

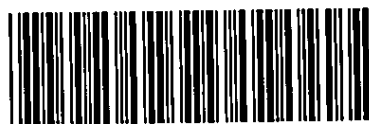
**Barchester Healthcare Limited**

**Annual report and consolidated  
financial statements**

**Registered number 2792285**

**31 December 2008**

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## Company information

<b>Directors</b>	Denis Brosnan David Duncan John Hughes Edward Irwin Michael Parsons Kenneth Wilson Eamon McElroy Timothy Hammond John Bateson Francesca Welbore Ker Owen McGartoll Carole Hunt Greg Swire
<b>Secretary</b>	Jon Hather
<b>Registered office</b>	Suite 201 The Chambers Chelsea Harbour London SW10 0XF
<b>Auditors</b>	KPMG LLP Plym House 3 Longbridge Road Marsh Mills Plymouth PL6 8LT
<b>Solicitors</b>	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
<b>Bankers</b>	The Royal Bank of Scotland plc AIB Group Bank of Ireland Bank of Scotland Barclays Bank Plc

## Chairman's statement

Dear Shareholder

The Barchester Group ('Barchester') manage and operates nursing and residential care facilities in the United Kingdom.

During 2006, Barchester was restructured into a separate property and operating companies subject to an internal lease arrangement between the two. This allowed the Group to refinance. The properties owned by the Barchester Healthcare Limited group were sold to Bluehood Limited (the property holding company) which became a new subsidiary company of Barchester HoldCo (Jersey) Limited, Barchester Healthcare Limited's immediate parent. Bluehood Limited leases these assets to Barchester Healthcare Limited group (the operating group). These companies were able to borrow increased levels of funds which allowed existing bank borrowing and the securitisation financing to be repaid.

During 2007 and 2008, the reorganisation continued, with the trade of a number of operating subsidiaries being hived up into the principle subsidiary operating company (Barchester Healthcare Homes Limited).

### Results for the year ended 31 December 2008

The consolidated profit after taxation attributable to shareholders for the year was £7.482 million (2007: profit £8.806 million) on a turnover of £381.598 million (2007: £350.815 million).

Group operating profits were £24.815 million in the year (2007: £17.828 million).

The consolidated balance sheet at 31 December 2008 shows shareholders funds of £164.477 million (2007: £157.605 million).

### Conclusion

The year under review was another successful one for the Group.

The Directors are confident that Barchester will continue to make progress in 2009.

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 2008 and the support of the shareholders.

Yours faithfully

**Denis Brosnan**  
Chairman

## Directors' report

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

### Principal activity

The principal activity of the Company continues to be the administration of a Group involved in the operation and management of nursing and residential care facilities including domiciliary care of the frail elderly, the younger disabled and dementia care. Barchester Healthcare Limited's main subsidiary is Barchester Healthcare Homes Limited (BHHL). BHHL is an operating company which holds the trade of the group and pays rental to the property company who own all of the care homes by way of an internal lease arrangement. The property company is a related undertaking since it has the same parent undertaking as Barchester Healthcare Limited.

### Business review

Details of financial performance is disclosed within the Chairman's statement.

Barchester's primary activity is the provision of residential nursing care for the elderly. The group also provides nursing care services to individuals with specialist higher acuity care needs. Specialist care services include elderly mentally infirm and young physically disabled and there is a strategy of seeking to establish further specialist care provision.

Barchester commands a leading position in the UK long term care sector and is in the UK's top four largest providers. The Group provides in excess of 11,000 registered beds, spread across its portfolio of 174 high quality homes with a national footprint across the UK, the largest proportion located within London and the South East and the remainder evenly spread throughout the UK. The Group has a significant number of private pay residents.

The key performance measures that the Board use to monitor the group's progress against its objectives are:

- Occupancy rates;
- Fee levels;
- EBITDA and EBITDA per bed;
- Margin;
- Staff and agency cost; and
- Ratings by the Commission for Social Care and Inspection (the Care Quality Commission as of 1 April 2009).

The Group's strategy is one of continued growth through extension of existing facilities, and also through appropriate acquisitions of nursing homes of a suitable quality. Barchester is especially focused on the private pay market and also on residents with specialist care needs.

The Group is continually reviewing its environmental policies.

### Financial instruments

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.

### Key risks and uncertainties

The Board of Directors has a well established process for identifying business risks, evaluating controls and establishing and executing action plans.

The Board considers that the key risk and uncertainty facing the Group is fluctuations in interest rates and breaches in loan covenants, given its level of gearing post the refinancing. However, as at the year end, the Group had 56% of its borrowings hedged. There have been no instances of breaches during the current year and none are forecast in the future.

## **Directors' report** *(continued)*

The Group believes that, due to the economic situation, another area that may be perceived as a risk is the ability in the future to secure financing to enable the Group to continue to finance any acquisitions or extensions. However, the Group believes that, due to available facilities held within related undertakings, this is not a major risk. The current loan facilities are due to expire in 2013 and the directors have already started to consider how these will be refinanced.

The Group supports its current operations and future growth from a combination of internally generated profits and externally raised funds.

The business is supported by strong future demand based on the demographics of the UK population. The latest Laing & Buisson survey showed a slight increase in care home demand after a decade of decline. This increase in demand is projected to accelerate over the next ten years, with privately run homes expected to see an increase of more than 5% by 2013 and nearly 15% by 2018. The long term growth in older population and rising affluence continue to offer opportunities for investment in the sector. Directors continue to believe these projections still hold true despite the current economic situation.

### **Political and charitable contributions**

The group made no political contributions during the year. Charitable donations totalling £353,000 were made during the year (2007: £297,000) including a donation of £300,000 to the Barchester Healthcare Foundation.

### **Directors and directors' interests**

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

Denis Brosnan  
David Duncan  
John Hughes  
Edward Irwin  
Eamon McElroy  
Owen McGartoll  
Michael Parsons  
Francesca Welbore Ker  
Kenneth Wilson  
Timothy Hammond  
John Bateson  
Carole Hunt (appointed 21 February 2008)  
Greg Swire (appointed 21 February 2008)

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

### **Proposed dividend**

The directors do not recommend the payment of a dividend (2007: *£nil*).

### **Employees**

The directors recognise the importance of human resources. Practices to provide good communications and relations with employees include providing them with information on matters of concern to them as employees. Employees or their representatives are consulted on a regular basis so that their views can be taken into account in making decisions which are likely to affect their interests.

It is Group policy to give fair consideration to the employment needs of disabled people and to comply with current legislation with regard to their employment. Wherever practicable, we continue to employ and promote the careers of existing employees who become disabled and to consider disabled persons for employment, subsequent training, career development and promotion on the basis of their aptitudes and abilities.

## **Directors' report** *(continued)*

### **Disclosure of information to auditors**

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

### **Auditors**

A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**Jon Hather**  
*Secretary*

Suite 201  
The Chambers  
Chelsea Harbour  
London  
SW10 0XF

30 June 2009

## **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 group and parent company financial statements, in accordance with applicable law and regulations.

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

The group financial statements are required by law and 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 their achieving a fair presentation.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with 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.





## KPMG LLP

Plym House  
3 Longbridge Road  
Plymouth  
PL6 8LT  
United Kingdom

### **Independent Auditors' Report 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 2008 which comprise the Consolidated income statement, the Consolidated statement of recognised income and expense, the Consolidated and Parent company balance sheets, the Consolidated cash flow Statement, 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 and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

#### **Basis of audit opinion**

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

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

# **Independent Auditors' Report to the Members of Barchester Healthcare Limited**

*(continued)*

## **Opinion**

In our opinion:

- the consolidated 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 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

**KPMG LLP**

KPMG LLP  
*Chartered Accountants*  
*Registered Auditor*

13 August 2009

**Consolidated income statement**  
*for year ended 31 December 2008*

		Continuing operations £000	Acquisitions £000	Total £000	Continuing operations £000	Total £000
<b>Revenue</b>	<i>1</i>	375,698	5,900	381,598	350,815	350,815
Cost of sales		(326,053)	(4,133)	(330,186)	(307,131)	(307,131)
<b>Gross profit</b>		49,645	1,767	51,412	43,684	43,684
Other operating income	<i>3</i>	8	-	8	189	189
Administrative expenses		(26,322)	(283)	(26,605)	(26,045)	(26,045)
<b>Operating profit</b>	<i>1,4,5</i>	23,331	1,484	24,815	17,828	17,828
<i>Analysed as:</i>						
Operating profit before gain on disposal of property, plant and equipment		23,323	1,484	24,807	17,639	17,639
Gain on disposal of property, plant and equipment	<i>3</i>	8	-	8	189	189
Finance income	<i>6</i>	488	-	488	1,221	1,221
Finance expenses	<i>6</i>	(13,374)	-	(13,374)	(12,499)	(12,499)
<b>Net financing costs</b>		(12,886)	-	(12,886)	(11,278)	(11,278)
<b>Profit before tax</b>		11,929	-	11,929	6,550	6,550
Taxation	<i>7</i>	(4,447)	-	(4,447)	2,256	2,256
<b>Profit for the year</b>		7,482	-	7,482	8,806	8,806
<b>Attributable to:</b>						
Equity holders of the parent		7,482	-	7,482	8,806	8,806

**Consolidated statement of recognised income and expense**  
*for year ended 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
Effective portion of changes in fair value of cash flow hedges		<b>(725)</b>	<b>(92)</b>
<b>Net expense recognised directly in equity</b>		<b>(725)</b>	<b>(92)</b>
<b>Profit for the year</b>		<b>7,482</b>	<b>8,806</b>
<b>Total recognised income and expense</b>	<b>20</b>	<b>6,757</b>	<b>8,714</b>
<b>Total recognised income and expense for the period is attributable to:</b>			
Equity holders of the parent		<b>6,757</b>	<b>8,714</b>

**Consolidated balance sheet**  
*at 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	66,377	47,402
Intangible assets	9	171,718	175,171
<b>Total non-current assets</b>		<b>238,095</b>	<b>222,573</b>
<b>Current assets</b>			
Inventories	12	3,280	3,626
Tax receivable		919	486
Trade and other receivables	13	181,798	174,478
Other financial assets	14	-	262
Cash and cash equivalents	15	15,400	5,579
<b>Total current assets</b>		<b>201,397</b>	<b>184,431</b>
<b>Total assets</b>		<b>439,492</b>	<b>407,004</b>
<b>Current liabilities</b>			
Interest-bearing loans and borrowings	16	57,713	6,171
Trade and other payables	18	122,772	112,770
Other financial liabilities	17	463	-
Provisions	19	370	370
		<b>181,318</b>	<b>119,311</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	16	75,808	116,581
Trade and other payables	18	-	-
Provisions	19	1,135	561
Deferred tax liabilities	11	16,754	12,946
		<b>93,697</b>	<b>130,088</b>
<b>Total liabilities</b>		<b>275,015</b>	<b>249,399</b>
<b>Equity</b>			
Share capital	21	12,913	12,913
Share premium	20	6,643	6,643
Capital redemption reserve	20	186	186
Cash flow hedging reserve	20	(463)	262
Retained earnings	20	145,198	137,601
<b>Total equity</b>		<b>164,477</b>	<b>157,605</b>
<b>Total equity and liabilities</b>		<b>439,492</b>	<b>407,004</b>

These financial statements were approved by the board of directors on 30 June 2009 and were signed on its behalf by:

  
**David Duncan**  
Director

**Consolidated cash flow statement**  
*for year ended 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
<b>Cash flows from operating activities</b>			
Profit for the year		7,482	8,806
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		13,126	12,700
Financial income		(488)	(1,221)
Financial expense		13,374	12,499
Equity-settled share-based payment expense		115	95
Gain on sale of property, plant and equipment		(8)	(189)
Taxation		4,447	(2,256)
		<b>38,048</b>	<b>30,434</b>
(Increase)/decrease in trade and other receivables		(7,320)	117,372
Decrease in inventories		346	1,302
Increase/(decrease) in trade and other payables		9,766	(111,732)
Increase/(decrease) in provisions and employee benefits		574	(83)
<b>Cash generated from operations</b>		<b>41,414</b>	<b>37,293</b>
Interest paid		(12,110)	(14,596)
Tax (paid)/received		(1,072)	747
<b>Net cash from operating activities</b>		<b>28,232</b>	<b>23,444</b>
<i>Cash flows from investing activities:</i>			
Proceeds from sale of property, plant and equipment		167	1,295
Proceeds from sales of investments, net of cash disposed		-	-
Interest received		488	1,221
Acquisition of trade, net of cash acquired		(4,927)	-
Acquisition of property, plant and equipment		(23,524)	(31,513)
<b>Net cash from investing activities</b>		<b>(27,796)</b>	<b>(28,997)</b>
<i>Cash flows from financing activities:</i>			
Proceeds from new loan		15,111	-
Repayment of borrowings		(5,152)	(10,695)
Payment of finance lease liabilities		(574)	554
Dividends paid		-	-
<b>Net cash from financing activities</b>		<b>9,385</b>	<b>(10,141)</b>
<i>Net increase/(decrease) in cash and cash equivalents</i>		<b>9,821</b>	<b>(15,694)</b>
Cash and cash equivalents at 1 January		5,579	21,273
<b>Cash and cash equivalents at 31 December</b>	<i>15</i>	<b>15,400</b>	<b>5,579</b>

## 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"). 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 44 to 49.

#### *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 instruments are stated at their fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

The preparation of financial statements in conformity with Adopted 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 Adopted IFRS that have significant effects on the financial statements are discussed in note 28.

The consolidated financial statements have been prepared applying the following new financial reporting requirement

- IFRS 7 'Financial Instruments' was applied for the first time in preparing the financial statements for the year ended 31 December 2007. The impact on the consolidated financial statements relates solely to disclosures in respect of the financial instruments and the Group's objectives, policies and processes for financial risk and capital management.

The following are financial reporting standards applicable to the Group for future financial periods and have not been applied in preparing these consolidated financial statements:

- IFRS 8 'Operating segments' is applicable for financial periods beginning on or after 1 January 2009 and requires the Group to report information about its operating segments based on the components of the entity that management uses to make operating decisions. The information to be disclosed comprises factors used to identify the Group's reportable segments, the types of products and services from which each segment derives its revenues, the segment surplus, including revenues and expenses, and segment assets. This may affect the categorisation of the Group's results and as such may require a segmental information note and so details of the impact of adoption are not given here.
- IAS 1 'Presentation of financial statements' (revised 2008) replaces IAS 1 (revised 2005) and is effective for financial reporting periods beginning on or after 1 January 2009. This standard will require the Group to introduce a statement of comprehensive income which will incorporate the income statement and a statement of other comprehensive income (previously named the statement of recognised income and expense). This standard also introduces the statement of financial position (previously named the balance sheet). The effect on the Group accounts will relate to the presentation of the primary statements and disclosure in the corresponding notes.

## Notes (continued)

### 1 Accounting policies (continued)

- IAS 23 'Borrowing costs' is effective for financial periods beginning on or after 1 January 2009, making it mandatory to capitalise borrowing costs that are directly attributable to a qualifying asset as defined by IAS 23. Implementation of IAS 23 (amended 2007) will not impact the financial statements as the Group already has a policy of capitalising borrowing costs relating to the acquisition or construction of qualifying assets.
- IFRIC 11 *IFRS 2 'Group and treasury share transactions'* is effective for financial periods beginning on or after 1 January 2008. This standard requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction. This has no effect since Barchester Healthcare Limited does not receive goods or services as consideration for its own equity instruments.
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

#### *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.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

#### *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 finance 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 grant of lease. Substantially all risks and rewards of ownership are transferred to the lessee and all rentals are received upfront.

#### *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 one geographical segment.

#### *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.

##### *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.



## **Notes (continued)**

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

#### ***Expenses (continued)***

##### ***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 the income statement 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, Grove Limited. These awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding adjustment to 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 except where forfeiture is due only to share prices not achieving the threshold for vesting.

##### ***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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognised net within 'other operating income' in the income statement.

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. Freehold land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives are as follows:

- |  |                            |
|--|----------------------------|
| • Leasehold improvements               | over the life of the lease |
| • Freehold buildings                   | 50 years                   |
| • plant and equipment                  | 4 to 10 years              |
| • fixtures and fittings                | 4 to 10 years              |
| • assets in the course of construction | not depreciated            |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

#### *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. In respect of business combinations that have occurred since 1 January 2006, 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.

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 of intangibles*

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:

- Goodwill Indefinite life
- Intellectual property 10 years

Intellectual property is defined as processes, procedures and know-how that enhance the performance of the Group and consists largely of computer software and design rights

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

#### *Impairment*

The carrying amounts of the Group's 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, 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.

#### *Reversals of impairment*

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 or 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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Inventory*

Assets held for re-sale 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.

Consumables are held at the lower of cost and estimated value in use.

#### *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.

#### *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)

#### *Derivative financial instruments and hedging*

##### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement 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.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

#### *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

On 10/11 June 2008, Barchester Healthcare Homes Limited, a 100% owned subsidiary of Barchester Healthcare Limited acquired the trade of The Mount House Limited, a related undertaking with the same ultimate parent company, Grove Limited. The trade of the eight nursing homes operating in the company was transferred on the 10/11 June 2008, depending on the home, at the market value.

	Book value £000	Revaluation £000	Fair value £000
Intangible assets	1,216	-	1,216
Trade and other receivables	1,288	-	1,288
Cash and cash equivalents	1,313	-	1,313
Trade and other payables	(515)	-	(515)
	<u>3,302</u>	<u>-</u>	<u>3,302</u>
Goodwill on acquisition			<u>3,711</u>
Consideration paid			<u>7,013</u>

The purchase consideration amounted to £7,013,000 which is the market value of the trade. Included in the consideration were professional fees of £nil.

For the year ended 31 December 2007, The Mount House Limited reported revenue of £8,821,000 and a loss after tax of £295,000.

For the year ended 31 December 2008, had the acquisition been made on 1 January 2008, management estimate that the company's revenue would have been £9,898,000 and profit before tax for the company would have been £2,334,000.

Included within Group turnover is £5,900,000, within cost of sales £4,416,000 and a profit of £1,484,000 which relates to acquisitions of new homes from the Mount House Limited, during the year.

Included within intangible acquisitions (in note 9) is £4,927,000 made up of £1,216,000 of intangible acquired and £3,711,000 goodwill on acquisition.

## Notes (continued)

### 3 Other operating income

	2008 £000	2007 £000
Net gain on disposal of property, plant and equipment	8	189

### 4 Profit before tax

*Included in profit are the following:*

	2008 £000	2007 £000
Amortisation of intangibles	8,380	8,380
Increase/(decrease) in provisions	574	(83)
Profit on sale of plant, property and equipment	8	189
Depreciation of plant, property and equipment	4,746	3,262
Impairment	-	1,058
Operating lease payments	77,114	69,429

*Auditors' remuneration:*

	2008 £000	2007 £000
Group - audit of these financial statements	4	26
- audit of financial statements of subsidiaries	261	216
- other services pursuant to such legislation	-	22
- other services relating to taxation	123	356

Amounts paid to the company's auditor in respect of services to the company is £4,000 (2007: £4,000).

## Notes (continued)

### 5 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	
	2008	2007
Directors	5	3
Office staff	828	612
Care staff	12,444	11,763
	<u>13,276</u>	<u>12,378</u>

The aggregate payroll costs of these persons were as follows:

	2008	2007
	£000	£000
Wages and salaries	180,558	168,804
Share based payments	115	95
Social security costs	14,540	13,743
Other pension costs	1,281	970
	<u>196,494</u>	<u>183,612</u>
	£000	£000
<i>Remuneration of directors:</i>		
Wages and salaries	1,020	760
Company pension contribution to money purchase schemes	104	55
	<u>1,124</u>	<u>815</u>

The directors received no emoluments for services to the company during the period. The directors received remuneration for services to Grove Limited of which Barchester Healthcare Limited is a subsidiary undertaking, however the proportion attributable to their services to Barchester Healthcare Limited is not separately identifiable.

The aggregate emoluments of the highest paid director were £445,687 (2007: £329,120) and company pension contributions of £52,728 (2007: £54,992) were made to a money pension scheme on his behalf.

A further 2 directors of the Company received no emoluments for their services to the company during the period. The directors



## Notes (continued)

### 6 Finance income and expense

	2008 £000	2007 £000
Interest income	488	1,221
Interest received from related undertaking	-	-
<i>Financial income</i>	<u>488</u>	<u>1,221</u>
<i>Interest expense</i>		
On bank loans and overdrafts	(5,892)	(5,856)
On loan notes	(45)	(296)
On loans from related undertakings	(6,714)	(5,951)
Other financing costs	(213)	(150)
Amortised loan issue costs	(235)	(218)
Finance charges payable in respect of finance leases	(275)	(28)
Financial expenses	<u>(13,374)</u>	<u>(12,499)</u>
<i>Net financial expenses</i>	<u>(12,886)</u>	<u>(11,278)</u>
<i>Recognised directly in equity</i>		
	2008 £000	2007 £000
<i>Attributable to:</i>		
Equity holders of the Company	(725)	(92)
Finance expense recognised directly in equity, net of tax	<u>(725)</u>	<u>(92)</u>
<i>Recognised in:</i>		
Hedging reserve	(725)	(92)
	<u>(725)</u>	<u>(92)</u>

The amount of interest capitalised in the year was £356,000 (2007: £397,000) as disclosed in note 8.

## Notes (continued)

### 7 Income tax expense

#### Recognised in the income statement

	2008 £000	2007 £000
<i>Current tax expense</i>		
Current year	671	-
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	2,340	1,030
Adjustments in respect of prior periods	1,436	(3,286)
	3,776	(2,256)
Total tax in income statement	4,447	(2,256)

#### Reconciliation of effective tax rate

	2008 £000	2007 £000
Profit before tax	11,929	6,550
Tax using the UK corporation tax rate of 28.5% (2007: 30%)	3,400	1,965
<i>Effects of:</i>		
Non-deductible expenses	667	110
Non-qualifying depreciation and amortisation	52	295
Long funding lease	-	1,108
Impact of different tax rates	(39)	(927)
Over provided in prior year	-	(3,286)
Profit on disposal of non-qualifying assets not taxable, including release of previous deferred tax liability	(14)	(88)
Deferred tax movement not recognised	-	277
Group relief not paid for	(1,128)	(1,185)
Transfer pricing adjustments with no compensating payment	73	(525)
Adjustment in respect of prior periods	1,436	-
	4,447	(2,256)

**Notes (continued)**

**8 Property, plant and equipment**

	<b>Freehold land and buildings £000</b>	<b>Leasehold improvements £000</b>	<b>Plant and equipment £000</b>	<b>Assets in the course of construction £000</b>	<b>Total £000</b>
<b>Cost</b>					
Balance at 1 January 2007	3,395	2,803	15,414	5,844	27,456
Additions	250	245	11,924	19,094	31,513
Transfer	735	10,578	5,702	(17,015)	-
Disposals	(154)	-	(3,196)	(927)	(4,277)
<b>Balance at 31 December 2007</b>	<b>4,226</b>	<b>13,626</b>	<b>29,844</b>	<b>6,996</b>	<b>54,692</b>
<b>Balance at 1 January 2008</b>	<b>4,226</b>	<b>13,626</b>	<b>29,844</b>	<b>6,996</b>	<b>54,692</b>
Additions	561	45	10,985	12,289	23,880
Transfer	3,060	8,441	5,777	(17,278)	-
Disposals	-	(1,015)	(1,296)	(93)	(2,404)
<b>Balance at 31 December 2008</b>	<b>7,847</b>	<b>21,097</b>	<b>45,310</b>	<b>1,914</b>	<b>76,168</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2007	821	17	5,303	-	6,141
Depreciation charge for the year	8	36	3,218	-	3,262
Disposals	(9)	-	(3,162)	-	(3,171)
Impairment	-	939	119	-	1,058
<b>Balance at 31 December 2007</b>	<b>820</b>	<b>992</b>	<b>5,478</b>	<b>-</b>	<b>7,290</b>
<b>Balance at 1 January 2008</b>	<b>820</b>	<b>992</b>	<b>5,478</b>	<b>-</b>	<b>7,290</b>
Depreciation charge for the year	43	141	4,562	-	4,746
Disposals	-	(1,012)	(1,233)	-	(2,245)
Impairment	-	-	-	-	-
<b>Balance at 31 December 2008</b>	<b>863</b>	<b>121</b>	<b>8,807</b>	<b>-</b>	<b>9,791</b>
<b>Net book value</b>					
At 1 January 2007	2,574	2,786	10,111	5,844	21,315
<b>At 31 December 2007 and 1 January 2008</b>	<b>3,406</b>	<b>12,634</b>	<b>24,366</b>	<b>6,996</b>	<b>47,402</b>
<b>At 31 December 2008</b>	<b>6,984</b>	<b>20,976</b>	<b>36,503</b>	<b>1,914</b>	<b>66,377</b>

## Notes (continued)

### 8 Property, plant and equipment (continued)

The net book value of land and buildings comprises:

	2008 £000	2007 £000
Freehold	6,984	3,406
Leasehold improvements	20,976	12,634
	<hr/>	<hr/>
	27,960	16,040
	<hr/>	<hr/>

#### Capitalised interest

The amount of interest capitalised in the year was £356,000 (2007: £397,000). The rate of interest used throughout the year averaged 7.20% (2007: 7.20%) which is the applicable cost of funds during the year.

Accumulated interest capitalised in the cost of plant is £2,384,000 (2007: £2,028,000).

#### Leased plant and equipment

Included in the total net book value of plant is £2,744,000 (2007: £1,792,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets in the year was £600,000 (2007: £516,000).

#### Security

Bank loans and other loans are secured over all buildings of the Group by way of fixed and floating charges.

#### Assets in the course of 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

During the year ended 31 December 2008, the Group reviewed property, plant and equipment for impairment. An impairment of £nil (2007: £1,058,000) has been recognised.

## Notes (continued)

### 9 Intangible assets

	Goodwill £000	Intellectual property £000	Total £000
<b>Cost</b>			
Balance at 1 January 2007	118,306	83,800	202,106
Balance at 31 December 2007	118,306	83,800	202,106
Balance at 1 January 2008	118,306	83,800	202,106
Acquisitions through business combinations	4,927	-	4,927
<b>Balance at 31 December 2008</b>	<b>123,233</b>	<b>83,800</b>	<b>207,033</b>
<b>Amortisation and impairment</b>			
Balance at 1 January 2007	-	18,555	18,555
Amortisation for the year	-	8,380	8,380
Balance at 31 December 2007	-	26,935	26,935
Balance at 1 January 2008	-	26,935	26,935
Amortisation for the year	-	8,380	8,380
<b>Balance at 31 December 2008</b>	<b>-</b>	<b>35,315</b>	<b>35,315</b>
<b>Net book value</b>			
At 1 January 2007	118,306	65,245	183,551
At 31 December 2007 and 1 January 2008	118,306	56,865	175,171
<b>At 31 December 2008</b>	<b>123,233</b>	<b>48,485</b>	<b>171,718</b>

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

Goodwill during 2008 arose from the acquisition of the trade from The Mount House Limited, a related undertaking with the same ultimate parent undertaking (see note 2).

The recoverability of goodwill and intellectual property 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.

Intellectual property is defined as processes, procedures and know-how that enhance the performance of the Group. It includes computer software and design rights.

Goodwill is tested at least annually for impairment in accordance with IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets'. The impairment tests at 31 December 2008 compared the market value of the operating trade (deemed to be future earning and hence equated to goodwill) to the carrying value of goodwill.

The Group instructed an independent third party Colliers CRE to value the operating trade.

These calculations use earnings before interest, tax, depreciation and amortisation (EBITDA) analysis based on financial budgets approved by management. In all cases, the multiple of EBITDA is an estimate made by the valuers which take in to consideration factors within the industry and any acquisitions and disposals made in the industry. The exercise resulted in no charge to goodwill impairment expense within the income statement.

## Notes (continued)

### 10 Investments in subsidiaries

#### *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.

The main trading company of the group is Barchester Healthcare Homes Limited. The results of the company are included in the consolidated accounts. The profit for the relevant period and net assets are presented in the individual accounts of the company.

	Registered in	Principal activity during the year	Class and percentage of shares held	
			Group	Company
Barchester Healthcare Homes Limited	England and Wales	Ownership and management of nursing and care homes	Ordinary – 100%	Ordinary – 100%
Lakeside Residential Home (2002) Limited	Jersey	Management of a care home	Ordinary – 100%	-
Mermaid Tavern (2002) Limited	Jersey	Management of a public house	Ordinary – 100%	-
Westminster Health Care Limited	England and Wales	Senior living services	Ordinary – 100%	-
Barchester Assisted Living Properties Limited	England and Wales	Senior living services	Ordinary – 100%	-
Barchester Assisted Living Properties (Chorleywood) Limited	England and Wales	Senior living services	Ordinary – 100%	-
Barchester Assisted Living Properties (Edgbaston) Limited	England and Wales	Senior living services	Ordinary – 100%	-
Barchester Assisted Living Properties (Southgate) Limited	England and Wales	Senior living services	Ordinary – 100%	-
Barchester Assisted Living Properties (Stamford Bridge) Limited	England and Wales	Management of nursing and care homes	Ordinary – 100%	-

## Notes (continued)

### 11 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Property, plant and equipment	-	-	3,648	1,602	3,648	1,602
Intangible assets	-	-	13,576	15,922	13,576	15,922
Provisions	(333)	(166)	-	-	(333)	(166)
Tax value of loss carry-forwards	(137)	(4,412)	-	-	(137)	(4,412)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Tax (assets) / liabilities	(470)	(4,578)	17,224	17,524	16,754	12,946
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### Movement in deferred tax during the year

	1 January 2008 £000	Recognised in income £000	Transfers £000	31 December 2008 £000
Property, plant and equipment	1,602	2,014	32	3,648
Intangible assets	15,922	(2,346)	-	13,576
Provisions	(166)	(167)	-	(333)
Tax value of loss carry-forwards	(4,412)	4,275	-	(137)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	12,946	3,776	32	16,754
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### Movement in deferred tax during the prior year

	1 January 2007 £000	Recognised in income £000	Business combinations £000	31 December 2007 £000
Property, plant and equipment	3,200	(1,598)	-	1,602
Intangible assets	19,574	(3,652)	-	15,922
Provisions	(67)	(99)	-	(166)
Tax value of loss carry-forwards	(7,505)	3,093	-	(4,412)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	15,202	(2,256)	-	12,946
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

### 12 Inventories

	2008 £000	2007 £000
Raw materials and consumables	725	803
Close care units	2,555	2,823
	<u>          </u>	<u>          </u>
	3,280	3,626
	<u>          </u>	<u>          </u>

Close care units which have been developed by the Group and are held pending resale under long term lease arrangements. The units held in inventory at year end are held at the lower of cost and fair value less costs to sell, based on management's best estimate.

The inventory value of close care units, that has been recognised as an expense in the profit and loss account for the current year is £2,371,000. This is in relation to revenue recognised on the sale of close care units during the year.

**Notes (continued)**

**13 Trade and other receivables**

	2008 £000	2007 £000
Receivables due from group undertakings	144,820	139,016
Trade receivables	17,645	11,851
Other receivables and prepayments	19,333	23,611
	<u>181,798</u>	<u>174,478</u>

The ageing of trade receivables that have not been provided for are:

	2008 £000	2007 £000
<i>Not yet due</i>		
Current	3,221	3,470
<i>Overdue</i>		
1-29 days	6,202	5,445
30-59 days	2,123	1,499
60-89 days	1,021	568
90-119 days	1,151	338
120 days +	3,927	531
	<u>17,645</u>	<u>11,851</u>

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

The Group's exposure to credit risks are disclosed in note 22.

**14 Other financial assets**

	2008 £000	2007 £000
<i>Current</i>		
Fair value of interest rate swap agreements classified as other financial assets (see note 17)	-	262
	<u>-</u>	<u>262</u>

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



## Notes (continued)

### 15 Cash and cash equivalents

	2008 £000	2007 £000
Cash and cash equivalents per balance sheet and cash flow statement	15,400	5,579

The Group's exposure to interest rate risk is disclosed in note 22.

### 16 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 22.

	2008 £000	2007 £000
<b>Non-current liabilities</b>		
Secured bank loans	73,940	65,434
Finance lease liabilities	1,868	1,147
Eurobonds	-	50,000
	<u>75,808</u>	<u>116,581</u>
<b>Current liabilities</b>		
Current portion of secured bank loans	6,605	3,752
Current portion of finance lease liabilities	813	724
Other loan notes	295	1,695
Eurobonds	50,000	-
	<u>57,713</u>	<u>6,171</u>

#### Terms and debt repayment schedule

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

	2008 £000	2007 £000
Bank loans and other loans falling due (net of unamortised issue costs):		
In one year or less	56,900	5,447
Between one and two years	9,910	55,628
Between two and five years	38,828	38,814
In five years or more	25,202	20,992
	<u>130,840</u>	<u>120,881</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, 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. Half yearly repayments commenced in March 2007 at £1,407,000, increasing to £1,876,000 in March 2008. Repayments every six months going forward are as follows: £2,814,000 from March 2009; £3,752,000 from March 2010; £4,690,000 from March 2011 and thereafter until the termination of the loan in July 2013.

The Euro Bonds were issued by Barchester Healthcare Limited and fully taken up by Grove Limited on 3 February 2005. The bonds matured on 3 February 2009 with interest payable at 8% per annum over LIBOR. Since the year end, the Group has negotiated that the Euro Bonds will be extended for 5 years until 2014.

## Notes (continued)

### 16 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 2008 year end £000	Amount outstanding at 2007 year end £000	Margin %
Bank loans (gross of unamortised finance costs)			
Tranche A	40,334	44,086	2.25
Tranche B	25,100	25,100	2.75
Extension tranche	15,036	-	2.75
Revolving credit facility*	75	-	-
	<u>80,545</u>	<u>69,186</u>	

\* The revolving credit facility has a flat rate of 2%.

#### Finance lease liabilities

The maturity of obligations under finance leases is as follows:

	2008 £000	2007 £000
Within one year	813	724
Between one and two years	813	724
Between two and five years	1,055	424
	<u>2,681</u>	<u>1,872</u>

### 17 Other financial liabilities

	2008 £000	2007 £000
<b>Current</b>		
Fair value of interest rate swap agreements classified as other financial liabilities (see note 14)	<u>463</u>	<u>-</u>

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

## Notes (continued)

### 18 Trade and other payables

	2008 £000	2007 £000
<i>Non-Current</i>		
Non trade payables due to parent company and fellow subsidiaries of the parent company	-	-
	-	-
<i>Current</i>		
Payables due to Group undertakings	70,231	61,783
Other trade payables	5,619	5,421
Non-trade payables and accrued expenses	40,781	39,229
Interest payable	6,141	6,337
	122,772	112,770

### 19 Provisions

	Onerous lease £000
Balance at 1 January 2008	931
Provisions made during the year	887
Provisions released during the year	(313)
<b>Balance at 31 December 2008</b>	<b>1,505</b>
Current	370
Non-current	1,135
	<b>1,505</b>

#### *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 two years. An assumption has also been made as to the timing of when the lease can be sublet.

## Notes (continued)

### 20 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 2007	12,913	6,643	186	354	128,700	148,796
Total recognised income and expense	-	-	-	(92)	8,806	8,714
Adjustment in respect of IFRS 2, equity settled share adjustment	-	-	-	-	95	95
<b>Balance at 31 December 2007</b>	<b>12,913</b>	<b>6,643</b>	<b>186</b>	<b>262</b>	<b>137,601</b>	<b>157,605</b>
Balance at 1 January 2008	12,913	6,643	186	262	137,601	157,605
Total recognised income and expense	-	-	-	(725)	7,482	6,757
Adjustment in respect of IFRS 2, equity settled share adjustment	-	-	-	-	115	115
<b>Balance at 31 December 2008</b>	<b>12,913</b>	<b>6,643</b>	<b>186</b>	<b>(463)</b>	<b>145,198</b>	<b>164,477</b>

#### 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.

### 21 Share capital

	2008 £000	2007 £000
<b>Ordinary shares of 25p each</b>		
<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)

### 22 Financial instruments

The financial instruments note is in relation to the Barchester Healthcare Limited and its subsidiaries.

The Group has exposure to the following risks from its normal course of the Group's business:

- Credit risk
- Liquidity risk
- Interest rate risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group obtains finance 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.

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

#### *Capital risk management*

The Board's policy is maintain a strong capital base so as to maintain investor, creditor and market confidence to sustain future development of the business.

The capital structure of the Group consists of debt which includes the borrowings disclosed in note 17 and shareholders' equity comprising issued share capital, reserves and retained earnings disclosed in notes 21 and 22.

The capital structure of the Group is reviewed annually with reference to the costs applicable to each element of capital, future requirements of the Group, flexibility of capital drawdown and availability of further capital should it be required.

The Group's borrowings allow developments to existing properties without the need to secure specific funding for individual projects.

#### *Credit risk*

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which the customers domicile has less of an influence on 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 predetermined amount. The majority of the Group's customers are required to pay for services in advance.

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.

## Notes (continued)

### 22 Financial instruments (continued)

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2008 £000	2007 £000
Loans and receivables*	48,419	52,212
Cash and cash equivalents	15,400	5,579
Interest rate swaps used for hedging:		
Liabilities	(463)	-
Assets	-	262
	<u>63,356</u>	<u>58,053</u>

\* This balance represents trade and other receivables net of interest bearing loans and borrowings.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group uses financial instruments, comprising bank overdraft and various items including trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by overdraft facilities. The Group maintains the following line of credit:

- Revolving Credit Facility that is unsecured. Interest would be payable at the rate of LIBOR plus 2%.

#### Interest rate risk

Interest rate risk is the risk that the Group will be susceptible to large fluctuations in interest rates and hence the interest payable on its bank debts.

The Group has floating interest rates on bank debts.

#### Hedging

Interest rate swaps have been entered into to fix the interest payable by the Group. The Group designates interest rate swaps as cash flow hedges and states them at fair value. Hedges are remeasured to fair value at each balance sheet date. The net fair value of all swaps at 31 December 2008 was a £463,000 liability (2007: £262,000 asset).

#### Sensitivity analysis

As the Group has hedged its interest rate risk, they are not sensitive to changes in interest rates.

## Notes (continued)

### 22 Financial instruments (continued)

#### 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.

	2008 Sterling £000	2007 Sterling £000
Floating rate financial liabilities	133,984	122,752

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:

	2008 Currency Sterling £000	2007 Currency Sterling £000
Floating rate assets	15,400	5,841

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

	2008		2007	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Trade and other receivables	181,940	181,940	174,964	174,964
Cash at bank	15,400	15,400	5,579	5,579
Interest rate swaps (cash flow hedges)	-	-	262	262
	<u>197,340</u>	<u>197,340</u>	<u>180,805</u>	<u>180,805</u>

##### Financial liabilities

	2008		2007	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Borrowings due within one year	57,713	57,713	6,171	6,171
Borrowings due after one year	75,808	75,808	116,581	116,581
Interest rate swaps (cash flow hedges)	463	463	-	-
	<u>133,984</u>	<u>133,984</u>	<u>122,752</u>	<u>122,752</u>

#### Cash at bank and liquid resources

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

## Notes (continued)

### 23 Employee share schemes

#### Share based payments – Group

The company operates a programme that allows certain employees to acquire shares of the ultimate parent undertaking, Grove Limited.

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

Grant date / nature of scheme	Number of instruments	Number of instruments outstanding at the year end	Vesting conditions	Contractual life of options
Consultants Share Option grant to key management on 1 May 2005	120,000	95,000	Vested	4.92 years
Approved Share Options grant to key management on 31 August 2004	589,414	32,000	Vested	3.58 years
Approved Share Options grant to key management on 8 February 2005	1,680,710	57,500	Vested	4.14 years
Approved Share Options grant to key management on 11 April 2006	214,570	203,856	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008	2.97 years
Share Options grant to key management on 11 April 2006	86,430	87,144	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008*	2.97 years

\* - Performance conditions for these awards were removed in December 2006 and these awards vested at that point.



**Notes (continued)**

**23 Employee share schemes (continued)**

**Share based payments – Group (continued)**

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

	2008 £ Weighted average exercise price	2008 Number of options	2007 £ Weighted average exercise price	2007 Number of options
Outstanding at the beginning of the period	2.74	479,500	2.74	584,500
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period	-	-	2.80	(105,000)
Cancelled during the period	1.75	(4,000)	-	-
Expired in the period	-	-	-	-
Outstanding at the end of the period	2.73	475,500	2.72	479,500
Exercisable at the end of the period	2.62	184,500	2.60	188,500

The weighted average share price at the date of exercise of share options exercised during the period was £2.80 (2007: £2.80).

The options outstanding at the year end have an exercise price in the range of £1.75 to £2.80 and a weighted average contractual life of 2.24 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:

	2008 Approved and unapproved share options schemes	2007 Approved and unapproved share option schemes
Fair value at measurement date	-	-
Weighted average share price	-	-
Exercise price	-	-
Expected volatility	-	-
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	-	-
Expected dividends	-	-
Risk free interest rate (based on national government bonds)	-	-

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

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

## Notes (continued)

### 23 Employee share schemes (continued)

#### Share based payments – Group (continued)

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

	2008 £000	2007 £000
Consultant Share Options granted in 2006	-	-
Approved Share Options granted in 2005	-	-
Approved Share Options granted in 2006	-	-
Approved Share Options granted in 2007	116	67
Share Options granted in 2007	-	28
Senior Executive Share Subscription Shares	-	-
Social Security expense linked to share based payments	(1)	8
	<hr/>	<hr/>
Total expense recognised as employee costs	115	103
	<hr/>	<hr/>
Total carrying amount of liabilities for cash settled arrangements	1	(8)
	<hr/>	<hr/>
Total intrinsic value of liabilities in respect of vested benefits	4	5
	<hr/>	<hr/>

### 24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008 £000	2007 £000
Less than one year	72,494	-
Between one and five years	289,440	162
More than five years	1,624,704	2,056,244
	<hr/>	<hr/>
	1,986,638	2,056,406
	<hr/>	<hr/>

During the year £77,114,000 was recognised as an expense in the income statement in respect of operating leases (2007: £69,429,000).

### 25 Capital commitments

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

	2008 £000	2007 £000
Contracted but not provided (land and buildings)	207	4,735
	<hr/>	<hr/>

## Notes (continued)

### 26 Contingencies

Certain subsidiary companies have sold close care units under arrangements that potentially commit the Group to repurchase of the units, in certain circumstances, at the higher of a discount to the cost or a discount to the market value. As at 31 December 2008 the total potential repurchase commitment notified to the Group was £3,167,000 (2007: £1,431,000). Due to uncertainties relating to the amount and timing of outflow the aggregate maximum repurchase obligation is estimated at £24,806,000 (2007: £19,785,000). The directors do not estimate any impairment of the recoverable value of the underlying properties.

### 27 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 £1,285,000 (2007: £970,000).

At the year end there were £74,511 (2007: £91,323) of outstanding contributions.

### 28 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 8 and note 1 gives detailed analysis about the useful economic lives of depreciable assets. Note 9 and note 1 gives an analysis about goodwill. Note 23 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 signing of a lease as a "sale", recognising the full amount of profit on completion.

The internal lease arrangement between the operating companies (subsidiaries of Barchester Healthcare Limited) and Bluehood Limited, related undertaking, is treated as an operating lease.

The provision and assumptions in relation to the onerous lease (see note 19).

In recognising the tax losses an assumption has been made about the future profit of the group. It has been assumed that there will be sufficient profit to offset the prior losses.

That it is appropriate not to recognise any impairment losses in relation to the intangible fixed assets and tangible fixed assets, except as otherwise stated.

It is appropriate to measure the share based payments based on the assumption that they are equity settled

## Notes (continued)

### 29 Related parties

#### *Identity of related parties*

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

Included in non-current trade and other payables are loans of £nil (2007: £37,788,000) 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 option transactions which are disclosed in note 23.

#### *Other related party transactions*

During the year Barchester Healthcare Homes Limited made a charitable donation of £300,000 (2007: £240,000) to the Barchester Healthcare Foundation, of which Mike Parsons is a trustee.

During the year the trade of Overslade care home was transferred from Westminster Healthcare Limited, a company owned by the Barchester Healthcare Limited Group to Barchester Healthcare Homes Limited, a 100% owned subsidiary of Barchester Healthcare Limited and Grove Limited. This resulted in a profit on disposal of discontinued operation in Westminster Healthcare Limited of £1,583,000 (2007: £18,076,000).

Bluehood Limited, a 100% owned subsidiary of Grove Limited, leases the properties to the Barchester Healthcare Limited group on an operating lease. This transaction was part of a restructuring program to form an operating/property structure that allowed an increase in borrowing capacity and allowed existing bank borrowings and securitisation financing to be repaid.

### 30 Ultimate parent company and parent company of larger group

The Company is a wholly owned subsidiary undertaking of Barchester HoldCo (Jersey) Limited, a company incorporated and registered in Jersey.

The Company's ultimate parent undertaking is Grove Limited, a company incorporated and registered in Jersey.

The smallest group in which the results of the Company are consolidated is that headed by Barchester HoldCo (Jersey) Limited.

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

### 31 Post balance sheet events

On 7 January 2009, Barchester Healthcare Homes Limited, subsidiary of Barchester Healthcare Limited, acquired the trade of Chacombe Park Limited, a related undertaking with the same ultimate parent undertaking, for consideration of £2,632,000.

**Company balance sheet**  
*at 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>	<b>2007</b> <b>£000</b>
<b>Fixed assets</b>					
Investments	36		257,498		257,498
<b>Current assets</b>					
Debtors	37	347,904		448,010	
Cash in bank		75		3,867	
		<u>347,979</u>		<u>451,877</u>	
<b>Creditors: amounts falling due within one year</b>	38	<u>(545,044)</u>		<u>(594,250)</u>	
<b>Net current liabilities</b>					
Due within one year		(197,605)		(583,640)	
Debtors due after more than one year		-		441,267	
			<u>(197,065)</u>		<u>(142,373)</u>
<b>Total assets less current liabilities</b>			<u>60,433</u>		<u>115,125</u>
<b>Creditors: amounts falling due after more than one year</b>	39		<u>(73,940)</u>		<u>(115,434)</u>
<b>Net liabilities</b>			<u>(13,507)</u>		<u>(309)</u>
<b>Capital and reserves</b>					
Called up share capital	40		12,913		12,913
Share premium account	41		6,643		6,643
Capital redemption reserve	41		186		186
Cash flow hedging reserve	41		(463)		262
Profit and loss account	41		(32,786)		(20,313)
<b>Shareholders' deficit</b>			<u>(13,507)</u>		<u>(309)</u>

These financial statements were approved by the board of directors on **30 June** 2009 and were signed on its behalf by:



**David Duncan**  
*Director*

The loss for the financial year for the company was £12,473,000

**Company reconciliation of movements in shareholders' funds**  
*for the year ended 31 December 2008*

	2008 £000	2007 £000
Loss for the financial year	(12,473)	(11,192)
Dividends on shares classified in shareholders' funds	-	-
Retained loss	(12,473)	(11,192)
Cash flow hedging reserve	(725)	(92)
Net increase in shareholders' deficit	(13,198)	(11,284)
Opening shareholders' (deficit)/funds	(309)	10,975
Closing shareholders' deficit	(13,507)	(309)

## Notes

### 32 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

#### *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.

The financial statements of the Company have been prepared on a going concern basis as the Company has the support of its ultimate parent company, Grove Limited, despite having net liabilities of £13.507m.

#### *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.

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.

As the Company is required to adopt FRS 26 *Financial Instruments: recognition and measurement*, the derivatives (interest rate swap and LPI swap) are held at fair value. Note 37 and 38 discloses what the fair value of these derivatives is at the balance sheet date.

#### *Investments*

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for impairment.

## Notes (continued)

### 33 Remuneration of directors

The directors received no emoluments for services to the company during the period. The directors received remuneration for services to Grove Limited of which Barchester Healthcare Limited is a subsidiary undertaking, however the proportion attributable to their services to Barchester Healthcare Limited is not separately identifiable.

### 34 Staff numbers and costs

There were no persons employed by the company during the year (2007: nil).

### 35 Auditor remuneration

Amounts paid to company's auditor in respect of services to the company are £4,000 (2007: £4,000).

### 36 Dividends

Dividends totalling £nil (2007: £nil) were received and dividends totalling £nil (2007: £nil) were paid during the year.

### 37 Fixed asset investments

	Shares in subsidiary undertakings £000
<i>Cost and net book value</i>	
At beginning of the year	257,498
Impairment of investment	-
	<hr/>
At the end of the year	257,498
	<hr/>

Note 10 gives a list of all undertakings whose results principally affect figures in the consolidated accounts.

### 38 Debtors

	2008 £000	2007 £000
Amounts owed by group undertakings	341,509	441,267
Other debtors	6,395	6,407
Prepayments and accrued income	-	74
Other financial assets	-	262
	<hr/>	<hr/>
	347,904	448,010
	<hr/>	<hr/>

Debtors include amounts owed by group undertakings of £nil (2007: £441,267,000) due after more than one year.



## Notes (continued)

### 39 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Bank loans and overdrafts	12,527	3,752
Other loan notes	295	1,695
Amounts owed to group undertakings	475,630	582,466
Other financial liabilities	463	-
Accruals and deferred income	6,129	6,337
Eurobonds (see note 39)	50,000	-
	<u>545,044</u>	<u>594,250</u>

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 2014.

### 40 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Bank loans and overdrafts	73,940	65,434
Eurobonds	-	50,000
	<u>73,940</u>	<u>115,434</u>

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

	2008 £000	2007 £000
Bank loans and other loans falling due (net of unamortised issue costs):		
In one year or less	62,810	5,447
Between one and two years	9,910	55,628
Between two and five years	38,828	38,814
In five years or more	25,202	20,992
	<u>136,750</u>	<u>120,881</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 half yearly repayments which commenced in March 2007 at £1,407,000, increasing to £1,876,000 in March 2008. Repayments every six months going forward are as follows: £2,814,000 from March 2009; £3,752,000 from March 2010; £4,690,000 from March 2011 and thereafter until the termination of the loan in July 2013

The Euro Bonds were issued by Barchester Healthcare Limited and fully taken up by Grove Limited on 3 February 2005. The bonds matured on 3 February 2009 with interest payable at 8% per annum over LIBOR. Since the year end, the Group has negotiated that the Euro Bonds will be extended for 5 years until 2014.

## Notes (continued)

### 41 Called up share capital

	2008 £000	2007 £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	262	6,643	186	(20,313)
Loss for the year	-	-	-	(12,473)
Total recognised income and expense	(725)	-	-	-
<b>At end of year</b>	<b>(463)</b>	<b>6,643</b>	<b>186</b>	<b>(32,786)</b>

### 43 Guarantees

The Company has guaranteed the overdrafts of its subsidiaries; the amount outstanding at the year end was £1,779,000 (2007: £18,351,000).

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.