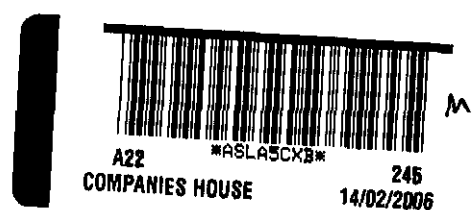


Speciality Care (Rest Homes) Limited
Annual report
for the year ended 31 December 2004

Registered number: 3010116



Speciality Care (Rest Homes) Limited

Annual report for the year ended 31 December 2004

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Speciality Care (Rest Homes) Limited

Directors and advisors

Executive directors

M Hill

C Cameron (appointed on 6 December 2004)

A E Smith (appointed on 19 April 2004)

Secretary

BLG (Professional Services) Limited

Beaufort House

15 St Botolph Street

London

EC3A 7NJ

Auditors

PricewaterhouseCoopers LLP

Cornwall Court

19 Cornwall Street

Birmingham

B3 2DT

Solicitors

Pinsent Masons

3 Colmore Circus

Birmingham

B4 6BH

Registered office

Craegmoor House

Perdiswell Park

Worcester

WR3 7NW

Bankers

Barclays Bank Plc

PO Box 544

54 Lombard Street

London

EC3V 9EX

Speciality Care (Rest Homes) Limited

Directors' report for the year ended 31 December 2004

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities

The principal activity of the Company continues to be the provision of care.

Review of business and future developments

Both the level of business and the year-end position were satisfactory despite an overall loss for the year. The directors expect that the Company's performance will improve in the coming year.

Audit opinion qualification

As described fully in note 1 to the financial statements, the accounting problems experienced by the Craegmoor Group during the year, and subsequently, have given rise to qualifications in the auditors' report concerning the recoverability of debtor balances and the keeping of proper books and records as required by the Companies Act 1985.

Results and dividends

The profit and loss account shows a loss after tax for the year of £1,000 (2003: £18,000 profit). The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: £Nil).

Directors and their interests

The directors who held office up to the date of this report are listed on page 1. In addition M A Stratford resigned on 20 May 2004, C Artis resigned on 6 August 2004 and K Hall resigned on 6 December 2004.

M A Stratford was a director of the ultimate parent company in the United Kingdom, Craegmoor Limited, and his share interests are shown in the directors' report of that company.

A E Smith is a director of the ultimate parent company in the United Kingdom, Craegmoor Limited, and his share interests are shown in the directors' report of that company.

C Artis held no interest in the share capital of Speciality Care (Rest Homes) Limited during the year ended 31 December 2004. C Artis held 5,000 shares in the ultimate parent company, Craegmoor Limited as at 6 August 2004 (31 December 2003: 5,000).

No other director at 31 December 2004 or 31 December 2003 had any interests in the share capital of Speciality Care (Rest Homes) Limited or Craegmoor Limited.

M Hill held 4,000 share options over the ordinary shares of Craegmoor Limited as at 31 December 2004 (31 December 2003: 2,000). C Cameron held 1,750 share options over the ordinary shares of Craegmoor Limited as at 31 December 2004 (6 December 2004: 1,750). K Hall held 1,750 share options over the ordinary shares of Craegmoor Limited as at 6 December 2004 (31 December 2003: 1,750). C Artis held 2,500 share options over the ordinary shares of Craegmoor Limited as at 6 August 2004 (31 December 2003: 2,500). These options have an exercise price of £1 each and may be exercised on the sale of Craegmoor Limited by its current shareholders. No other directors of Speciality Care (Rest Homes) Limited held any share options in Craegmoor Limited at 31 December 2004 or 31 December 2003.

Changes in fixed assets

Movements in tangible fixed assets during the year are set out in note 9 to the financial statements.

Speciality Care (Rest Homes) Limited

Directors' report for the year ended 31 December 2004 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

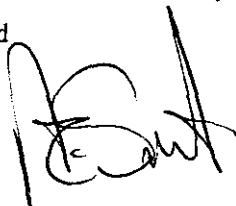
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The Company has elected, in accordance with section 386 of the Companies Act UK 1985, to dispense with the obligation to appoint auditors annually.

By order of the Board

A handwritten signature in black ink, appearing to read 'A E Smith', is written over the text 'By order of the Board'.

A E Smith
Director
10 February 2006

Independent auditors' report to the members of Speciality Care (Rest Homes) Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except that the scope of our work was limited as explained below. 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 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. However, as set out in Note 1 (*Problems arising from closure of the Regional Accounting Centres*), the group encountered difficulties with the transfer of the accounting processes from the former regional accounting centres to a newly established Shared Service Centre which led to serious accounting issues.

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 Speciality Care (Rest Homes) Limited (continued)

Going concern

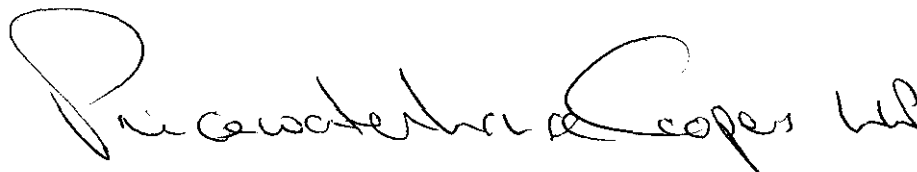
In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 to the financial statements (*Going Concern*) concerning the ongoing negotiations of the directors of the ultimate holding company, Craegmoor Limited, with lenders to the group for renewal of existing overdraft facilities, restructuring of loan facilities and renegotiation of lending obligations and covenants. The financial statements of the Company have been prepared on a going concern basis, the validity of which depends on the successful conclusion of these negotiations with the group's lenders. The financial statements do not include any adjustments that would result from a failure of the group to obtain this funding. Our opinion is not qualified in this respect.

Qualified opinion arising from limitation on audit scope and keeping of proper accounting records

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the trade debtors referred to above, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to trade debtors we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

During the year, the company did not maintain complete records relating to the allocation of sales transactions and cash receipts because of the difficulties described above. Accordingly, in this respect, in our opinion proper accounting records, as required by Section 221 of the Companies Act 1985, have not been kept throughout the year.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

10 February 2006

Speciality Care (Rest Homes) Limited

Profit and loss account for the year ended 31 December 2004

		2004	2003
	Note	£'000	£'000
Turnover	2	4,009	3,430
Cost of sales		(2,806)	(2,505)
Gross profit		1,203	925
Administrative expenses		(1,166)	(944)
Profit / (Loss) on ordinary activities before taxation	6	37	(19)
Tax on profit / (loss) on ordinary activities	7	(38)	37
(Loss) / Retained profit for the financial year	15	(1)	18

All activities relate to continuing operations.

The Company has no recognised gains and losses other than the result above and therefore no separate statement of total recognised gains and losses has been presented.

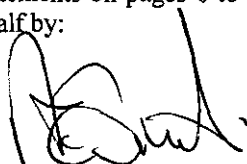
There is no difference between the loss on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalent.

Speciality Care (Rest Homes) Limited

Balance sheet as at 31 December 2004

		2004	2003
	Note	£'000	£'000
Fixed assets			
Intangible assets	8	314	335
Tangible assets	9	360	335
		674	670
Current assets			
Debtors	10	1,027	1,083
Cash at bank and in hand		2	2
		1,029	1,085
Creditors: amounts falling due within one year	11	(1,198)	(1,238)
Net current liabilities		(169)	(153)
Total assets less current liabilities		505	517
Creditors: amounts falling due after more than one year	12	(421)	(421)
Provisions for liabilities and charges	13	(16)	(27)
Net assets		68	69
Capital and reserves			
Called up share capital	14	-	-
Profit and loss account	15	68	69
Total equity shareholders' funds	16	68	69

The financial statements on pages 6 to 16 were approved by the board of directors on 10 February 2006 and signed on its behalf by:



A E Smith
Director

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004

1 Principal accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been consistently applied, is set out below:

Problems arising from closure of the Regional Accounting Centres

In 2004, as part of a process of streamlining the financial operations of the Craegmoor group, the decision was taken to close 11 regional accounting centres, transfer the processes to a newly established Shared Service Centre in Worcester and at the same time migrate the accounting systems to a new computer software system. Difficulties were encountered with the transfer process that led to a number of serious accounting issues within the Shared Service Centre including, most significantly, difficulties in allocating cash received from debtors against their accounts, the lack of timely completion of key accounting reconciliations and some inaccuracies in the customer invoicing process resulting in the need to subsequently issue credit notes and make provision for doubtful debts. This led to delays for many months in determining the exact recoverability or otherwise of the trade debtor amounts as at 31 December 2004 and consequently to the production of the 2004 statutory accounts while investigations were completed.

Whilst the directors have taken extensive actions to assess the full recoverability of trade debtors, and full provision has been made where amounts are determined not to be collectible, nonetheless some uncertainty does remain that will not be fully eliminated until the 2005 accounting reconciliations are themselves completed and provide evidence regarding the position presented. Consequently, the report of the auditors makes reference to this uncertainty which has given rise to a limitation on their work.

Corrective action has been underway during the course of 2005 to improve the situation, complete routine accounting reconciliations and generally complete the transfer process in as efficient a manner as possible. This work is expected to be completed in early 2006.

Going Concern

By not delivering audited financial statements within 6 months of the year end, the ultimate parent company, Craegmoor Limited, and certain of its subsidiaries, have not complied with obligations relating to certain borrowings included in the group's consolidated financial statements. Under the terms of the relevant agreements, these failures potentially give rise to events of default which require remediation. The directors have kept the lenders and, where relevant, the lenders' guarantor fully informed of the group's financial position and the progress on resolving the accounting difficulties described above. As a result, the directors are currently in advanced, constructive discussions with lenders to the group and their guarantor for a continuation of current facilities and agreement of revised lending covenants and obligations. Although Speciality Care (Rest Homes) Ltd is not a subsidiary that is directly required to comply with such obligations, it is reliant on Craegmoor Limited's successful conclusion to these negotiations in order to continue operating normally for the foreseeable future.

Whilst the directors are confident that facilities of the Group will be renewed, and the covenants and obligations renegotiated, and believe that it is therefore appropriate for the financial statements to be prepared on the going concern basis, a conclusion to these negotiations has not been reached as the date of approval of this report.

Intangible fixed assets

Intangible fixed assets comprise goodwill arising on the acquisition of business, trade and assets at the date of incorporation. It represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, and is amortised over its useful economic life, which the directors estimate to be 20 years.

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

1 Principal accounting policies (continued)

Tangible fixed assets

The cost of fixed assets is their purchase cost, and any costs directly attributable to bringing them into working condition for their intended use.

Depreciation on other tangible fixed assets is calculated to write off their cost, less estimated residual values, by equal annual instalments on the following bases:

Leasehold improvements	-over the remaining lease term
Equipment	-over 7 years
Furniture and fittings	-over 3, 5 or 10 years
Motor vehicles	-over 4 years
Computer equipment	-over 4 years

During the year, a review was performed of the appropriateness of asset lives resulting in the revised lives shown above. The effect of this change on the depreciation charge for the year was not deemed to be material to the financial statements.

Corporation tax

UK corporation tax is provided at amounts expecting to be paid (or recovered) using the tax rates and bases that have been enacted or substantially enacted by the balance sheet date. Corporation tax payable is reduced wholly or in part by the surrender of losses by fellow group companies. Payments made, if any, to surrendering companies for losses are reflected in the tax charge.

Deferred taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is only recognised to the extent that the transfer of economic benefits in the future is deemed to be more likely than not. Deferred tax assets and liabilities recognised are not discounted.

Debtors

Specific provisions are made against those trade debtor amounts where settlement is considered unlikely.

Finance and operating leases

Operating lease rentals are charged to the profit and loss account in equal annual instalments over the lease term.

Leasing agreements that transfer to the Company substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period end. Assets held under finance leases are depreciated over the shorter of the lease terms, and the useful lives of equivalent owned assets.

Pension costs

The Company does not operate a pension scheme but provides access to a stakeholder plan. Pension costs represent amounts paid to employees' private pension schemes.

Cash flow statement

The Company is a wholly owned subsidiary of Craegmoor Limited, and the cash flows of the Company are included in the consolidated group cash flow statement of that company. Consequently, the Company is exempt under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

2 Turnover

Turnover, which excludes Value Added Tax, consists entirely of fee income for care services provided in the year in the United Kingdom.

3 Related party transactions

The Company has taken advantage of the exemption granted under paragraph 3 (c) of FRS 8 and not disclosed any transactions with other group companies where they are more than 90% owned by a common parent.

4 Directors' emoluments

The emoluments of the directors were paid by Craegmoor Healthcare Company Limited, a fellow subsidiary of Craegmoor Limited. The directors were also directors of a number of other fellow subsidiaries during the year ended 31 December 2004 and 31 December 2003 and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the emoluments of the directors are disclosed within the accounts of Craegmoor Healthcare Company Limited.

5 Employee information

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	2004	2003
Analysis by function	Number	Number
Nursing	128	135
Ancillary	8	8
Administration	40	42
	176	185

Comparative figures have been reanalysed to show employees by function as the directors consider this gives a more meaningful disclosure. The numbers disclosed include both full time and part time staff.

	2004	2003
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	2,298	2,014
Social security costs	187	158
	2,484	2,172

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

6 Profit / (Loss) on ordinary activities before taxation

	2004	2003
	£'000	£'000
Profit / (Loss) on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	60	47
Amortisation of goodwill	21	21
Operating lease rentals:		
Land and buildings	522	507
Plant and machinery	1	2
Auditors' remuneration:		
Audit	6	10
Non-audit	-	1

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

7 Tax on profit / (loss) on ordinary activities

	2004	2003
	£'000	£'000
Current taxation		
UK corporation tax at 30% (2003: 30%)	9	-
Adjustment in respect of previous periods	40	(38)
Total current taxation	49	(38)
Deferred taxation		
Current year – origination and reversal of timing differences	2	1
Adjustment in respect of previous periods	(13)	-
Total deferred taxation	(11)	
Tax charge / (credit)	38	(37)

The tax for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004	2003
	£'000	£'000
Profit / (Loss) on ordinary activities	37	(19)
Profit / (Loss) on ordinary activity multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	11	(6)
Effects of:		
Expenses not deductible for tax purposes	-	7
Capital allowances for the year in excess of depreciation	(2)	(2)
Movement on tax losses	-	1
Adjustment to tax charge in respect of previous periods	40	(38)
Current tax charge / (credit)	49	(38)

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

8 Intangible fixed assets

	Goodwill £'000
Cost	
At 1 January and 31 December 2004	419
Amortisation	
At 1 January 2004	84
Charge for the year	21
At 31 December 2004	105
Net book value	
At 31 December 2004	314
At 31 December 2003	335

9 Tangible fixed assets

	Leasehold improvements £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 2004	93	345	14	452
Additions	16	53	13	82
Acquired from other group companies	-	5	-	5
Disposals	-	-	(2)	(2)
At 31 December 2004	109	403	25	537
Accumulated depreciation				
At 1 January 2004	6	110	1	117
Charge for the year	1	55	4	60
At 31 December 2004	7	165	5	177
Net book value				
At 31 December 2004	102	238	20	360
At 31 December 2003	87	235	13	335

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

10 Debtors

	2004	2003
	£'000	£'000
Amounts falling due within one year		
Trade debtors	67	30
Amounts owed by group undertakings	887	1,014
Corporation tax recoverable	-	19
Prepayments and accrued income	64	20
Other debtors	9	-
	1,027	1,083

11 Creditors: amounts falling due within one year

	2004	2003
	£'000	£'000
Bank loans and overdrafts	26	16
Trade creditors	4	28
Amounts owed to group undertakings	-	57
Other creditors	76	133
Accruals and deferred income	1,092	1,004
	1,198	1,238

12 Creditors: amounts falling due after more than one year

	2004	2003
	£'000	£'000
Amounts owed to group undertakings	421	421

Amounts owed to the group undertakings comprise an interest free loan. There are no defined repayment terms but the lender has confirmed to the company that it will not seek any repayment of this loan within the next 12 months.

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

13 Provisions for liabilities and charges

	£'000
	Deferred tax
At 1 January 2004	27
Credited in profit and loss account	(11)
At 31 December 2004	16

	2004	2003
	£'000	£'000
The amount provided for deferred taxation comprises:		
Timing differences relating to accelerated capital allowances	16	28
Timing differences relating to carried forward tax losses	-	(1)
	16	27

14 Called up share capital

	2004	2003
	£'000	£'000
Authorised		
1,000 (2003: 1,000) Ordinary shares of £1 each	1	1
Allotted and fully paid		
2 (2003: 2) Ordinary shares of £1 each	-	-

15 Profit and loss account

	£'000
At 1 January 2004	69
Loss for the financial year	(1)
At 31 December 2004	68

Speciality Care (Rest Homes) Limited

Notes to the financial statements for the year ended 31 December 2004 (continued)

16 Reconciliation of movement in shareholders' funds

	2004	2003
	£'000	£'000
(Loss) / Profit for the financial year	(1)	18
Net (reduction to) / increase in shareholders' funds	(1)	18
Opening equity shareholders' funds	69	51
Closing equity shareholders' funds	68	69

17 Financial commitments

At 31 December 2004 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2004	2003
	£'000	£'000
Expiring in more than five years	526	522

18 Capital commitments and contingent liabilities

The Company has no capital commitments or contingent liabilities as at 31 December 2004 (2003: £Nil).

19 Immediate and ultimate parent companies

The directors regard Speciality Care Limited, a company registered in England and Wales, as the immediate parent company of Speciality Care (Rest Homes) Limited, and Craegmoor Limited, a company registered in England and Wales, as the ultimate parent company in the United Kingdom. Copies of Craegmoor Limited's consolidated financial statements may be obtained from its registered office, Craegmoor House, Perdiswell Park, Worcester, WR3 7NW.