Barchester Healthcare Limited

Annual report
Registered number 2792285
31 December 2007

Contents

Company information

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

Chairman's statement

Dear Shareholder

The Barchester Group 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, the reorganisation continued, with the trade of a number of operating subsidiaries being hived up into the primary operating company (Barchester Healthcare Homes Limited)

Results for the year ended 31 December 2007

The consolidated profit after taxation attributable to shareholders for the year was £8 806 million (2006 profit £484 394 million) on a turnover of £350 815 million (2006 £327 900 million)

Group operating profits were £17 828 million in the year (2006 £469 458 million)

The consolidated balance sheet at 31 December 2007 shows shareholders funds of £157 605 million (2006 £148 796 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 2008

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 2007 and the support of the shareholders

Yours faithfully

Denis Brosnan
Chairman

30 June 2008

Directors' report

The directors present their annual report and the financial statements for the year ended 31 December 2007

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 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

Business review

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 the UK's fourth largest provider The business provides in excess of 10,500 registered beds, spread across its portfolio of 172 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 2007 year was another successful year for the Group We continued to strengthen our position as one of the leading providers of long term care in the UK sector We believe the group is in a strong position at the year end to continue this into the coming year and beyond

The 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

During 2006 the Group had a large profit, which arose on the sale of properties to a related undertaking

In 2007, the operating trade of a number of subsidiaries were sold to a subsidiary of Barchester Healthcare Limited, Barchester Healthcare Homes Limited At the Barchester Healthcare Limited consolidated level however, this transaction has no impact on the Group's results

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 considers that the key risk and uncertainty facing the Group is fluctuations in interest rates given its level of gearing post the refinancing However, the Group has 88% of its borrowings hedged which mitigates the risk of any increase in interest rates This, together with the strong UK demographics supporting on-going trading should insulate the Group from the current difficult banking conditions

The business is supported by strong future demand based on the demographics of the UK population The segment of the UK population aged 85 or over is projected to increase from 1 2 million in 2007 to 1 8 million in 2021

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

Directors' report *(continued)*

Key risks and uncertainties *(continued)*

The group believes that, due to the economic situation, another area that maybe perceived as a risk is the ability in the future to secure financing to enable the group to continue to finance any acquisitions as extensions However the Group believes that, due to available facilities held within related undertakings they do not consider this a major risk

Political and charitable contributions

The group made no political contributions during the year Charitable donations totalling £297,000 were made during the year *(2006 £147,700)* including a donation of £240,000 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	(appointed 31 December 2007)
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 *(2006 £363 million)*

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

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

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

By order of the board

Jon Hather
Secretary

Suite 201
The Chambers
Chelsea Harbour
London
SW10 0XF

30 June 2008

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 consolidated and parent company financial statements for each financial year Under that law they are required to prepare the consolidated financial statements in accordance with IFRSs as adopted by the EU 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 consolidated financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to 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 consolidated 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 consolidated and parent company financial statements (the "financial statements") of Barchester Healthcare Limited for the year ended 31 December 2007 which comprise the Consolidated income statement, the Consolidated and Parent company balance sheets, the Consolidated cash flow Statement, the Consolidated statement of recognised income and expense and the related notes These financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the consolidated 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 2007 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 2007,
- 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

14 July 2008

Consolidated income statement

for year ended 31 December 2007

	Note	2007 Continuing operations £000	2007 Discontinued operations £000	2007 Total £000	2006 Continuing operations £000	2006 Discontinued operations £000	2006 Total £000
Revenue	*1*	**350,815**	**-**	**350,815**	325,116	2,784	327,900
Cost of sales		**(307,131)**	**-**	**(307,131)**	(261,843)	(2,080)	(263,923)
Gross profit		**43,684**	**-**	**43,684**	63,273	704	63,977
Other operating income	*4*	**189**	**-**	**189**	432,228	-	432,228
Administrative expenses		**(26,045)**	**-**	**(26,045)**	(26,747)	-	(26,747)
Operating profit	*1,5,6*	**17,828**	**-**	**17,828**	468,754	704	469,458
Analysed as							
Operating profit before gain on disposal of property, plant and equipment		**17,828**	**-**	**17,828**	36,526	704	37,230
Gain on disposal of property, plant and equipment	*4*	**189**		**-**	432,228	-	432,228
Finance income	*7*	**1,221**	**-**	**1,221**	8,731	-	8,731
Finance expenses	*7*	**(12,499)**	**-**	**(12,499)**	(93,961)	(2)	(93,963)
Net financing costs		**(11,278)**	**-**	**(11,278)**	(85,230)	(2)	(85,232)
Profit before tax		**6,550**	**-**	**6,550**	383,524	702	384,226
Taxation	*8*	**2,256**	**-**	**2,256**	96,613	-	96,613
Profit for the year after tax but before gain on discontinued operations		**8,806**	**-**	**8,806**	480,137	702	480,839
Gain on sale of discontinued operation, net of tax	*2*	**-**	**-**	**-**	-	3,555	3,555
Profit for the year		**8,806**	**-**	**8,806**	480,137	4,257	484,394
Attributable to:							
Equity holders of the parent		**8,806**	**-**	**8,806**	480,137	4,257	484,394
Profit for the year		**8,806**	**-**	**8,806**	480,137	4,257	484,394

Consolidated statement of recognised income and expense

for year ended 31 December 2007

	Note	2007 £000	2006 £000
Effective portion of changes in fair value of cash flow hedges		**(92)**	1,552
Net expense/income recognised directly in equity		**(92)**	1,552
Profit for the year		**8,806**	484,394
Total recognised income and expense	*22*	**8,714**	485,946
Total recognised income and expense for the period is attributable to			
Equity holders of the parent		**8,714**	488,946

Consolidated balance sheet
at 31 December 2007

	Note	**2007 £000**	2006 £000
Non-current assets			
Property, plant and equipment	*9*	**47,402**	21,315
Intangible assets	*10*	**175,171**	183,551
Total non-current assets		**222,573**	204,866
Current assets			
Inventories	*13*	**3,626**	4,928
Tax receivable		**486**	783
Trade and other receivables	*14*	**174,478**	291,724
Other financial assets	*15*	**262**	388
Cash and cash equivalents	*16*	**5,579**	21,273
Total current assets		**184,431**	319,096
Total assets		**407,004**	523,962
Current liabilities			
Interest-bearing loans and borrowings	*17*	**6,171**	13,126
Trade and other payables	*20*	**112,770**	46,319
Other financial liabilities	*18*	**-**	34
Provisions	*21*	**370**	420
Tax payable		**-**	-
		119,311	59,899
Non-current liabilities			
Interest-bearing loans and borrowings	*17*	**116,581**	119,767
Trade and other payables	*20*	**-**	179,704
Provisions	*21*	**561**	594
Deferred tax liabilities	*12*	**12,946**	15,202
		130,088	315,267
Total liabilities		**249,399**	375,166
Equity			
Share capital	*23*	**12,913**	12,913
Share premium	*22*	**6,643**	6,643
Capital redemption reserve	*22*	**186**	186
Cash flow hedging reserve	*22*	**262**	354
Retained earnings	*22*	**137,601**	128,700
Total equity		**157,605**	148,796
Total equity and liabilities		**407,004**	523,962

These financial statements were approved by the board of directors on 30 June 2008 and were signed on its behalf by

D Duncan

David Duncan
Director

Consolidated cash flow statement
for year ended 31 December 2007

	Note	2007 £000	2006 £000
Cash flows from operating activities			
Profit for the year		**8,806**	484,394
Adjustments for			
Depreciation, amortisation and impairment		**12,700**	18,331
Financial income		**(1,221)**	(8,731)
Financial expense		**12,499**	93,963
Equity-settled share-based payment expense		**95**	1,193
Gain on sale of property, plant and equipment		**(189)**	(432,228)
Taxation		**(2,256)**	(96,613)
Gain on sale of discontinued operation, net of tax		**-**	(3,555)
		30,434	56,754
Decrease/(increase) in trade and other receivables		**117,372**	(107,893)
Decrease in inventories		**1,302**	254
(Increase)/decrease in trade and other payables		**(111,732)**	109,618
Decrease in provisions and employee benefits		**(83)**	(603)
Cash generated from operations		**37,293**	58,130
Interest paid		**(14,596)**	(121,420)
Tax received		**747**	1,354
Net cash from operating activities		**23,444**	(61,936)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,295**	1,007,441
Proceeds from sales of investments, net of cash disposed		**-**	14,770
Interest received		**1,221**	1,161
Acquisition of subsidiaries, net of cash acquired		**-**	(4,799)
Acquisition of property, plant and equipment		**(31,513)**	(26,235)
Net cash from investing activities		**(28,997)**	992,338
Cash flows from financing activities			
Proceeds from new loan		**-**	1,131,207
Repayment of borrowings to related parties		**-**	(135,497)
Repayment of borrowings		**(10,695)**	(1,577,887)
Payment of finance lease liabilities		**554**	(523)
Dividends paid		**-**	(350,500)
Net cash from financing activities		**(10,141)**	(933,200)
Net decrease in cash and cash equivalents		**(15,694)**	(2,798)
Cash and cash equivalents at 1 January		**21,273**	24,071
Cash and cash equivalents at 31 December	*16*	**5,579**	21,273

Notes

(forming part of the financial statements)

1 Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") 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 29

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

- IFRS 7 'Financial Instruments' has been 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 will have no effect since Barchester Healthcare Limited does not receive goods or services as consideration for its own equity instruments

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

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 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

Notes *(continued)*

1 Accounting policies *(continued)*

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

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale

Discontinued operations are presented on the income statement (including the comparative period) as a column analysing the post tax profit or loss of the discontinued operation and the post tax gain or loss recognised on the remeasurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations

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 2005, 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 Discontinued operations

On 2 May 2006, Richmond Health Care Limited, Andrew Frederick Care Homes Limited and Richmond Painswick Limited were sold to subsidiary undertakings of Grove Limited, the ultimate parent company of Barchester Healthcare Limited, for £19,781,000 creating a pre-tax gain of £3,234,000

During the year ended 31 December 2006, the company had cash inflows from operating activities and cash flows from financing activities of £702,000

Effects of the disposals on individual assets and liabilities

	2007 £000	2006 £000
Property, plant and equipment	-	24,720
Inventories	-	422
Trade receivables	-	780
Cash and cash equivalents	-	117
Trade payables	-	(9,493)
Deferred tax	-	(320)
Net identifiable assets and liabilities	-	16,226
Consideration received	-	19,781
Net inflow	-	3,555

Notes *(continued)*

3 Acquisitions

In 2006, Barchester Healthcare Homes Limited, a 100% owned subsidiary of Barchester Healthcare Limited acquired 100% of the share capital of Milford House Nursing Home Limited, and its wholly owned subsidiary undertaking on 28 February 2006 The net assets acquired and consideration paid are set out below

	Book value £000	Revaluation £000	Fair value £000
Property, plant and equipment	3,122	3,628	6,750
Trade and other receivables	570	-	570
Cash and cash equivalents	140	-	140
Other payables	(2,521)	-	(2,521)
Deferred tax	-	(1,124)	(1,124)
	1,311	**2,504**	**3,815**
Goodwill on acquisition			**1,124**
Consideration paid, satisfied in cash			**4,939**

The purchase consideration and costs of acquisition were financed entirely by cash Included in the consideration paid are professional fees amounting to £295,000

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

For the year ended 31 July 2006, Milford House Nursing Home Limited and its wholly owned undertaking reported revenue of £3,754,000 and profit after tax of £6,815,000 Profit after tax includes profit on the sale of property to Bluehood Limited, a related undertaking

The profit after tax included in the 2006 Group accounts, since the acquisition date is £6,769,000

For the year ended 31 December 2006, had the acquisition been made on 1 January 2006, management estimate that Group revenue would have been £2,639,000 and profit before tax for the Group would have been £494,000

Notes *(continued)*

4 Other operating income

	2007 £000	2006 £000
Net gain on disposal of property, plant and equipment	**189**	432,228

Gain on disposal of property, plant and equipment items

In 2006, as part of a new re-financing arrangement, the majority of land and buildings were sold to Bluehood Limited, a related undertaking at market value This resulted in a profit on disposal of £439,033,000

The gain had a nil effect on the current tax charge of the Group The deferred tax effect of this disposal was included in the release for the year, disclosed in note 12

These properties were subsequently leased back to the Group under an operating lease

5 Expenses and auditors' remuneration

Included in profit are the following

	2007 £000	2006 £000
Amortisation of intangibles	**8,380**	8,387
Decrease in provisions	**(83)**	(603)
Profit on sale of plant, property and equipment	**189**	432,228
Depreciation of plant, property and equipment	**3,262**	9,944
Impairment (see note 9)	**1,058**	6,804
Operating lease payments	**69,429**	29,357

Auditors' remuneration

		2007 £000	2006 £000
Group	- audit of these financial statements	**26**	25
	- audit of financial statements of subsidiaries	**216**	263
	- other services pursuant to such legislation	**22**	20
	- other services relating to taxation	**356**	1,604
	- Services relating to transactions entered into or proposed to be entered into by or on behalf of the company or group	**-**	375

Amounts paid to the company's auditor in respect of services to the company is £15,140 *(2006 £15,000)*

Included within turnover is £254,000 *(2006 £2,198,600)*, within cost of sales £471,000 *(2006 £1,786,700)* and within gross profit, a loss of £217,000 *(2006 £411,900 profit)* which relates to acquisitions of new homes during the year

Notes *(continued)*

6 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	
	2007	2006
Directors	**3**	4
Office staff	**612**	642
Care staff	**11,763**	11,916
	12,378	12,562

The aggregate payroll costs of these persons were as follows

	2007	2006
	£000	£000
Wages and salaries	**168,804**	164,810
Share based payments	**95**	1,073
Social security costs	**13,743**	13,196
Other pension costs	**970**	908
	183,612	179,987

	2007	2006
	£000	£000
Remuneration of directors		
Wages and salaries	**760**	867
Company pension contribution to money purchase schemes	**55**	104
	815	971

During the year, one of the directors of the company received his remuneration wholly from Grove Investments UK Limited, of which Barchester Healthcare Limited is a related undertaking The amounts disclosed above reflect the amounts attributable for his services to the consolidated Barchester Healthcare Limited Group Share options in Grove Limited were received by the directors in 2006 and details are set out in the accounts of Grove Limited and in note 24

The aggregate emoluments of the highest paid director were £329,120 *(2006 £412,116)* and company pension contributions of £54,992 *(2006 £81,022)* were made to a money pension scheme on his behalf

Notes *(continued)*

7 Finance income and expense

	2007 £000	2006 £000
Interest income	**1,221**	1,161
Interest received from related undertaking	**-**	7,570
Financial income	**1,221**	8,731
Interest expense		
On bank loans and overdrafts	**(5,856)**	(30,094)
On loan notes	**(296)**	(44,913)
On loans from related undertakings	**(5,951)**	(6,359)
Other financing costs	**(150)**	(797)
Amortised loan issue costs	**(218)**	(11,722)
Finance charges payable in respect of finance leases	**(28)**	(78)
Financial expenses	**(12,499)**	(93,963)
Net financial expenses	**(11,278)**	(85,232)

Recognised directly in equity

	2007 £000	2006 £000
Attributable to		
Equity holders of the Company	**(92)**	1,552
Finance income recognised directly in equity, net of tax	**(92)**	1,552
Recognised in		
Hedging reserve	**(92)**	1,552
	(92)	1,552

The amount of interest capitalised in the year was £397,000 *(2006 £401,000)* as disclosed in note 9

Included within the above is £nil of costs relating to securitisation running and redemption costs *(2006 £35,443,000)*

Notes *(continued)*

8 Income tax expense

Recognised in the income statement

	2007 £000	2006 £000
Current tax expense		
Current year	-	(1,115)
Adjustments in respect of prior years	-	(3,074)
	-	(4,189)
Deferred tax expense		
Origination and reversal of temporary differences	1,030	(91,120)
Adjustments in respect of prior periods	(3,286)	(1,304)
	(2,256)	(92,424)
Total tax in income statement	(2,256)	(96,613)

Reconciliation of effective tax rate

	2007 £000	2006 £000
Profit before tax	6,550	384,226
Tax using the UK corporation tax rate of 30% (2006 30%)	1,965	115,268
Effects of		
Non-deductible expenses	110	1,634
Non-qualifying depreciation	295	-
Long funding lease	1,108	-
Impact of different tax rates	(927)	(73)
Over provided in prior year	(3,286)	(4,378)
Profit on disposal of non-qualifying assets not taxable, including release of previous deferred tax liability	(88)	(216,812)
Deferred tax movement not recognised	277	-
Group relief (not paid for) / charged	(1,185)	5,377
Transfer pricing adjustments with no compensating payment	(525)	2,371
	(2,256)	(96,613)

Notes *(continued)*

9 Property, plant and equipment

	Freehold land and buildings £000	Leasehold improvements £000	Plant and equipment £000	Assets in the course of construction £000	Total £000
Cost					
Balance at 1 January 2006	634,191	42,788	65,837	7,635	750,451
Acquisitions through business combinations	6,628	-	122	-	6,750
Additions	566	99	12,093	13,878	26,636
Transfer	5,668	1,435	5,052	(12,155)	-
Disposals	(643,658)	(41,519)	(67,690)	(3,514)	(756,381)
Balance at 31 December 2006	3,395	2,803	15,414	5,844	27,456
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)
Balance at 31 December 2007	**4,226**	**13,626**	**29,844**	**6,996**	**54,692**
Depreciation and impairment					
Balance at 1 January 2006	5,856	268	18,392	-	24,516
Depreciation charge for the year	2,112	160	7,672	-	9,944
Disposals	(13,951)	(411)	(20,761)	-	(35,123)
Impairment	6,804	-	-	-	6,804
Balance at 31 December 2006	821	17	5,303	-	6,141
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
Balance at 31 December 2007	**820**	**992**	**5,478**	**-**	**7,290**
Net book value					
At 1 January 2006	628,335	42,520	47,445	7,635	725,935
At 31 December 2006 and 1 January 2007	2,574	2,786	10,111	5,844	21,315
At 31 December 2007	**3,406**	**12,634**	**24,366**	**6,996**	**47,402**

Notes *(continued)*

9 Property, plant and equipment *(continued)*

The net book value of land and buildings comprises

	2007 £000	2006 £000
Freehold	**3,406**	2,574
Leasehold improvements	**12,634**	2,786
	16,040	5,360

Capitalised interest

The amount of interest capitalised in the year was £397,000 *(2006 £401,000)* The rate of interest used throughout the year averaged 7 20% (*2006 6 78%)* which is the applicable cost of funds during the year

Accumulated interest capitalised in the cost of plant is £2,028,000 *(2006 £1,636,000)*

Leased plant and equipment

Included in the total net book value of plant is £1,792,000 *(2006 £853,000)* in respect of assets held under finance leases and similar hire purchase contracts Depreciation charged on these assets in the year was £516,000 *(2006 £663,000)*

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 2007, the Group reviewed property, plant and equipment for impairment An impairment of £1,058,000 has been recognised on a care home that will be disposed of in 2008 for £nil consideration

Notes *(continued)*

10 Intangible assets

	Goodwill £000	Intellectual property £000	Total £000
Cost			
Balance at 1 January 2006	118,260	83,800	202,060
Acquisitions through business combinations	1,124	-	1,124
Balance at 31 December 2006	119,384	83,800	203,184
Balance at 1 January 2007	119,384	83,800	203,184
Balance at 31 December 2007	**119,384**	**83,800**	**203,184**
Amortisation and impairment			
Balance at 1 January 2006	1,078	10,168	11,246
Amortisation for the year	-	8,387	8,387
Balance at 31 December 2006	1,078	18,555	19,633
Balance at 1 January 2007	1,078	18,555	19,633
Amortisation for the year	-	8,380	8,380
Balance at 31 December 2007	**1,078**	**26,935**	**28,013**
Net book value			
At 1 January 2006	117,182	73,632	190,814
At 31 December 2006 and 1 January 2007	118,306	65,245	183,551
At 31 December 2007	**118,306**	**56,865**	**175,171**

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

Goodwill during 2006 arose due to the recognition of deferred tax on taxable temporary differences that were not expected to crystallise in the near future and therefore were not reflected in the purchase consideration

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 2007 using value in use resulted in no charge to goodwill impairment expense within the income statement In determining whether a goodwill impairment charge is required, the carrying value of goodwill is compared to the recoverable amount of cash generating units (CGUs), which is determined based on value in use calculations These calculations use earnings before interest, tax, depreciation and amortisation (EBITDA) analysis based on financial budgets approved by management In all cases, the growth rate is a conservative estimate which does not exceed the long-term average growth rate of the industry in which the CGUs operate Any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amount of CGUs to exceed its recoverable amount

Notes *(continued)*

11 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

	Registered in	Principal activity during the year	Class and percentage of shares held Group	Company
Barchester Healthcare Homes Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	Ordinary – 100%
Westminster Health Care Holdings Limited	England and Wales	Financing	Ordinary – 100%	Ordinary – 100%
Esprit Fort Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Adlington Manor Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Davill Healthcare Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Westergate Care Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Living With Care Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Yorkshire Care Group Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Murchison Associates Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Kent & Son (Homes) Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
The Wheatlands Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
GLCC Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Avalon Nursing Homes Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Westminster Health Care (UK) Limited	England and Wales	Management services and intermediate holding company	Ordinary - 100%	-
Westminster Health Care (NB) Limited	England and Wales	Provision of healthcare services	Ordinary - 100%	-
Burleigh House Properties Limited	England and Wales	Provision of healthcare services	Ordinary - 100%	-
Westminster Health Care (NH) Limited	England and Wales	Provision of healthcare services	Ordinary - 100%	-
Westminster Health Care Limited	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties Limited (formerly Westminster Beaumont Properties Limited)	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Chorleywood) Limited (formerly Westminster Beaumont Properties (Chorleywood) Limited)	England and Wales	Senior living services	Ordinary - 100%	-
Barchester Assisted Living Properties (Edgbaston) Limited (formerly Westminster Beaumont Properties (Edgbaston) Limited)	England and Wales	Senior living services	Ordinary - 100%	-

Notes *(continued)*

11 Investments in subsidiaries *(continued)*

	Registered in	Principal activity during the year	Class and percentage of shares held Group	Company
Barchester Assisted Living Properties (Southgate) Limited (formerly Westminster Beaumont Properties (Southgate) Limited)	England and Wales	Senior living services	Ordinary - 100%	-
Lakeside Residential Home (2002) Limited	Jersey	Management and operation of nursing and care homes	Ordinary – 100%	-
Lakeside Residential Home Limited	Jersey	Management and operation of nursing and care homes	Ordinary – 100%	-
Barchester Assisted Living Properties (Stamford Bridge) Limited (formerly Manor House Nursing Home (Stamford Bridge) Limited)	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-
Milford House Nursing Home Limited	England and Wales	Management and operation of nursing and care homes	Ordinary – 100%	-

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2007	2006	**2007**	2006	**2007**	2006
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	-	-	**1,602**	3,200	**1,602**	3,200
Intangible assets	-	-	**15,922**	19,574	**15,922**	19,574
Stocks	-	-	-	-	-	-
Interest-bearing loans and borrowings	-	-	-	-	-	-
Provisions	**(166)**	(67)	-	-	**(166)**	(67)
Tax value of loss carry-forwards	**(4,412)**	(7,505)	-	-	**(4,412)**	(7,505)
Amounts provided on acquisition of undertakings	-	-	-	-	-	-
Tax (assets) / liabilities	**(4,578)**	(7,572)	**17,524**	22,774	**12,946**	15,202

Movement in deferred tax during the 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**
Stocks	-	-	-	-
Interest-bearing loans and borrowings	-	-	-	-
Amounts provided on acquisition of undertakings	-	-	-	-
Provisions	**(67)**	**(99)**	-	**(166)**
Tax value of loss carry-forwards	**(7,505)**	**3,093**	-	**(4,412)**
	15,202	**(2,256)**	-	**12,946**

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Movement in deferred tax during the prior year

	1 January 2006 £000	Recognised in income £000	Business combinations £000	31 December 2006 £000
Property, plant and equipment	91,322	(88,926)	804	3,200
Intangible assets	25,140	(5,566)	-	19,574
Stocks	(33)	33	-	-
Interest-bearing loans and borrowings	(8,910)	8,910	-	-
Amounts provided on acquisition of undertakings	93	(93)	-	-
Provisions	(125)	58	-	(67)
Tax value of loss carry-forwards	(665)	(6,840)	-	(7,505)
	106,822	(92,424)	804	15,202

It has been announced that the corporation tax rate applicable to the company will change from 30% to 28% from 1 April 2008 The deferred tax liability has been calculated at 28% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be (charged)/relieved at 30%, although this is not expected to be significant, any timing differences which exist at 1 April 2008 will reverse at 28%

13 Inventories

	2007 £000	2006 £000
Raw materials and consumables	**803**	791
Close care units	**2,823**	4,137
	3,626	4,928

Close care units which have been developed by the Group and are held pending resale under long term lease arrangements

Notes *(continued)*

14 Trade and other receivables

	2007 £000	2006 £000
Receivables due from group undertakings	**139,016**	255,397
Trade receivables	**11,851**	12,985
Other receivables and prepayments	**23,611**	23,342
	174,478	291,724

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

	2007 £000	2006 £000
Not yet due		
Current	**3,470**	3,754
Overdue		
1-29 days	**5,445**	4,145
30-59 days	**1,499**	1,759
60-89 days	**568**	588
90-119 days	**338**	949
120 days +	**531**	1,790
	11,851	12,985

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 19

15 Other financial assets

	2007 £000	2006 £000
Current		
Fair value of interest rate swap agreements classified as other financial assets	**262**	388

The Group designates interest rate swaps as cash flow hedges and states them at fair value The company has entered into two swap agreements, one for £18,000,000 at a fixed rate of 5 585% terminating in June 2008 and an additional £45,000,000 at a fixed rate of 5 07% terminating in May 2009

The interest rate swaps can be terminated at any time with no penalties

Notes *(continued)*

16 Cash and cash equivalents

	2007 £000	2006 £000
Cash and cash equivalents per balance sheet and cash flow statement	**5,579**	21,273

The Group's exposure to interest rate risk is disclosed in note 19

17 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 19

	2007 £000	2006 £000
Non-current liabilities		
Secured bank loans	**65,434**	69,174
Finance lease liabilities	**1,147**	593
Eurobonds	**50,000**	50,000
	116,581	119,767
Current liabilities		
Current portion of secured bank loans	**3,752**	2,814
Current portion of finance lease liabilities	**724**	544
Other loan notes	**1,695**	3,200
Revenue rate unsecured loan notes	**-**	6,568
	6,171	13,126

Terms and debt repayment schedule

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

	2007 £000	2006 £000
Bank loans and other loans falling due (net of unamortised issue costs)		
In one year or less	**5,447**	12,570
Between one and two years	**55,628**	53,752
Between two and three years	**9,704**	5,628
Between three and four years	**12,938**	7,504
Between four and five years	**16,172**	9,380
In five years or more	**20,992**	42,922
	120,881	131,756

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 09, £3,752,000 from March 2010, £4,690,000 from March 2011 and thereafter until the termination of the loan in July 2013

The Eurobonds were issued on 3 February 2005 and bear interest at a margin over LIBOR The other loan notes bear interest with reference to LIBOR

Notes *(continued)*

17 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 2007 year end £000	Amount Outstanding at 2006 year end £000	Margin %
Bank loans (gross of unamortised finance costs)			
Tranche A	**44,086**	46,900	2 25
Tranche B	**25,100**	25,100	2 75
	69,186	72,000	

Finance lease liabilities

The maturity of obligations under finance leases is as follows

	2007 £000	2006 £000
Within one year	**724**	544
Between one and two years	**724**	544
Between two and five years	**424**	49
	1,872	1,137

The finance leases disclosed above bear interest at an average rate of 22%

18 Other financial liabilities

	2007 £000	2006 £000
Current		
Fair value of interest rate swap agreements classified as other financial liabilities	-	34

The Group designates interest rate swaps as cash flow hedges and states them at fair value The company has entered into two swap agreements, one for £18,000,000 at a fixed rate of 5 585% terminating in June 2008 and an additional £45,000,000 at a fixed rate of 5 07% terminating in May 2009

The interest rate swaps can be terminated at any time with no penalties

Notes *(continued)*

19 Financial instruments

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 23, 22 and 22 respectively

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)*

19 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

	Note	Carrying amount 2007 £000	2006 £000
Loans and receivables		**(51,726)**	(158,831)
Cash and cash equivalents		**5,579**	21,273
Interest rate swaps used for hedging			
Liabilities		**-**	(34)
Assets		**262**	388
		(45,885)	(137,204)

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 2007 was a £262,000 asset *(2006 £354,000 asset)*

Sensitivity analysis

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

Notes *(continued)*

19 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

	2007 Sterling £000	2006 Sterling £000
Floating rate financial liabilities	**122,752**	132,893

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

	2007 Currency Sterling £000	2006 Currency Sterling £000
Floating rate assets	**180,319**	312,997

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

	2007		2006	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Trade and other receivables	**174,478**	**174,478**	291,724	291,724
Cash at bank	**5,579**	**5,579**	21,273	21,273
Interest rate swaps (cash flow hedges)	**262**	**262**	388	388
	180,319	**180,319**	313,385	313,385

Financial liabilities

	2007		2006	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Borrowings due within one year	**6,171**	**6,171**	13,126	13,126
Borrowings due after one year	**116,581**	**116,581**	119,767	119,767
Interest rate swaps (cash flow hedges)	**-**	**-**	34	34
	122,752	**122,752**	132,927	132,927

Notes *(continued)*

Cash at bank and liquid resources

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

20 Trade and other payables

	2007 £000	2006 £000
Non-Current		
Non trade payables due to parent company and fellow subsidiaries of the parent company	-	179,704
	-	179,704
Current		
Payables due to Group undertakings	61,783	-
Other trade payables	5,421	2,181
Non-trade payables and accrued expenses	39,229	35,704
Interest payable	6,337	8,434
	112,770	46,319

21 Provisions

	Onerous lease £000	Other provisions £000	Total £000
Balance at 1 January 2007	924	90	1,014
Provisions made during the year	358	-	358
Provisions used during the year	(351)	-	(351)
Provisions reversed during the year	-	(90)	(90)
Balance at 31 December 2007	**931**	-	**931**
Current	370	-	370
Non-current	561	-	561
	931	-	**931**

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 five years An assumption has also been made as to the timing of when the lease can be sublet

The other provision of £90,000 related to the anticipated conversion of one of the home acquisitions from an elderly, mentally and infirm (EMI) unit to an independent hospital

Notes *(continued)*

22 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 2006	12,913	6,643	186	(1,198)	6,614	25,158
Total recognised income and expense	-	-	-	1,552	484,394	485,946
Adjustment in respect of IFRS 2, equity settled share adjustment	-	-	-	-	1,192	1,192
Dividends of £7 038 per qualifying share (2005 nil)	-	-	-	-	(363,500)	(363,500)
Balance at 31 December 2006	12,913	6,643	186	354	128,700	148,796
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
Balance at 31 December 2007	**12,913**	**6,643**	**186**	**262**	**137,601**	**157,605**

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

23 Share capital

Ordinary shares of 25p each	**2007 £000**	2006 £000
Authorised		
87,100,000 shares	**21,775**	21,775
Allotted, called up and fully paid		
51,650,824 shares	**12,913**	12,913

Notes *(continued)*

24 Employee share schemes

Share based payments

Grants were made during 2006 under the 2006 Consultants Share Option Plan, the 2005 Approved Share Option Plan, the Unapproved 2005 Share Option Plan and the Senior Executive Share Subscription Grant There were no grants made in 2007

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	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2003 and 31 December 2008	4 92 years
Approved Share Options grant to key management on 31 August 2004	589,414	36,000	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008	5 58 years
Approved Share Options grant to key management on 8 February 2005	1,680,710	57,500	Undiluted EPS growth must be in excess of 20% pa for the period between 31 December 2002 and 31 December 2008	5 16 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

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

	2007 Weighted average exercise price	**2007 Number of options**	2006 Weighted average exercise price	2006 Number of options
Outstanding at the beginning of the period	**2 74**	**584,500**	2 06	7,965,266
Granted during the period	-	-	2 80	301,000
Forfeited during the period	-	-	2 34	(4,046,714)
Exercised during the period	**2.80**	**(105,000)**	1 16	(2,443,052)
Swapped in period	-	-	2 80	(1,152,000)
Expired in period	-	-	2 80	(40,000)
Outstanding at the end of the period	**2 72**	**479,500**	2 74	584,500
Exercisable at the end of the period	**2 60**	**188,500**	2 80	89,286

Notes *(continued)*

24 Employee share schemes *(continued)*

The weighted average share price at the date of exercise of share options exercised during the period was £2 80 *(2006 £1 46)* 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

	2007 Approved and Unapproved Share Options Scheme	2006 Approved and Unapproved Share Options Scheme
Fair value at measurement date	-	£1 04
Weighted average share price	-	£2 80
Exercise price	-	£2 80
Expected volatility	-	40%
Expected Option life (expressed as weighted average life used in the modelling under binomial lattice model)	-	2 97 years
Expected dividends	-	0%
Risk free interest rate (based on national government bonds)	-	4 5%

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

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

Employee expenses

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

	2007 £000	2006 £000
Consultant Share Options granted in 2006	-	123
Approved Share Options granted in 2005	-	282
Approved Share Options granted in 2006	-	1,105
Approved share options granted in 2007	**67**	41
Share options granted in 2007	**28**	17
Senior Executive Share Subscription Shares	-	(375)
Social Security expense linked to share based payments	**8**	(120)
Total expense recognised as employee costs	**103**	1,073
Total amount of liabilities for cash settled arrangements recognised in period	**(8)**	(495)
Total intrinsic value of liabilities in respect of vested benefits	**5**	5

Notes *(continued)*

25 Operating leases

Non-cancellable operating lease rentals are payable as follows

	2007 £000	2006 £000
Less than one year	-	-
Between one and five years	162	409
More than five years	2,056,244	1,995,919
	2,056,406	1,996,328

During the year £69,429,000 was recognised as an expense in the income statement in respect of operating leases *(2006 £29,357,000)*

26 Capital commitments

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

	2007 £000	2006 £000
Contracted but not provided (land and buildings)	4,735	4,834

27 Contingencies

Certain subsidiary companies have sold close care units under arrangements that potentially commit the Group to re-purchase 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 2007 the total potential repurchase commitment notified to the Group was £1,431,000 *(2006 £1,430,000)* Due to uncertainties relating to the amount and timing of outflow the aggregate maximum repurchase obligation is estimated at £19,785,000 *(2006 £17,549,000)* The directors do not estimate any impairment of the recoverable value of the underlying properties

28 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 £970,000 *(2006 £908,000)*

At the year end there were £91,323 *(2006 £152,966)* of outstanding contributions

29 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 9 gives detailed analysis about the useful economic lives of depreciable assets Note 10 gives an analysis about goodwill Note 24 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

Notes *(continued)*

29 Accounting estimates and judgements *(continued)*

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 21)

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

30 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 £37,788,000 *(2006 £179,704,000)* 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 24

Other related party transactions

During the year Barchester Healthcare Homes Limited made a charitable donation of £240,000 *(2006 £100,000)* to the Barchester Healthcare Foundation, of which Mike Parsons is a trustee

During the year the trade of a number of operating companies owned by the Barchester Healthcare Limited Group were transferred to Barchester Healthcare Homes Limited, a 100% owned subsidiary of Barchester Healthcare Limited and Grove Limited This resulted in a cumulative profit in the operating subsidiaries of £18,076,000 *(2006 nil)*

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

31 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

Company balance sheet
at 31 December 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Investments	37		**257,498**		257,525
Current assets					
Debtors	38	**448,010**		581,694	
Cash in bank		**3,867**		-	
Creditors. amounts falling due within one year	39	**(594,250)**		(542,457)	
Net current (liabilities)/assets					
Due within one year		**(484,050)**		(535,596)	
Debtors due after more than one year		**341,677**		574,833	
			(142,373)		39,237
Total assets less current liabilities			**115,125**		296,762
Creditors amounts falling due after more than one year	40		**(115,434)**		(285,787)
Net (liabilities)/assets			**(309)**		10,975
Capital and reserves					
Called up share capital	41		**12,913**		12,913
Share premium account	42		**6,643**		6,643
Capital redemption reserve	42		**186**		186
Cash flow hedging reserve	42		**262**		354
Profit and loss account	42		**(20,313)**		(9,121)
Shareholders' (deficit)/funds			**(309)**		10,975

These financial statements were approved by the board of directors on 30 June 2008 and were signed on its behalf by

D Duncan

David Duncan
Director

Company reconciliation of movements in shareholders' funds
for the year ended 31 December 2007

	2007 £000	2006 £000
(Loss)/profit for the financial year	**(11,192)**	379,081
Dividends on shares classified in shareholders' funds	**-**	(363,500)
Retained (loss)/profit	**(11,192)**	15,581
Cash flow hedging reserve	**(92)**	1,552
Net (reduction)/increase in shareholders' funds	**(11,284)**	17,133
Opening shareholders' funds	**10,975**	(6,158)
Closing shareholders' (deficit)/funds	**(309)**	10,975

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 their ultimate parent company, Grove Limited

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

Investments

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

33 Remuneration of directors

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

The directors are employed by Grove Investments (UK) Limited

Notes *(continued)*

33 Remuneration of directors *(continued)*

Two of the directors are employed by Barchester Healthcare Homes Limited, a subsidiary undertaking of Barchester Healthcare Limited

34 Staff numbers and costs

There were no persons employed by the company during the year

35 Auditor remuneration

Amounts paid to company's auditor in respect of services to the company are £15,000 *(2006 £15,000)*

36 Dividends

Dividends totalling £nil *(2006 £414,000,000)* were received and dividends totalling £nil *(2006 £363,500,000)* were paid during the year

37 Fixed asset investments

	Shares in subsidiary undertakings £000
Cost and net book value	
At beginning of the year	257,525
Impairment of investment	(27)
At the end of the year	257,498

Note 11 gives a list of all undertakings whose results principally affect figures in the consolidated accounts

38 Debtors

	2007 £000	2006 £000
Amounts owed by group undertakings	**441,267**	574,833
Other debtors	**6,407**	6,435
Prepayments and accrued income	**74**	38
Other financial assets	**262**	388
	448,010	581,694

Debtors include amounts owed by group undertakings of £441,267,000 *(2006 £574,833,000)* due after more than one year

Notes *(continued)*

39 Creditors: amounts falling due within one year

	2007	2006
	£000	£000
Bank loans and overdrafts	**3,752**	6,022
Other loan notes	**1,695**	3,200
Amounts owed to group undertakings	**582,466**	527,337
Other creditors	**-**	79
Accruals and deferred income	**6,337**	5,819
	594,250	542,457

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

	2007	2006
	£000	£000
Bank loans and overdrafts	**65,446**	69,186
Eurobonds (net of £12,000 unamortised issue costs), *(2006 £12,000)*	**49,988**	49,988
Other financial liabilities	**-**	34
Amounts owed to group undertakings	**-**	166,506
Amounts owed to subsidiary undertakings	**-**	73
	115,434	285,787

Analysis of total borrowings (excluding interest bearing intercompany borrowings)

	2007	2006
	£000	£000
Bank loans and other loans falling due (net of unamortised issue costs)		
In one year or less	**5,447**	9,210
Between one and two years	**55,628**	53,752
Between two and five years	**38,814**	22,512
In five years or more	**20,992**	42,922
	120,881	128,396

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 09, £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 on 3 February 2005 and bear a LIBOR based interest

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

Notes *(continued)*

41 Called up share capital

	2007 £000	2006 £000
Authorised		
87,100,000 Ordinary shares of £0 25 each	**21,775**	21,775
Allotted, called up and fully paid		
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	354	6,643	186	(9,121)
Loss for the year	-	-	-	(11,192)
Total recognised income and expense	(92)	-	-	-
At end of year	**262**	**6,643**	**186**	**(20,313)**

43 Guarantees

The Company has guaranteed the overdrafts of its subsidiaries, the amount outstanding at the year end was £18,351,000 (*2006 £30,000,000)*

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

44 Commitments

(a) The Company has no capital commitments at the end of the financial year for which no provision has been made

(b) The Company has no annual commitments under non-cancellable operating leases

45 Related party disclosures

The Company is controlled by Grove Limited