

Barchester Healthcare PLC

**Directors' report and consolidated
financial statements**

Registered number 2792285

31 December 2001



Contents

Directors and advisors	1
Chairman's report	2
Directors' report	3
Statement of directors' responsibilities	5
Independent auditors' report to the members of Barchester Healthcare PLC	6
Consolidated profit and loss account	7
Consolidated balance sheet	8
Parent company balance sheet	9
Consolidated cash flow statement	10
Notes	11

Directors and advisors

Directors	Denis Brosnan (Chairman) Patrick A Byrne David Duncan Edward Irwin David Lloyd Eamon McElroy Owen McGartoll Michael Parsons Francesca Welbore Ker
Secretary	Owen McGartoll
Registered Office	Suite 201 The Chambers Chelsea Harbour London SW10 0XF
Auditors	KPMG Plym House 3 Longbridge Road Marsh Mills Plymouth PL6 8LT
Solicitors	Berwin Leighton Adelaide House London Bridge London EC4R 9HA
Bankers	The Royal Bank of Scotland plc AIB Bank Plc
Registrars	Barchester Healthcare PLC c/o Unit 3 19/20 York Road Dun Laoghaire County Dublin Ireland

Chairman's report

In the year ended 31 December 2001 profits have continued to grow significantly at existing operations and acquisitions and development sites have been purchased in the year that will allow growth for the future.

As at 31 December 2001 the group had eighteen nursing homes and a total of 1,288 beds. During the year, the group acquired three homes with 181 beds, with a potential to develop an additional 56 beds at one of them. It also developed a 42 bed new build home in Chipping Norton that has opened very successfully in January 2002 and is building a 56 bed home with Intermediate Care facilities which is due to open in Norwich in June 2002.

Since the year end the group has completed on two further homes with 64 beds in total and the potential to add an additional 75 beds; two development sites have also been acquired with outline planning permissions to build at least 120 beds.

Results for the year ended 31 December 2001

The consolidated profit attributable to shareholders for the year was Stg £2.842 million (2000: Stg £2.081 million) on a turnover of Stg £27.527 million (2000: Stg £22.673 million).

The consolidated balance sheet at 31 December 2001 shows shareholders' funds of Stg £27.006 million compared with Stg £24.136 million at 31 December 2000.

Review of operations

In general, operating conditions were challenging for the independent UK nursing home sector although some cause for greater optimism started to emerge. In this context, the group continued to increase its strong position in the private pay and specialist care markets. As a result the group's performance showed substantial improvement from an operating profit of Stg £3.374 million in 2000 to a profit of Stg £4.130 million in the year. The group now enjoys a distinct positioning as a high quality, long-term care provider commanding premium rates by concentrating largely on the private pay and specialist care segments. This is the part of the market least affected by funding shortfalls and Local Authority problems and having the greatest long term potential.

Outlook

The group will continue to focus on building up occupancy and increasing fee rates by targeting the private pay market and through the introduction of more specialist care. The group now has a spread of top quality care products ranging from domiciliary care, through care of the frail elderly, the younger disabled, close care, to our Memory Lane units specialising in dementia care. Intermediate Care facilities are starting to be added as a response to government initiatives in this area of care. Your directors are confident that in 2002 the group will continue to improve its financial performance by continuing to pursue its quality edge.

Further suitable acquisitions are being sought, new build projects planned and additional capacity added at existing homes.

The group now has twenty-one nursing homes and a total of 1,394 beds. Of these beds, 92% are purpose built, 85% are in single rooms, and 85% have full en-suite facilities. This probably constitutes the highest quality portfolio in the sector and places the group well for changes in the regulatory framework. The group's mission of pursuing *quality* in everything it does is producing good results and will continue to do so. The portfolio of homes will be groomed and further expanded but always within the strict context of never compromising quality.

The operating environment is improving with a dramatic shrinkage of supply, a more enlightened government view on fees, and more affluent and demanding elderly residents insisting on higher standards in long-term care. The group stands to benefit from all these influences.

Finally, I would like to express my appreciation both to my fellow directors and to the management and staff of our healthcare operations for their contributions during 2001.

Denis Brosnan
Chairman

2002

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2001.

Principal activity

The principal activity of the company continues to be the administration of a group involved in the ownership and management of nursing and residential care facilities for the elderly.

Business review

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

Result for the year

The financial result for the year is set out in the consolidated profit and loss account on page 7. The directors do not recommend the payment of a dividend for the year.

Share capital

Details of the share capital of the company are given in note 16 to the financial statements.

In November 2001, Denis Brosnan and Owen McGartoll, directors of the company, exercised 15,000 and 3,000 share options on Stg 25p shares respectively, at an option price of Stg 27p per share. Owen McGartoll also exercised a further 53,331 share options on Stg 25p shares at an option price of Stg 44.35p per share.

Directors and directors' interests

The directors who held office during the year and their interests in the ordinary shares of the company were as follows:

	31 December 2001 No.	31 December 2000 No.
Denis Brosnan	83,348	768,348
Patrick A Byrne	450,000	450,000
David Duncan	6,174	6,174
Edward Irwin	8,277	8,277
David Lloyd *	131,719	131,719
Eamon McElroy	43,907	43,907
Owen McGartoll **	212,102	155,771
Michael Parsons	2,567,530	2,600,000
Francesca Welbore Ker	1,666,867	-

* Includes 113,452 (2000: 113,452) shares held through a Pension Fund.

** Includes 167,941 (2000: 12,094) shares held through a Pension Fund.

Details of ordinary shares held under option by the directors are given in note 4 to the financial statements.

Directors' report *(continued)*

Subsidiaries

Details of the company's subsidiary undertakings are given in note 10 to the financial statements.

On 13 February 2001, both Country Life Care Centres Limited and Cabinrate Properties Limited were struck off the register of companies.

On 28 June 2001, Barchester Healthcare Homes Limited, a subsidiary undertaking of the company, acquired the entire issued share capital of Esprit Fort Limited.

Employees

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

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

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the group exceeds the book values of these assets at 31 December 2001.

Policy on payment of suppliers

The company has no trade creditors. However the group does have trade creditors and although it does not follow any code or standard on payment it endeavours to ensure all payments are made within mutually agreed credit terms. The number of days' purchases outstanding for the group at 31 December 2001 is calculated at 26 days (*2000: 25 days*). It is the group's intention to continue to apply the policy in the forthcoming year.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Owen McGartoll
Secretary

Suite 201
The Chambers
Chelsea Harbour
London
SW10 0XF

15th APRIL 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the 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.



Plym House
3 Longbridge Road
Marsh Mills
Plymouth
PL6 8LT
United Kingdom

Independent auditors' report to the members of Barchester Healthcare PLC

We have audited the financial statements on pages 7 to 25.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and of the group as at 31 December 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

26 April 2002

Consolidated profit and loss account
for the year ended 31 December 2001

	Note	2001 Stg £000	2000 Stg £000
Group turnover	<i>1</i>		
Continuing operations		27,527	21,832
Acquisitions		-	841
		<hr/>	<hr/>
Cost of services		27,527 (22,196)	22,673 (18,312)
		<hr/>	<hr/>
Gross profit		5,331	4,361
Administrative expenses		(1,201)	(987)
		<hr/>	<hr/>
Group operating profit	<i>2,3</i>		
Continuing operations		4,130	3,253
Acquisitions		-	121
		<hr/>	<hr/>
Net interest	<i>6</i>	4,130 (1,238)	3,374 (1,293)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		2,892	2,081
Tax on profit on ordinary activities	<i>7</i>	(50)	-
		<hr/>	<hr/>
Retained profit for the financial year		2,842	2,081
		<hr/>	<hr/>


A statement of movements in reserves is given in note 17.

There were no recognised gains or losses other than those detailed in the profit and loss account above.

Consolidated balance sheet
at 31 December 2001

	Note	2001 Stg £000	2000 Stg £000
Fixed assets			
Intangible assets	8	1,059	1,115
Tangible assets	9	51,932	39,987
		<u>52,991</u>	<u>41,102</u>
Current assets			
Stocks	11	61	48
Debtors	12	1,810	1,832
Cash at bank and in hand		-	136
		<u>1,871</u>	<u>2,016</u>
Creditors: amounts falling due within one year	13	<u>(4,385)</u>	<u>(3,209)</u>
Net current liabilities		<u>(2,514)</u>	<u>(1,193)</u>
Total assets less current liabilities		<u>50,477</u>	<u>39,909</u>
Creditors: amounts falling due after more than one year	14	<u>(23,471)</u>	<u>(15,773)</u>
Net assets		<u>27,006</u>	<u>24,136</u>
Capital and reserves			
Called up share capital	16	12,710	12,692
Share premium account	17	6,486	6,476
Capital redemption reserve	17	186	186
Profit and loss account	17	7,624	4,782
Equity shareholders' funds		<u>27,006</u>	<u>24,136</u>

These financial statements were approved by the board of directors on 15th APRIL 2002 and were signed on its behalf by:



Denis Brosnan
Director

Parent company balance sheet
at 31 December 2001

	Note	2001 Stg £000	2000 Stg £000
Fixed assets			
Investments	10	8,556	10,439
Current assets			
Debtors	12	44,011	16,426
Cash at bank and in hand		715	56
		<hr/>	<hr/>
Creditors: amounts falling due within one year	13	44,726 (1,649)	16,482 (20)
		<hr/>	<hr/>
Net current (liabilities)/assets			
Due within one year		(931)	2,770
Debtors due after more than one year		44,008	13,692
		<hr/>	<hr/>
		43,077	16,462
		<hr/>	<hr/>
Total assets less current liabilities		51,633	26,901
Creditors: amounts falling due after more than one year	14	(23,471)	(1,396)
		<hr/>	<hr/>
Net assets		28,162	25,505
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	16	12,710	12,692
Share premium account	17	6,486	6,476
Capital redemption reserve	17	186	186
Profit and loss account	17	8,780	6,151
		<hr/>	<hr/>
Equity shareholders' funds		28,162	25,505
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 15th April 2002 and were signed on its behalf by:



Denis Brosnan
Director

Consolidated cash flow statement
for the year ended 31 December 2001

	<i>Note</i>	2001 Stg £000	2000 Stg £000
Cash flow statement			
Cash inflow from operating activities	24	4,588	3,928
Returns on investments and servicing of finance	25	(1,152)	(1,268)
Capital expenditure and financial investment	25	(9,438)	(4,027)
Acquisitions and disposals	25	(2,447)	(953)
		<hr/>	<hr/>
Cash outflow before use of liquid resources and financing		(8,449)	(2,320)
Financing	26	8,283	1,941
		<hr/>	<hr/>
Decrease in cash in the year		(166)	(379)
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt (note 27)			
Decrease in cash in the year		(166)	(379)
Cash inflow from new loan finance		(9,215)	(5,220)
Cash outflow from capital element of finance lease payments		9	6
Cash outflow from repayment of loans		1,184	2,844
Cash (inflow)/outflow from advances to directors		(233)	233
		<hr/>	<hr/>
Change in debt resulting from cash flows		(8,421)	(2,516)
New finance leases		-	(8)
Net debt at beginning of year		(16,768)	(14,244)
		<hr/>	<hr/>
Net debt at end of year	27	(25,189)	(16,768)
		<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 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.

Basis of consolidation

The group financial statements consolidate the accounts of Barchester Healthcare PLC and all its subsidiary undertakings. Subsidiary undertakings acquired or disposed of during the year are consolidated from the date of acquisition or up to the date of disposal.

In accordance with Section 230(4) of the Companies Act 1985, Barchester Healthcare PLC is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life of twenty years.

Fixed assets and depreciation

Depreciation is provided by the group to write off the cost less the estimated residual value of tangible fixed assets in equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years
Fixtures and fittings	-	10 years
Plant and equipment	-	5 to 10 years
Motor vehicles	-	4 years

Freehold land is not depreciated.

The estimated residual value of the group's freehold buildings reflects the high quality nature of these assets and the group's practice to maintain these assets in a continual state of sound repair and to make improvements thereto from time to time.

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 up until the date of opening of the relevant home. The rate of interest used is the average cost of funds during the period.

Notes (continued)

1 Accounting policies (continued)

Leases

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover relates to the income received from residents of the group's nursing and care homes, and arises entirely in the United Kingdom.

2 Analysis of continuing operations

The total consolidated operating profit for continuing operations in 2001 includes cost of services of Stg £nil (2000: Stg £720,000) relating to acquisitions.

Notes (continued)

3 Operating profit

	2001 Stg £000	2000 Stg £000
<i>Operating profit is stated after charging</i>		
Auditors' remuneration:		
Audit (including Stg £2,000 (2000: Stg £2,000) in respect of the company)	16	16
Other services	33	24
Depreciation of tangible fixed assets	664	507
Amortisation of goodwill	56	18
Hire of other assets - operating leases	64	37
	<u> </u>	<u> </u>

4 Directors

	2001 Stg £000	2000 Stg £000
Aggregate emoluments	300	210
Company pension contributions to money purchase schemes	45	31
	<u> </u>	<u> </u>
	345	241
	<u> </u>	<u> </u>

The aggregate emoluments paid to the highest paid director amounted to Stg £189,000 (2000: Stg £126,000). In addition, company pension contributions of Stg £36,000 (2000: Stg £23,000) were made to a money purchase scheme on his behalf.

The following directors have been granted options to subscribe for shares in the company:

	At start of year	Exercised in year	Lapsed in year	Granted in year	At end of year	Exercise price Stg £	Date from which exercisable	Expiry date
Denis Brosnan	15,000	(15,000)	-	-	-	0.27	-	-
	118,377	-	(118,377)	118,377	118,377	0.4435	19 December 2001	18 December 2006
	592,649	-	(592,649)	592,649	592,649	0.4435	8 July 2001	7 July 2006
Owen McGartoll	3,000	(3,000)	-	-	-	0.27	-	-
	23,675	(23,675)	-	-	-	0.4435	-	-
	29,656	(29,656)	-	-	-	0.4435	-	-
	-	-	-	100,000	100,000	0.4435	10 December 2001	9 December 2006
Michael Parsons	500,000	-	(500,000)	500,000	500,000	0.4435	18 July 2001	17 July 2006
David Duncan	20,000	-	-	-	20,000	0.4435	23 December 1999	22 December 2004
	100,000	-	(100,000)	100,000	100,000	0.4435	15 July 2001	14 July 2006
	-	-	-	80,000	80,000	0.4435	10 December 2001	9 December 2006

Notes (continued)

5 Staff numbers and costs

The average number of persons employed (including directors) during the year was 1,642 (2000: 1,453).

The aggregate payroll costs of these persons were as follows:

	2001 Stg £000	2000 Stg £000
Wages and salaries	17,076	14,033
Social security costs	1,156	820
Other pension costs	125	80
	<hr/> 18,357 <hr/>	<hr/> 14,933 <hr/>

6 Net interest

	2001 Stg £000	2000 Stg £000
On bank loans and overdrafts	1,244	1,300
Finance charges payable in respect of finance leases	2	2
	<hr/> 1,246 <hr/>	<hr/> 1,302 <hr/>
Interest receivable	(8)	(6)
Foreign exchange rate movement	-	(3)
	<hr/> 1,238 <hr/>	<hr/> 1,293 <hr/>
Net interest payable	1,238	1,293

Notes (continued)

7 Taxation

Analysis of charge in year

	2001 Stg £000	2000 Stg £000
<i>UK corporation tax</i>		
Current tax on income for the year	50	-

Tax losses amounting to Stg £3,205,000 (2000: Stg £5,613,000) are available to relieve future profits of the group.

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2000: lower) than the standard rate of corporation tax in the UK of 30% (2000: 30%). The differences are explained below.

	2001 Stg £000	2000 Stg £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,892	2,081
Current tax at 30% (2000: 30%)	868	624
<i>Effects of:</i>		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	44	35
Timing differences for which deferred tax is not provided	(136)	(187)
Marginal rate relief	(4)	-
Utilisation of brought forward tax losses	(722)	(472)
Total current tax charge (see above)	50	-

Factors that may affect future tax charges

The tax charge for the year ending 31 December 2002 is also expected to be lower than the standard rate of corporation tax in the UK of 30% due to the availability of unutilised tax losses.

Notes (continued)

8 Intangible fixed assets

Group	Goodwill Stg £000
<i>Cost</i>	
At beginning of and end of year	1,133
<i>Amortisation</i>	
At beginning of year	18
Charge for year	56
At end of year	74
<i>Net book value</i>	
At 31 December 2001	1,059
At 31 December 2000	1,115

Goodwill arose on the acquisition of the trade and assets of Community Care, a domiciliary care provider, on 31 August 2000. The group acquired the rights to the Community Care name, access to a customer database, and an established trading history and reputation. As no assets or liabilities were acquired, the consideration payable is entirely represented by goodwill. Consideration was made up as follows:-

	2000 Stg £000
Group	
Purchase consideration, including legal fees and other associated costs	953
Contingent earn-out accrued based on first year profits	180
Total consideration payable and goodwill	1,133

The goodwill arising is being amortised over a period of twenty years, which is the directors' best estimate of its useful economic life.

Notes (continued)

9 Tangible fixed assets

Group	Assets in the course of construction Stg £000	Freehold land and buildings Stg £000	Plant and equipment Stg £000	Total Stg £000
Cost				
At beginning of year	-	36,956	7,032	43,988
Additions	3,096	8,488	1,036	12,620
Disposals	-	-	(31)	(31)
At end of year	3,096	45,444	8,037	56,577
Depreciation				
At beginning of year	-	-	4,001	4,001
Charge for year	-	110	554	664
Eliminated on disposals	-	-	(20)	(20)
At end of year	-	110	4,535	4,645
Net book value				
At 31 December 2001	3,096	45,334	3,502	51,932
At 31 December 2000	-	36,956	3,031	39,987

Interest capitalised and included in the cost of freehold land and buildings amounts to Stg £1,096,000 (2000: Stg £1,048,000).

Included in the total net book value of plant is Stg £7,000 (2000: Stg £15,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation charged on these assets in the year was Stg £8,000 (2000: Stg £4,000).

The depreciation charged on freehold land and buildings in the year represents the effect of a change in estimated residual values applied since the beginning of the year.

Notes (continued)

10 Fixed asset investments

Shares in
 subsidiary
 undertakings
 Stg £000

Company

Cost and net book value

At beginning of year	10,439
Amounts eliminated on striking off of subsidiary undertakings	(1,883)
At end of year	<u>8,556</u>

The company held interests in the following subsidiary undertakings during the year:

	Country of registration	Principal activity during the year	Class and percentage of shares held within the group
Barchester Healthcare Homes Ltd	England	Ownership and management of nursing and care homes	Ordinary - 100%
Country Life Care Centres Ltd	England	Non-trading (company struck off on 13 February 2001)	Ordinary - 100%
Cabinrate Properties Ltd	England	Non-trading (company struck off on 13 February 2001)	Ordinary - 100%

Subsidiary undertakings of Barchester Healthcare Homes Ltd:

Community Care Ltd	England	Non-trading	Ordinary - 100%
Esprit Fort Ltd	England	Ownership and management of nursing and care homes	Ordinary - 100%

Subsidiary undertaking of Community Care Ltd:

Community Clean Ltd	England	Non-trading	Ordinary - 100%
---------------------	---------	-------------	-----------------

11 Stocks

	2001 Stg £000	2000 Stg £000
Consumables	<u>61</u>	<u>48</u>

Notes (continued)

12 Debtors

	Group		Company	
	2001 Stg £000	2000 Stg £000	2001 Stg £000	2000 Stg £000
Due within one year				
Trade debtors	1,552	1,224	-	-
Amounts owed by subsidiary undertakings	-	-	-	2,498
Advances to directors	-	233	-	233
Prepayments and accrued income	236	353	3	3
	<u>1,788</u>	<u>1,810</u>	<u>3</u>	<u>2,734</u>
Due after more than one year				
Amounts owed by subsidiary undertakings	-	-	44,008	13,692
Other debtors	22	22	-	-
	<u>22</u>	<u>22</u>	<u>44,008</u>	<u>13,692</u>
Total	<u>1,810</u>	<u>1,832</u>	<u>44,011</u>	<u>16,426</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2001 Stg £000	2000 Stg £000	2001 Stg £000	2000 Stg £000
Bank loans and overdrafts (secured - see note 14)	1,715	1,352	1,517	-
Obligations under finance leases and hire purchase contracts	3	12	-	-
Trade creditors	772	333	-	-
Corporation tax	50	-	-	-
Other taxation and social security	424	267	-	-
Other creditors	218	317	-	-
Accruals and deferred income	1,203	928	132	20
	<u>4,385</u>	<u>3,209</u>	<u>1,649</u>	<u>20</u>

Notes (continued)

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2001 Stg £000	2000 Stg £000	2001 Stg £000	2000 Stg £000
Bank loans and overdrafts (secured)	23,471	15,773	23,471	-
Amounts owed to subsidiary undertakings	-	-	-	1,396
	<u>23,471</u>	<u>15,773</u>	<u>23,471</u>	<u>1,396</u>

During the year, the company assumed liability for the group's bank loans, which had previously been held in Barchester Healthcare Homes Limited, a subsidiary undertaking of the company.

Stg £15,000,000 of the bank loans bears interest at fixed rates of between 6.20% and 6.40%. The remainder bears interest at a floating rate, which at the year end was 5.33% per annum.

The bank loans, overdrafts and other loans are secured over certain assets of the group, and amounts falling due after more than one year can be analysed as follows:

	Group		Company	
	2001 Stg £000	2000 Stg £000	2001 Stg £000	2000 Stg £000
Bank loans and other loans falling due:				
Between one and two years	1,851	1,184	1,851	-
Between two and five years	5,552	4,736	5,552	-
In five years or more	16,068	9,853	16,068	-
	<u>23,471</u>	<u>15,773</u>	<u>23,471</u>	<u>-</u>

Notes (continued)

15 Acquisitions

On 28 June 2001, Barchester Healthcare Homes Limited, a subsidiary undertaking of the company, acquired all of the ordinary shares of Esprit Fort Limited. No goodwill arose on the acquisition.

	Book value Stg £000	Revaluation Stg £000	Fair value Stg £000
Fixed assets			
Tangible	1,728	1,445	3,173
Current assets			
Stock	6	-	6
Debtors	42	-	42
Cash	259	-	259
Total assets	<u>2,035</u>	<u>1,445</u>	<u>3,480</u>
Creditors	(894)	-	(894)
Provisions	(20)	-	(20)
Total liabilities	<u>(914)</u>	<u>-</u>	<u>(914)</u>
Net assets			<u>2,566</u>
Goodwill			-
Purchase consideration and costs of acquisition			<u>2,566</u>

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

The revaluation of tangible fixed assets represents a revision to reflect the fair value of those assets to the group.

The acquired undertaking made a profit of Stg £51,000 from 1 April 2001, the beginning of its financial year, to the date of acquisition. In its previous financial year the profit was Stg £112,000.

The acquisition of Esprit Fort Limited has been accounted for by the acquisition method of accounting.

Notes (continued)

16 Share capital

	2001 Stg £000	2000 Stg £000
Ordinary shares of Stg 25p each		
<i>Authorised</i>		
87,100,000 shares	21,775	21,775
	<hr/>	<hr/>
	Number of shares	Stg £000
<i>Allotted, called up and fully paid</i>		
At beginning of year	50,768,467	12,692
New shares issued	71,331	18
	<hr/>	<hr/>
At end of year	50,839,798	12,710
	<hr/>	<hr/>

In November 2001, Denis Brosnan and Owen McGartoll, directors of the company, exercised 15,000 and 3,000 share options on Stg 25p shares respectively, at an option price of Stg 27p per share. Owen McGartoll also exercised a further 53,331 share options on Stg 25p shares at an option price of Stg 44.35p per share.

17 Reserves

	Group and Company Share premium account Stg £000	Group and Company Capital redemption reserve Stg £000	Group Profit and loss account Stg £000	Company Profit and loss account Stg £000
At beginning of year	6,476	186	4,782	6,151
Retained profit for the year	-	-	2,842	2,629
New shares issued	10	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,486	186	7,624	8,780
	<hr/>	<hr/>	<hr/>	<hr/>

The company's profit for the financial year was Stg £2,629,000 (2000: Stg £2,446,000).

The cumulative goodwill resulting from acquisitions in earlier financial years written off on consolidation amounted to Stg £2,486,000 (2000: Stg £2,486,000).

Notes (continued)

18 Reconciliation of movements in shareholders' funds

	Group		Company	
	2001 Stg £000	2000 Stg £000	2001 Stg £000	2000 Stg £000
Shareholders' funds at beginning of year	24,136	22,251	25,505	23,255
Retained profit for the year	2,842	2,081	2,629	2,446
New shares issued	28	317	28	317
Purchase of own shares	-	(513)	-	(513)
Shareholders' funds at end of year	27,006	24,136	28,162	25,505

19 Commitments

	Group		Company	
	2001 Stg £000	2000 Stg £000	2001 Stg £000	2000 Stg £000
i) Capital commitments:				
Contracted but not provided	1,088	-	-	-
ii) Annual commitments for property under non cancellable operating leases are as follows:				
Operating leases which expire:				
In the second to fifth years inclusive	74	37	-	-

20 Contingent liabilities

A Section 106 bond with Taunton Deane Borough Council, which reflects a potential liability of Stg £175,000, was entered into some years ago in respect of repairs to the property comprising part of the nursing home premises in Taunton. These repairs are now completed, and the release of the bond is being investigated.

21 Guarantees

The company has guaranteed the bank loans, overdraft and other loans of its subsidiary undertakings. The amount outstanding at the year end was Stg £197,000 (2000: Stg £17,125,000).

22 Post balance sheet events

Since the year end the group has completed the acquisition (for a total cost of Stg £2,925,000) of a further two homes with 64 beds in total and the potential to add an additional 75 beds; two development sites have also been acquired (for a total cost of Stg £920,000) with outline planning permissions to build at least 120 beds.

23 Related party disclosures

The company has taken advantage of the exemption conferred by FRS 8 and does not disclose transactions with its subsidiary undertakings.

Notes (continued)

24 Reconciliation of operating profit to net cash inflow from operating activities

	2001 Stg £000	2000 Stg £000
Operating profit	4,130	3,374
Depreciation and amortisation charges	720	525
Loss on sale of fixed assets	2	2
(Increase)/decrease in stocks	(7)	3
Increase in debtors	(169)	(218)
(Decrease)/increase in creditors	(88)	242
	<u>4,588</u>	<u>3,928</u>

25 Analysis of cash flows

	2001 Stg £000	2000 Stg £000
Returns on investments and servicing of finance		
Net interest paid	(1,150)	(1,266)
Interest element of finance lease payments	(2)	(2)
	<u>(1,152)</u>	<u>(1,268)</u>
 Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(9,447)	(4,031)
Receipts from sales of tangible fixed assets	9	4
	<u>(9,438)</u>	<u>(4,027)</u>
 Acquisitions and disposals		
Payments to acquire a new business	-	(953)
Payment of contingent earn out on new business acquisition in 2000	(140)	-
Payments to acquire subsidiary undertakings	(2,566)	-
Cash balances held by subsidiary undertaking on acquisition	259	-
	<u>(2,447)</u>	<u>(953)</u>

Notes (continued)

26 Financing

	2001 Stg £000	2000 Stg £000
New loan finance	9,215	5,220
Capital element of finance lease payments	(9)	(6)
Repayment of loans	(1,184)	(2,844)
Repayments from / (advances to) directors	233	(233)
Receipts from issue of new shares	28	317
Payments to acquire own shares	-	(513)
	<u>8,283</u>	<u>1,941</u>

27 Analysis of net debt

	At beginning of year Stg £000	Cash flow Stg £000	Other non- cash changes Stg £000	At end of year Stg £000
Cash at bank and in hand	136	(136)	-	-
Bank overdrafts	(168)	(30)	-	(198)
	<u>(32)</u>	<u>(166)</u>	<u>-</u>	<u>(198)</u>
Debt due within one year	(1,184)	1,184	(1,517)	(1,517)
Debt due after one year	(15,773)	(9,215)	1,517	(23,471)
Finance leases	(12)	9	-	(3)
Advances to directors	233	(233)	-	-
	<u>(16,768)</u>	<u>(8,421)</u>	<u>-</u>	<u>(25,189)</u>