Speciality Care (Rest Homes) Limited
Annual Report
for the year ended 31 December 2005

Registered number: 3010116

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Annual report for the year ended 31 December 2005

	Page
Directors and advisors	1
Directors' report for the year ended 31 December 2005	2
ndependent auditors' report to the members of Speciality Care (Rest Homes) Limited	4
Profit and loss account for the year ended 31 December 2005	6
Salance sheet as at 31 December 2005	7
Notes to the financial statements for the year ended 31 December 2005	8

Directors and advisors

Executive directors

Charles Cameron Ted Smith Denise Keating Julian Spurling Christine Cameron Peter Cavanagh

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

Directors' report

for the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

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, and the directors expect that the present level of activity will be sustained for the foreseeable future.

On 31 December 2004 the Company's employees were transferred to Craegmoor Facilities Company No.2 Limited, a fellow group company. Craegmoor Facilities Company No.2 Limited charges the Company a management fee for administering its employees.

Results and dividends

The profit and loss account shows a profit after tax for the year of £171,000 (2004: £1,000 loss). The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: £Nil).

Directors and their interests

The following directors have held office since 1 January 2005:

Ted Smith

Denise Keating
Julian Spurling

Margaret Hill

Appointed 6 March 2006 Appointed 6 March 2006 Resigned 7 April 2006

Christine Cameron Charles Cameron

Appointed 15 March 2006

Peter Cavanagh Appointed 1 July 2006

No director had any share interests in respect of Speciality Care (Rest Homes) Limited.

Ted 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.

No other director at 31 December 2005 had any interest in the share capital of Craegmoor Limited.

No directors, other than those listed below, held any share options over the ordinary share capital of Craegmoor Limited.

	31 December 2005	1 January 2005
Christine Cameron	1,750	1,750
Margaret Hill	4,000	4,000

These share options have an exercise price of £1 each and may be exercised on the sale of Craegmoor Limited by its current shareholders.

Directors' report for the year ended 31 December 2005 (continued)

Changes in fixed assets

Movements in tangible fixed assets during the year are set out in note 10 to the financial statements.

Financial instruments

The Company's financial instruments primarily comprise debtors and creditors with other group companies arising directly from its operations. No trading in financial instruments has been undertaken.

There are no significant risks arising directly from the Company's financial instruments. However, the Company is reliant on the ongoing support of the Craegmoor Group, which has long term financing and overdraft facilities in place. The Board of Craegmoor Limited, the ultimate parent undertaking, has reviewed and agreed the policies for managing the risks related to these facilities as set out below:

Liquidity and credit risk:

The Group has secured long term financing and overdraft facilities with financial institutions who have high credit ratings that are designed to ensure the Company has sufficient available funds for operations. The £320,148,000 of debt, in the form of loan notes, is repayable over 18 years.

Interest rate and cash flow risk:

The Group has entered into interest rate swaps to ensure certainty over future interest cashflows. As a consequence, 94% of the Group's borrowings are at fixed rates of interest.

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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Charles Cameron

Director

28 September 2006

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

We have audited the financial statements of Speciality Care (Rest Homes) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, 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 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 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, the evidence available to us was limited in respect of the opening balances for trade debtors at 1 January 2005 which are derived from the financial statements for the year ended 31 December 2004 because, as stated in Note 1 to the financial statements (Problems arising from closure of the Regional Accounting Centres), the company and its fellow subsidiaries 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. These have continued into the year ended 31 December 2005. In our report on the financial statements for the year ended 31 December 2004, we stated that we were unable to express an opinion on trade debtor balances as at that date because we were unable to obtain sufficient evidence concerning the valuation of trade debtor balances or the adequacy of the provision for doubtful amounts. Any adjustments to the opening balances for trade debtors at 1 January 2005 may have an impact on the reported profit for the year ended 31 December 2005. Additionally the corresponding amounts shown for trade debtors may not be comparable with the figures for the current year.

Additionally, and also arising from the problems noted in Note 1 to the financial statements (Problems arising from closure of the Regional Accounting Centres), the evidence available to us in respect of the classification of individual transactions within the profit and loss account was limited because we have been unable to obtain sufficient, appropriate audit evidence to support certain operating cost transactions during the year, and also the appropriateness of certain trade debtor related charges made during the year. There were no other satisfactory audit procedures that we could adopt to confirm independently that profit and loss transactions have been appropriately classified.

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

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for the financial effects of such adjustments, if any, that might have been found to be necessary had we been able to obtain sufficient evidence concerning the amount of the trade debtor balances included in the opening balance sheet at 1 January 2005, and the classification of individual transactions within the profit and loss account, in our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the company's profit for the year ended 31 December 2005.

In our opinion the balance sheet gives a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the company's state of affairs at 31 December 2005.

Except for the matters referred to above, in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985.

In respect solely of the limitation of our work referred to above:

• We have not obtained all the information and explanations that we considered necessary for the purpose of our audit in respect of records relating to trade debtor balances included in the opening balance sheet at 1 January 2005 and profit and loss expenditure; and

• In our opinion, proper accounting records as required by Section 221 of the Companies Act 1985 have not been kept.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

28 September 2006

Profit and loss account for the year ended 31 December 2005

		2005	2004
	Note	£'000	£,000
Turnover	2	4,426	4,009
Cost of sales		(273)	(2,806)
Gross profit		4,153	1,203
Administrative expenses		(3,811)	(1,166)
Operating profit	6	342	37
Net interest payable	7	(43)	-
Profit on ordinary activities before taxation		299	37
Tax on profit on ordinary activities	8	(128)	(38)
Retained profit / (loss) for the year	16	171	(1)

All activities relate to continuing operations.

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

There are no differences between the results for the period and the results on an unmodified historical cost basis and accordingly a statement of historical costs profits and losses is not presented.

Balance sheet as at 31 December 2005

		2005	2004
	Note	£'000	£'000
Fixed assets			
Intangible assets	9	293	314
Tangible assets	10	359	360
		652	674
Current assets			
Debtors	11	1,102	1,027
Cash at bank and in hand		<u>-</u>	2
		1,102	1,029
Creditors: amounts falling due within one year	12	(1,092)	(1,198)
Net current assets / (liabilities)		10	(169)
Total assets less current liabilities		662	505
Creditors: amounts falling due after more than one year	13	(421)	(421)
Provisions for liabilities and charges	14	(2)	(16)
Net assets		239	68
Capital and reserves			
Called up share capital	15	-	-
Profit and loss account	16	239	68
Total equity shareholders' funds	17	239	68

The financial statements on pages 6 to 16 were approved by the board of directors on 28 September 2006 and signed on its behalf by:

Charles Cameron

Director

Notes to the financial statements for the year ended 31 December 2005

1 Principal accounting policies

In 2004, as part of a process of streamlining the financial operations of the Craegmoor Limited Group, the decision was taken to close 11 regional accounting centres, transfer the processes to a newly established Shared Service Centre ("SSC") 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.

The directors took extensive actions to assess the full recoverability of trade debtors, and full provision was made where amounts were determined not to be collectible. Nonetheless, some uncertainty remained at the date the financial statements were approved by the Board in February 2006. Consequently, the report of the auditors on the financial statements for the year ended 31 December 2004 made reference to this uncertainty which had given rise to a limitation on the scope of their work.

Corrective action was undertaken during the course of 2005 and into the early part of 2006 to fully complete the transition to the SSC and new IT systems and to complete routine accounting processing and reconciliations on a more timely basis. Although the management of current receivables balances is much improved, there is still some uncertainty around certain older balances still outstanding at 31 December 2005 and which management consider to be largely uncollectible. Accordingly, where this is the case, the directors have made full provision against these. The auditors have been able to satisfactorily complete their work in this area and have not qualified their opinion on the year end balance sheet.

Although accounting reconciliations and timely management reporting routines were being steadily improved during 2005 and the early part of 2006, the transitional problems the Craegmoor Limited Group faced from the significant internal reorganisation that has occurred has meant that the financial position of the Company was not able to be determined, for internal reporting purposes, with reasonable accuracy on a timely basis during 2005. In addition, the reorganisation has meant that in a number of cases supporting accounting documentation, principally certain purchase vouchers, have been misplaced and have not been available to the auditors when requested as part of their work. Given these factors, the report of the auditors makes reference to the limitation on their work in respect of the classification of individual transactions within the profit and loss account during the year, and also the fact that proper books and records, as required by the Companies Act 1985, had not been maintained during the financial year.

In 2006 further significant progress has been made with key reconciliations now being performed and cash being correctly allocated to the sales ledger. The Company is now maintaining adequate accounting systems which enable it to account for transactions on a day-to-day basis. Further work is ongoing to improve still further the processes within the Shared Service Centre.

Going concern

In the refinancing (note 19), the funders of the business agreed to waivers of past covenant breaches or to periods of time to enable remedial action to be taken. The directors believe that subsequent covenants have been met and the Company has adequate financial resources. The accounts have therefore been prepared on a going concern basis.

Changes in accounting policies

The company has adopted FRS 21 "Events after the Balance Sheet date", FRS 25 "Financial Instruments: Disclosure and Presentation" and FRS 28 "Corresponding Amounts" in these financial statements.

The adoption of these standards represents a change in accounting policy although its adoption has no impact on the loss for the year or net assets.

Notes to the financial statements for the year ended 31 December 2005 (continued)

1 Principal accounting policies (continued)

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.

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

Leasehold improvements -over 20 years or over the 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

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.

Notes to the financial statements for the year ended 31 December 2005 (continued)

1 Principal accounting policies (continued)

Finance and operating leases (continued)

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.

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.

2 Turnover

Turnover represents amounts invoiced and accrued for services provided during the period, excluding Value Added Tax. Where services are invoiced in advance the related income is deferred to match the period in which the service is provided.

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 2005 and 31 December 2004 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:

	2005	2004
Analysis by function	Number	Number
Nursing	-	128
Ancillary	-	8
Administration	-	40
	-	176

On 31 December 2004, the company's employee contracts were transferred from the company to a fellow subsidiary undertaking, Craegmoor Facilities No.2 Company Limited. As such, the directors consider that the company did not have any employees during the year.

Notes to the financial statements for the year ended 31 December 2005 (continued)

5 Employee information (continued)

	2005	2004
Staff costs (for the above persons)	£,000	£'000
Wages and salaries	-	2,298
Social security costs		187
	<u>-</u>	2,484
Profit on ordinary activities before taxation		
	2005	2004
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	70	60
Amortisation of goodwill	21	21
Operating lease rentals:		
Land and buildings	542	522
Plant and machinery	1	1
Auditors' remuneration – Audit	-	6
Management Charge	2,906	-

The audit fee of £6,000 for the Company for the year ended 31 December 2005 is borne by a fellow subsidiary company and included within the management charge.

The management charge from fellow subsidiary undertaking, Craegmoor Facilities Company No.2 Limited, relates to an allocation of operating costs incurred on behalf of the company and its fellow subsidiaries.

7 Interest payable

Interest on overdue corporation tax	43	<u>-</u>
	£'000	£'000
	2005	2004

Notes to the financial statements for the year ended 31 December 2005 (continued)

8 Tax on profit on ordinary activities

	2005	2004
	£,000	£'000
Current taxation	 	
Group relief and balancing payments at 30% (2004: 30%)	129	9
Adjustment in respect of previous periods	13	40
Total current taxation	142	49
Deferred taxation		
Current year - origination and reversal of timing differences	-	2
Adjustment in respect of previous periods	(14)	(13)
Total deferred taxation	(14)	(11)
Tax charge	128	38

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

2005	2004
£'000	£,000
299	37
90	11
7	-
20	(2)
12	-
13	40
142	49
	£'000 299 90 7 20 12 13

Notes to the financial statements for the year ended 31 December 2005 (continued)

9 Intangible fixed assets

10

				Goodwill
				£'000
Cost				
At 1 January and 31 December 2005				419
Amortisation			-	
At 1 January 2005				105
Charge for the year				21
At 31 December 2005				126
Net book value				
At 31 December 2005				293
At 31 December 2004				314
Tangible fixed assets				
	Leasehold improvements	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost	· · · · · · · · · · · · · · · · · · ·			
At 1 January 2005	109	403	25	537
Additions	-	69	-	69
At 31 December 2005	109	472	25	606
Accumulated depreciation	···	<u>-</u> . -		
At 1 January 2005	7	165	5	177
Charge for the year	1	63	6	70
At 31 December 2005	8	228	11	247
Net book value				
At 31 December 2005	101	244	14	359
At 31 December 2004	102	238	20	360

Notes to the financial statements for the year ended 31 December 2005 (continued)

11 Debtors

	2005	2004
Amounts falling due within one year	£'000	£'000
Trade debtors	566	67
Amounts owed by group undertakings	530	887
Prepayments and accrued income	5	64
Other debtors	1	9
	1,102	1,027

Amounts owed by group undertakings are interest free and are payable on demand.

12 Creditors: amounts falling due within one year

	2005	2004
	£'000	£'000
Bank loans and overdrafts	4	26
Trade creditors	-	4
Amounts owed to group undertakings	20	-
Other creditors	-	76
Accruals and deferred income	1,068	1,092
	1,092	1,198
		

13 Creditors: amounts falling due after more than one year

2005	2004
£,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.

Notes to the financial statements for the year ended 31 December 2005 (continued)

14 Provisions for liabilities and charges

		£'000
		Deferred tax
At 1 January 2005		16
Credited in profit and loss account		(14)
At 31 December 2005		2
	2005	2004
	£'000	£'000
The amount provided for deferred taxation comprises:		
Timing differences relating to accelerated capital allowances	2	16
	2	16
Called up share capital		
	2005	2004
	£'000	£'000
Authorised		
1,000 (2004: 1,000) Ordinary shares of £1 each	1	1
Allotted and fully paid		
2 (2004: 2) Ordinary shares of £1 each	_	-
Profit and loss account		
		£,000
At 1 January 2005	- 	68
Profit for the financial year		171
At 31 December 2005		239

Notes to the financial statements for the year ended 31 December 2005 (continued)

17 Reconciliation of movement in shareholders' funds

	2005	2004
	£'000	£'000
Profit / (Loss) for the financial year	171	(1)
Net increase in / (reduction to) shareholders' funds	171	(1)
Opening equity shareholders' funds	68	69
Closing equity shareholders' funds	239	68

18 Financial commitments

At 31 December 2005 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2005	2004
	£'000	£'000
Expiring in more than five years	532	526

19 Post balance sheet events

On 13 March 2006 the Craegmoor Group completed a refinancing exercise with the injection of £8.25m from shareholders following the issue of new loan notes. The capital injection was used to refinance group companies. In addition the Borrower Security Trustee of the securitisation arrangements, to which the Company is a party, agreed to waive past breaches or to provide a period of time in which breaches must be remedied. The Company has complied with the obligations attaching to the waivers.

20 Capital commitments and contingent liabilities

The Company has no capital commitments or contingent liabilities as at 31 December 2005 (2004: £Nil).

21 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.