained from:

22 Grenville Street
St. Helier
Jersey
JE4 8PX
Channel Islands

29 Post balance sheet events

Subsequent to the balance sheet date, the group has undergone a restructuring into an operating company/property company structure. This has allowed an increase in borrowing capacity. On 13 July 2006, the group entered into a new £1,042 million bridge facility agreement which replaced the existing bank loans and is due to be repaid on 13 July 2013. As part of this restructuring, the group has disposed of Richmond Health Care Limited, Andrew Frederick Care Homes Limited and its investment in Richmond Painswick Limited

30 Explanation of transition to adopted IFRSs

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes (continued)

30 Explanation of transition to adopted IFRSs (continued)

Reconciliation of equity

Note	1 January 2004			31 December 2004		
	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs
	£000	£000	£000	£000	£000	£000
Non-current assets						
Property, plant and equipment	144,478	-	144,478	691,096	(4,327)	686,769
Intangible assets	950	-	950	111,707	85,133	196,840
Investments in Joint Venture	-	-	-	2,380	-	2,380
	<u>145,428</u>	<u>-</u>	<u>145,428</u>	<u>805,183</u>	<u>80,806</u>	<u>885,989</u>
Current assets						
Inventories	191	-	191	2,802	-	2,802
Trade and other receivables	7,333	-	7,333	17,448	-	17,448
Cash and cash equivalents	1,354	-	1,354	22,273	-	22,273
	<u>8,878</u>	<u>-</u>	<u>8,878</u>	<u>42,523</u>	<u>-</u>	<u>42,523</u>
Total assets	<u>154,306</u>	<u>-</u>	<u>154,306</u>	<u>847,706</u>	<u>80,806</u>	<u>928,512</u>
Current liabilities						
Interest-bearing loans and borrowings	-	-	-	26,592	-	26,592
Trade and other payables	7,107	-	7,107	47,588	-	47,588
Employee benefits	-	107	107	-	384	384
Tax payable	847	-	847	279	-	279
Provisions	-	-	-	1,031	-	1,031
	<u>7,954</u>	<u>107</u>	<u>8,061</u>	<u>75,490</u>	<u>384</u>	<u>75,874</u>
Non-current liabilities						
Interest-bearing loans and borrowings	109,487	-	109,487	518,106	-	518,106
Related parties	-	-	-	203,077	-	203,077
Provisions	-	-	-	1,517	-	1,517
Deferred tax liabilities	4,418	6,000	10,418	16,692	87,300	103,992
	<u>113,905</u>	<u>6,000</u>	<u>119,905</u>	<u>739,392</u>	<u>87,300</u>	<u>826,692</u>
Total liabilities	<u>121,859</u>	<u>6,107</u>	<u>127,966</u>	<u>814,882</u>	<u>87,684</u>	<u>902,566</u>

Notes (continued)

30 Explanation of transition to adopted IFRSs (continued)

Reconciliation of equity (continued)

Equity attributable to equity holders of the parent

Share capital	12,913	-	12,913	12,913	-	12,913
Share premium	6,643	-	6,643	6,643	-	6,643
Capital redemption reserve	186	-	186	186	-	186
Retained earnings	<i>d</i> 12,705	(6,107)	6,598	13,082	(6,878)	6,204
Total equity	32,447	(6,107)	26,340	32,824	(6,878)	25,946
Total equity and liabilities	154,306	-	154,306	847,706	80,806	928,512

Notes to the reconciliation of equity

- The Group has applied IFRS 3 to all business combinations that have occurred since 1 January 2004 (the date of transition to IFRSs). Additionally, from 1 January 2004, goodwill is no longer amortised under IFRSs, but is tested annually for impairment.
- In accordance with IFRSs, derivative financial instruments have been recognised as assets or liabilities at fair value. The measurement of all derivatives at fair value has increased Hedging reserve by £879,000 at 1 January 2005. The amount at 31 December 2004 was recognised as a fair value derivative on 1 January 2005 in line with the transitional arrangements of IFRS 1
- The Group applied IFRS 2 to active share-based payment arrangements, applicable to employees of the Group, by the ultimate parent undertaking. The fair value of options granted is recognised as an employee expense. The effect is to increase Administrative expenses by £490,000 for the year ended 31 December 2004 and is recognised as employee benefit under current liabilities on the balance sheet.
- The effect of the above adjustments on retained earnings is as follows:

	1 January 2004 £000	31 December 2004 £000
Additional amortisation of intellectual property	-	(494)
Deferred tax	(6,000)	(6,000)
Employee benefits	(107)	(597)
Total adjustment to retained earnings	(6,107)	(7,091)

Notes (continued)

30 Explanation of transition to Adopted IFRSs (continued)

Reconciliation of profit for 2004

		31 December 2004		
	Note	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs
		£000	£000	£000
Revenue		130,429	-	130,429
Cost of sales		(100,053)	-	(100,053)
Gross profit		30,376	-	30,376
Other operating income				
Distribution expenses				
Administrative expenses	a,c	(12,838)	(984)	(13,822)
Operating profit		17,538	(984)	16,554
Financial income		40	-	40
Financial expenses		(15,863)	-	(15,863)
Net financing costs		(15,823)	-	(15,823)
Share of profit of jointly controlled entities		(70)	-	(70)
Profit before tax		1,645	(984)	661
Taxation		(1,268)	-	(1,268)
Profit/(loss) after tax		377	(984)	(607)
Profit/(loss) for the year		377	(984)	(607)
Attributable to:				
Equity holders of the parent		377	(984)	(607)
Profit for the year		377	(984)	(607)

Explanation of material adjustments to the cash flow statement for 2004

There are no material differences between the cash flow statement presented under Adopted IFRSs and the cash flow statement presented under UK GAAP.

Company balance sheet
at 31 December 2005

	<i>Note</i>	2005 £000	2005 £000	2004 £000	2004 £000
Fixed assets					
Investments	36		257,525		257,372
Current assets					
Debtors	37	293,630		269,972	
Creditors: amounts falling due within one year	38	(38,319)		(9,053)	
Net current assets					
Due within one year		(32,046)		(8,818)	
Debtor due after more than one year		287,357		269,737	
			255,311		260,919
Total assets less current liabilities			512,836		518,291
Creditors: amounts falling due after more than one year	39		(518,894)		(497,008)
Provisions for liabilities	40		(100)		-
Net (liabilities)/assets			(6,158)		21,283
Capital and reserves					
Called up share capital	41		12,913		12,913
Share premium account	42		6,643		6,643
Capital redemption reserve	42		186		186
Cash flow hedging reserve	42		(1,198)		-
Profit and loss account	42		(24,702)		1,541
Shareholders' (deficit)/funds			(6,158)		21,283

These financial statements were approved by the board of directors on 22 December 2006 and were signed on its behalf by:



Michael Parsons
Director

Company reconciliation of movements in shareholders' funds
for the year ended 31 December 2005

	2005 £000	2004 £000
Loss for the financial year	(26,243)	(3,766)
Cash flow hedging reserve	(1,198)	-
Net reduction in to shareholders' funds	(27,441)	(3,766)
Opening shareholders' funds	21,283	25,049
Closing shareholders' (deficit)/funds	(6,158)	21,283

Notes

31 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 20 'Share-based payments'
- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies. Adoption of FRS 21 and FRS 25 has had no effect on the current or prior year disclosure.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

The company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Taxation

The charge for taxation is based on the profit/(loss) for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes (continued)

31 Accounting policies (continued)

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

The Company has taken advantage of the transitional arrangements of FRS 25 not to restate corresponding amounts in accordance with the above policy. The adjustments necessary to implement this policy have been made as at 1 January 2005 with the net adjustment to net assets after tax, taken though the 2005 reconciliation of movements in shareholders' funds. Corresponding amounts for 2005 are presented and disclosed in accordance with the requirements of FRS 4 (as applicable in 2004). The main differences between the 2004 and 2005 bases of accounting are shown below:

Effect on the balance sheet at 1 January 2005

	£000
Interest rate swaps classified as other current/financial liabilities	879
	<hr/>
Cash flow hedging reserve	879
	<hr/>

The nature of the main effects upon the balance sheet at 1 January 2005 and upon the 2005 profit and loss account, statement of total recognised gains and losses and cash flow statement are as follows:

- In 2005, hedging instruments and hedged

The main effects on the primary statements in the comparative year, had FRS 25 been adopted, would have been similar to those stated above.

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of FRS 20 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For cash settled share based payment transactions, with the exception of those awards settled before the transition date the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Investments

In the company's financial statements, investments in subsidiary undertakings are stated at cost.

32 Remuneration of directors

During the year the directors of the company received their remuneration wholly from Grove Investments UK Limited, of which Barchester Healthcare Limited is a related undertaking.

The director are employed by Grove Investments (UK) Limited

33 Staff numbers and costs

There were no persons employed by the company during the year.

Notes (continued)

34 Auditor remuneration

Amounts paid to company's auditor in respect of services to the company are £14,000 (2004: £13,300).

35 Dividends

There were no dividends paid in the year (2004: nil).

36 Fixed asset investments

	Shares in subsidiary undertakings £000
<i>Cost and net book value</i>	
At beginning of year	257,372
Additions	153
	<hr/>
At end of year	257,525
	<hr/>

Note 9 gives a list of all undertakings whose results of financial positions principally affect figures in the consolidated accounts.

37 Debtors

	2005 £000	2004 £000
Amounts owed by group undertakings	287,357	269,737
Other debtors	5,825	235
Corporation tax recoverable	369	-
Prepayments and accrued income	79	-
	<hr/>	<hr/>
	293,630	269,972
	<hr/>	<hr/>

Debtors include amounts owed by group undertakings of £287,357,000 (2004 £269,737,000) due after more than one year.

38 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Bank loans and overdrafts	13,103	4,304
Other loan notes	14,608	-
Trade creditors	-	128
Other creditors	-	151
Accruals and deferred income	10,608	4,470
	<hr/>	<hr/>
	38,319	9,053
	<hr/>	<hr/>

The other loan notes relate to deferred consideration due to the vendors on the acquisitions of Westminster Healthcare Holdings Limited, Kent & Son (Homes) Limited and Avalon (Guernsey) Limited. The loan notes are due on demand and in any event redeemable by 31 December 2006, 31 March 2014 and 28 February 2013 respectively.

Notes (continued)

39 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Bank loans and overdrafts	301,273	292,665
Eurobonds (net of £12,000 unamortised issue costs; (2004: £nil))	49,988	-
Other financial liabilities	1,198	-
Other loan notes	-	10,052
Amounts owed to group undertakings	166,435	194,126
Amounts owed to subsidiary undertakings	-	165
	<u>518,894</u>	<u>497,008</u>

Analysis of total borrowings (excluding interest bearing intercompany borrowings):

	2005 £000	2004 £000
Bank loans and other loans falling due (net of unamortised issue costs):		
In one year or less	27,711	17,660
Between one and two years	58,465	8,212
Between two and five years	292,690	294,505
	<u>378,866</u>	<u>320,377</u>

Amounts falling due in more than five years are not payable by instalments and the balance in full is due on 5 July 2030.

The bank loans and other loans are secured over certain assets of the group by way of fixed and floating charges, and obligations under finance leases are secured over the assets to which they relate. The other loan notes bear interest with reference to LIBOR.

Bank loans are repayable in quarterly instalments of £2,500,000 commencing 31 March 2006, increasing to £3,333,000 from 31 March 2008 and the balance payable on 31 December 2008.

The Euro Bonds were issued on 3 February 2005 and bear a LIBOR based interest.

All other amounts owed to group undertakings are unsecured, not subject to any fixed repayment date and bear no interest.

40 Provisions

	Other provisions £000
Balance at 1 January 2005	-
Provisions made during the year	100
Balance at 31 December 2005	<u>100</u>

A provision of £100,000 has been recognised for expected costs relating to the Westminster acquisitions. It is expected that this expenditure will be incurred in the next financial year.

Notes (continued)

41 Called up share capital

	2005 £000	2004 £000
<i>Authorised</i>		
87,100,000 Ordinary shares of £0.25 each	21,775	21,775
<i>Allotted, called up and fully paid</i>		
51,650,821 Ordinary shares of £0.25 each	12,913	12,913

42 Share premium and reserves

	Cashflow hedging reserve £000	Share premium account £000	Capital redemption reserve £000	Profit & loss account £000
At beginning of year	-	6,643	186	1,541
Loss for the year	(1,198)	-	-	(26,243)
At end of year	(1,198)	6,643	186	(24,702)

43 Guarantees

The Company has guaranteed the overdrafts of its subsidiaries; the amount outstanding at the year end was £45,048,000 (2004: £11,129,000).

Where the company has entered into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company consider these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

44 Commitments

- (a) The company has no capital commitments at the end of the financial year for which no provision has been made.
- (b) The company has no annual commitments under non-cancellable operating leases.

45 Post balance sheet events

On 13 July 2006, the company entered into a new £1,042,000,000 Bridge Facility Agreement which replaced the existing bank loan and is due to be repaid on 13 July 2007.

46 Related party disclosures

The company is controlled by Grove Limited.