

Craegmoor Limited

Annual Report and financial statements
for the year ended 31 December 2005

Registered no: 4204571



Craegmoor Limited

Annual Report and financial statements for the year ended 31 December 2005

Directors and advisers	1
Directors' report for the year ended 31 December 2005	2
Independent auditors' report to the members of Craegmoor Limited	5
Consolidated profit and loss account for the year ended 31 December 2005	7
Consolidated statement of total recognised gains and losses for the year ended 31 December 2005	8
Note of historical cost profits and losses for the year ended 31 December 2005	8
Balance sheets as at 31 December 2005	9
Consolidated cash flow statement for the year ended 31 December 2005	10
Notes to the financial statements for the year ended 31 December 2005	11

Craegmoor Limited

Directors and advisers

Non-executive chairman

Gavin Simonds

Executive directors

Ted Smith

Charles Cameron

Denise Keating

Julian Spurling

Non-executive directors

Ivan Heywood

Zoe Clements

Iain Scott

Secretary

BLG (Professional Services) Limited

Beaufort House

15 St Botolph Street

London EC3A 7NJ

Registered office

Craegmoor House

Perdiswell Park

Worcester WR3 7NW

Registered auditors

PricewaterhouseCoopers LLP

Cornwall Court

19 Cornwall Street

Birmingham B3 2DT

Solicitors

Barlow Lyde & Gilbert

Beaufort House

15 St Botolph Street

London EC3A 7NJ

Pinsent Masons

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Birmingham

B4 6BH

DLA Piper (UK) Solicitors LLP

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London

EC2V 7EE

Bankers

Barclays Bank plc

PO Box 544

54 Lombard Street

London EC3V 9EX

Craegmoor Limited

Directors' report for the year ended 31 December 2005

Review of business and future developments

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

In the financial statements for the year ended 31 December 2004 reference was made to the accounting problems that the business faced following the decision to close the 11 regional accounting and administration offices and migrate to a new IT system. The Company continued to face significant accounting issues throughout 2005 which resulted in an audit qualification.

Since the 2005 year-end significant progress has been made in resolving the accounting issues and the directors consider that the Group is now maintaining adequate accounting systems and records required to conduct its business on a day-to-day basis. The directors are working towards achieving a clean audit opinion in respect of the year ending 31 December 2006.

Care delivery is our principal activity and remains of paramount concern across our operations. The improvements in the systems referred to above together with other initiatives across the business have enabled a still greater management focus upon this. In addition initiatives are in place which will improve both the risk profile of the Group and returns generated.

Audit opinion qualification

As described fully in note 1 to the financial statements, the accounting problems experienced by the Group during the prior year, and in the 2005 financial year, have given rise to qualifications in the auditors' report concerning the recoverability of opening debtor balances, classification of expenses in the profit and loss account and the keeping of proper books and records as required by the Companies Act 1985. The auditors' report on the balance sheet at 31 December 2005 is, however, unqualified.

Post balance sheet events

Details of post balance sheet events are set out in note 33 to the consolidated financial statements.

Results and dividends

The directors do not recommend the payment of an ordinary dividend for the year ended 31 December 2005 (2004: £Nil). The loss for the year of £48,716,000 (2004: £10,565,000) has been deducted from reserves.

Directors

The following directors have held office since 1 January 2005:

Hugh Aldous	Non-executive chairman	Resigned 31 December 2005
Gavin Simonds	Non-executive chairman	Appointed 11 January 2006
Ted Smith	Executive director	
John Newell	Executive director	Resigned 31 December 2005
Richard Saville	Executive director	Resigned 9 November 2005
Denise Keating	Executive director	Appointed 1 July 2006
Julian Spurling	Executive director	Appointed 6 March 2006
Charles Cameron	Executive director	Appointed 15 March 2006
Patrick Sellers	Non-executive director	Resigned 10 March 2006
Michael Mowlem	Non-executive director	Resigned 31 December 2005
Brian Phillips	Non-executive director	Resigned 31 December 2005
Ivan Heywood	Non-executive director	Appointed 9 January 2006
Zoe Clements	Non-executive director	Appointed 9 January 2006
Iain Scott	Non-executive director	Appointed 1 May 2006

Craegmoor Limited

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

Directors' interests

The interests of the directors in the shares of the Company were:

	At 31 December 2005 *		At 31 December 2004*	
	'A' Ordinary shares	Ordinary shares	'A' Ordinary shares	Ordinary shares
John Newell	-	60,000	-	60,000
Richard Saville	-	60,000	-	60,000
Ted Smith	-	45,000	-	45,000
Hugh Aldous	11,000	▲ 169,211	11,000	▲ 169,211
Michael Mowlem	1,101	20	1,101	20
Brian Phillips	3,366	28	3,366	28

* At date of resignation if earlier

▲ Includes 120,211 shares as nominee for the Employee Benefit Trust (31 December 2004: 120,211).

No directors of Craegmoor Limited held any share options at 31 December 2005 or 31 December 2004. Through an indirect shareholding Brian Phillips held warrants to acquire 247 'A' Ordinary shares at 31 December 2005 (2004: 247) and Michael Mowlem held warrants to acquire 81 'A' Ordinary shares at 31 December 2005 (2004: 81).

Other than the interests disclosed above no director held any interests at any time in the year in the share capital of the Company or other Group companies.

Changes in fixed assets

The movements in tangible and intangible fixed assets during the year are set out in notes 12, 13 and 14 to the financial statements.

Details of the adjustments made to reflect revaluations and impairments are described in detail in notes 3 and 13.

Property values

In the opinion of the directors there was no significant difference between market and book values of properties at 31 December 2005.

Employees

The Group promotes continuous learning and career development for all employees. We are committed to providing equal opportunities in all aspects of employment and we support an open communication culture at all levels. Employees are encouraged to contribute to our quarterly magazine, which keeps them informed of company matters that may affect them.

Where individuals become disabled whilst in our employment every reasonable effort is made, within the regulatory environment, to provide opportunity for continued employment within an individual's potential aptitude and ability. This includes provision of any appropriate training and support.

Creditors' payment policy

The Company does not have any external creditors. However, for all suppliers, the Group policy is to pay in accordance with its contractual and other legal obligations. The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. The average creditor days figure for the Group is 42 days (2004: 30 days).

Craegmoor Limited

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

Financial instruments

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and other items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, 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 Group and of the profit or loss of the Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to remain in office and a resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the board



Charles Cameron

Director
28 July 2006

Independent auditors' report to the members of Craegmoor Limited

We have audited the Group and Parent Company financial statements (the "financial statements") of Craegmoor Limited for the year ended 31 December 2005, which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 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.

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 Craegmoor Limited (continued)

Qualified opinion arising from limitation in audit scope

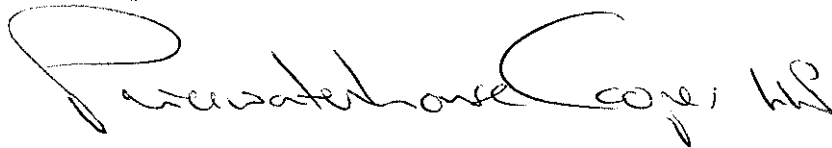
Except for the financial effects of such adjustments, if any, that might have been found to be necessary had we been able to obtain sufficient evidence concerning the amount of the trade debtor balances included in the opening balance sheet at 1 January 2005, and the classification of individual transactions 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 Group's results and cash flows for the year ended 31 December 2005.

In our opinion the Group and Company balance sheets give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the Group's and 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.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over the list of bullet points.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
28 July 2006

Craegmoor Limited

Consolidated profit and loss account for the year ended 31 December 2005

		31 December 2005 Before exceptional items and goodwill amortisation	31 December 2005 Exceptional items and goodwill amortisation	31 December 2005 Total	31 December 2004 Before exceptional items and goodwill amortisation Restated	31 December 2004 Exceptional items and goodwill amortisation Restated	31 December 2004 Total Restated
	Note	£'000	Note 3 £'000	£'000	Note 1 £'000	Notes 1, 3 £'000	Note 1 £'000
Turnover							
- Continuing		173,507	-	173,507	173,980	-	173,980
- Acquisitions		1,130	-	1,130	-	-	-
Total turnover	2	174,637	-	174,637	173,980	-	173,980
Cost of sales	2	(125,295)	-	(125,295)	(116,091)	-	(116,091)
Gross profit	2	49,342	-	49,342	57,889	-	57,889
Administrative expenses excluding depreciation and goodwill amortisation		(33,266)	-	(33,266)	(29,960)	-	(29,960)
EBITDA*		16,076	-	16,076	27,929	-	27,929
Depreciation	13	(11,500)	-	(11,500)	(10,937)	-	(10,937)
Impairments	13	-	(14,451)	(14,451)	-	(4,178)	(4,178)
Goodwill amortisation	12	-	(3,104)	(3,104)	-	(3,100)	(3,100)
Total administrative expenses	2	(44,766)	(17,555)	(62,321)	(40,897)	(7,278)	(48,175)
Operating profit / (loss)							
- Continuing	2	4,312	(17,553)	(13,241)	16,992	(7,278)	9,714
- Acquisitions	2	264	(2)	262	-	-	-
Total operating profit / (loss)	2	4,576	(17,555)	(12,979)	16,992	(7,278)	9,714
Profits / (Losses) on disposals of fixed assets	4	-	(12,166)	(12,166)	-	(517)	(517)
Interest receivable and similar income	7	431	-	431	690	-	690
Interest payable and similar charges	8	(24,264)	-	(24,264)	(24,000)	-	(24,000)
Loss on ordinary activities before taxation	9	(19,257)	(29,721)	(48,978)	(6,318)	(7,795)	(14,113)
Taxation credit on loss on ordinary activities	10			262			3,548
Loss on ordinary activities after taxation				(48,716)			(10,565)
Loss for the financial year	22			(48,716)			(10,565)

*EBITDA represents earnings before interest, tax, depreciation, impairments and goodwill amortisation.

Craegmoor Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2005

		31 December 2005	31 December 2004
	Note	£'000	£'000
Loss attributable to shareholders for the financial year		(48,716)	(10,565)
Unrealised surplus on revaluation of properties	13	44,426	7,123
Reversal of prior years' revaluations on impaired properties	13	(3,226)	(784)
Total recognised losses for the year		(7,516)	(4,226)

Note of historical cost profits and losses for the year ended 31 December 2005

	31 December 2005	31 December 2004
	£'000	£'000
Reported loss on ordinary activities before taxation	(48,978)	(14,113)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	723	305
Historical cost loss for the year before taxation	(48,255)	(13,808)
Historical cost loss for the year	(47,993)	(10,260)

Craegmoor Limited

Balance sheets as at 31 December 2005

		Group 2005	Company 2005	Group 2004	Company 2004
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	12	48,146	-	51,202	-
Tangible assets	13	295,192	-	277,725	-
Investments	14	6	3,151	6	3,151
		343,344	3,151	328,933	3,151
Current assets					
Consumable stocks		112	-	235	-
Debtors	15	17,448	-	19,802	535
Restricted deposit accounts	17 (c)	3,174	-	3,525	-
Cash at bank and in hand		1,768	-	9,998	-
		22,502	-	33,560	535
Creditors: amounts falling due within one year	16	(38,816)	(72)	(31,654)	(509)
Net current (liabilities) / assets		(16,314)	(72)	1,906	26
Total assets less current liabilities		327,030	3,079	330,839	3,177
Creditors: amounts falling due after more than one year	17	(334,774)	-	(331,801)	-
Provisions for liabilities and charges	20	(6,583)	-	(5,893)	-
Net (liabilities) / assets		(14,327)	3,079	(6,855)	3,177
Capital and reserves					
Called up share capital	21	810	810	810	810
Share premium account	22	2,724	2,724	2,724	2,724
Revaluation reserve	22	62,973	-	21,773	-
Employee benefit trust	22	(172)	(172)	(156)	(156)
Profit and loss account	22	(80,662)	(283)	(32,006)	(201)
Equity shareholders' (deficit) / funds	24	(14,327)	3,079	(6,855)	3,177

The financial statements on pages 7 to 42 were approved by the board of directors on 28 July 2006 and were signed on its behalf by:



Charles Cameron

Director

Craegmoor Limited

Consolidated cash flow statement for the year ended 31 December 2005

		2005	2004
	Note	£'000	£'000
Net cash inflow from operating activities	26	22,753	25,239
Returns on investments and servicing of finance	27(a)	(18,037)	(17,681)
Taxation – UK corporation tax received / (paid)		127	(126)
Capital expenditure and financial investment	27(b)	(4,441)	(11,811)
Acquisitions and disposals	27(c)	(7,719)	(7,632)
Cash outflow before management of liquid resources and		(7,317)	(12,011)
Financing	27(d)	(4,368)	11,043
Decrease in cash in the year	28	(11,685)	(968)

Reconciliation of net cash flow to movement in net debt

Decrease in cash in the year (excluding acquisitions)	28	(11,713)	(957)
Acquisitions	28	28	(11)
Decrease in cash in year (total)	28	(11,685)	(968)
Borrowings net of short term deposits acquired	29	(34)	(13)
Decrease in restricted deposits	29	(351)	(9,284)
Repayment of loan and lease financing	29	5,027	8,133
Loan finance obtained net of issue costs	29	(308)	(9,885)
New finance leases (non-cash)	29	(1,419)	(45)
Amortisation of issue costs (non-cash)	29	(676)	(754)
Rolled up interest (non-cash)	29	(5,783)	(5,498)
Movement in net debt in year	29	(15,229)	(18,314)

Craegmoor Limited

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

1 Principal accounting policies

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the principal 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 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.

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 2004 financial statements were approved by the Board in December 2005. 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 Shared Service Centre 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 Group faced from the significant internal reorganisation that has occurred has meant that the financial position of the Group 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 33), 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 Group has adequate financial resources. The accounts have therefore been prepared on a going concern basis.

Craegmoor Limited

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

1 Principal accounting policies (continued)

Changes in accounting policies

The Group and the Company have 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 their adoption has no impact on the loss for the year or net assets.

Prior year reclassifications

Prior year impairments have been reclassified on the face of the profit and loss account. The total impairment charged to the profit and loss account of £5,432,000 was previously reported as an exceptional item against administrative expenses excluding depreciation and goodwill amortisation, of this £1,254,000 was a provision for losses on disposals of properties identified for disposal during 2005 and this has now been included within losses on disposals of fixed assets in accordance with FRS3. The balance, an impairment of £4,178,000, has now been reclassified as an exceptional item below EBITDA as the Directors consider this presentation more accurately reflects the nature of the expense.

Prior year profits and losses on disposal, disclosed as a super exceptional under FRS 3 have been reclassified from the "Before exceptional items and goodwill amortisation" column into the "Exceptional items and goodwill amortisation" column as the Directors consider this presentation more accurately reflects the nature of the expense.

There was no effect of these reclassifications on net assets, loss for the financial year or the tax charge for the year.

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.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is capitalised and amortised over its estimated useful economic life typically being a 20 year period.

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.

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.

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. Freehold land and buildings are revalued by independent, professionally qualified valuers on a five year rolling basis, the first such valuation being five years after acquisition. These valuations are carried out on an existing use, open market value basis, and in the intervening years are updated by the directors with the assistance of independent professional advice as required.

Increases in the revalued amounts of land and buildings are credited to revaluation reserves.

Craegmoor Limited

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

1 Principal accounting policies (continued)

Tangible fixed assets (continued)

Freehold land is not depreciated. Subsequent to a revaluation depreciation on freehold properties is based on revalued amounts. 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:

Freehold buildings	- over 50 years
Building improvements	- over 20 years
Equipment	- over 7 years
Furniture and fittings	- over 3, 5 or 10 years
Motor vehicles	- over 4 years
Computer equipment	- over 4 years

Provision is made for any impairment in the period in which it arises. The impairment is calculated by comparing the carrying value to the recoverable amount as required by FRS 11, "Impairment of fixed assets and goodwill". The recoverable amount of land and buildings is taken to be the higher of realisable value and value in use. Value in use is determined by reference to the expected future cash flows of the care home, discounted at a risk weighted cost of capital of 8.5% (2004 8.5%). Realisable value is determined by independent, professional valuers on an existing use open market value basis.

Provisions for impairment in the carrying value of land and buildings are charged against revaluation reserves in the balance sheet to the extent that they relate to a reversal of prior increases. Impairments to below historical cost are charged to the profit and loss account. Reversals of previous impairments are credited to the profit and loss account to the extent that they return the asset carrying value to its depreciated historical cost, with any amount over and above that value being credited to the revaluation reserve.

Investments

The carrying value of fixed asset investments is based on cost less provisions for impairment where necessary in accordance with FRS 11.

Debtors

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

Restricted deposits

Certain proceeds from the 2003 refinancing agreement, together with sale proceeds on the disposal of secured properties, are required to be held as restricted deposits. These amounts are separately stated, and can only be used in accordance with the terms of the group financing arrangements. Further details are given in note 17(c).

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 which transfer to the Group 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 an obligation 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. 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 Group does not operate a pension scheme but provides access to a stakeholder plan. Pension costs represent amounts paid to employees' private pension schemes.

Craegmoor Limited

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

1 Principal accounting policies (continued)

Issue costs

The bank arrangement fees and similar charges associated with the loan note issue are written off to the profit and loss account in accordance with FRS 4 "Capital instruments" at a constant rate on the carrying value over the expected term of the instrument. Unamortised issue costs are netted off the associated debt instrument at the year-end.

Stocks

Stocks, which principally comprise consumables in the care homes, are stated at the lower of cost and net realisable value.

Provisions

Onerous financing provisions have been discounted at the Group's estimated risk weighted average cost of capital of 8.5%. All other provisions are not discounted.

Derivatives and financial instruments

Financial assets and liabilities are compared with fair values based on the following methods and assumptions. Surplus cash and deposits, placed on overnight money markets, are assumed to approximate book value. Long term borrowings and bonds are valued based on their quoted market price. Interest rate instruments are valued using a discounted cash flow analysis based on interest rates derived from market rate curves.

All fair value gains and losses are recognised in the period in which they arise. Full disclosure of the amounts in open positions is given in note 19.

The Group's policy is to hedge interest rate exposures using interest rate swaps. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Employee Benefit Trust

The cost of the Company's shares held in the Employee Benefit Trust are included within Shareholders' Funds in accordance with UITF 38 "Accounting for ESOP Trusts" and UITF 17 "Employee Share Schemes".

Craegmoor Limited

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

2 Turnover and operating profit

Turnover, which excludes Value Added Tax, consists entirely of fee income earned in the United Kingdom from the provision of care services.

Details of the acquisitions in the year are given in note 25.

	31 December 2005			31 December 2004		
	Continuing	Acquisitions	Total	Continuing	Acquisitions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
				Restated		Restated
				Note 1		Note 1
Turnover	173,507	1,130	174,637	172,257	1,723	173,980
Cost of sales	(124,585)	(710)	(125,295)	(115,075)	(1,016)	(116,091)
Gross profit	48,922	420	49,342	57,182	707	57,889
Administrative and other operating expenses (before exceptional items and goodwill amortisation)	(44,610)	(156)	(44,766)	(40,628)	(269)	(40,897)
Exceptional administrative expenses (note 3) and goodwill amortisation	(17,553)	(2)	(17,555)	(7,278)	-	(7,278)
Total administrative expenses	(62,163)	(158)	(62,321)	(47,906)	(269)	(48,175)
Operating (loss) / profit	(13,241)	262	(12,979)	9,276	438	9,714

Craegmoor Limited

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

3 Exceptional items

	31 December 2005	31 December 2004 Restated (Note 1)
	£'000	£'000
Exceptional administrative expenses:		
Impairment of tangible fixed assets	14,715	4,178
Reversal of prior years' impairments on revalued properties	(264)	-
	14,451	4,178

In accordance with the Group's five year valuation policy the land and buildings acquired during 1995 and 2000 were revalued by external valuers, Christie & Co., as at 31 December 2005. In addition, the directors reassessed the carrying value of the remaining freehold land and buildings, having certain other external valuations carried out, performing value in use calculations for certain of these properties in accordance with the requirements of FRS 11. Value in use calculations performed in the past five years were reviewed in order to compare the assumed performance to the actual results.

The overall effect of these reviews is a gross revaluation of £44,690,000 (2004: £7,123,000) of which £264,000 (2004: £Nil) has been credited to the profit and loss account in the year to reverse previous impairments and £44,426,000 (2004: £7,123,000) has been to the revaluation reserve. Certain other properties have been impaired by a total of £17,145,000 (2004: £4,327,000) of which £14,715,000 (2004: £4,178,000) has been charged to the profit and loss account in the year and £2,430,000 (2004: £149,000) has been deducted from revaluation reserves to reverse previous revaluations. A fuller explanation of these reviews is given in note 13.

4 (Profits) / Losses on disposals of tangible fixed assets

	31 December 2005	31 December 2004 Restated (Note 1)
	£'000	£'000
Profits on disposals realised during the year	(603)	(888)
Losses on disposals realised during the year	222	151
Provisions for losses on assets held for disposal	12,547	1,254
	12,166	517

In addition to the impairment review carried out as described in note 3, the directors have reviewed assets held for resale to ensure that their carrying value does not exceed the lower of cost or estimated net realisable value on disposal.

The overall effect of these reviews is a gross impairment of the carrying value of certain assets of £13,343,000 (2004: £1,889,000) of which £12,547,000 (2004: £1,254,000) has been charged to the profit and loss account in the year and £796,000 (2004: £635,000) has been deducted from revaluation reserves to reverse previous revaluations. A fuller explanation of these reviews is given in note 13.

Craegmoor Limited

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

5 Directors' emoluments

	31 December 2005 £'000	31 December 2004 £'000
Aggregate emoluments (excluding company pension contributions to directors' personal pension schemes of £69,750 (2004: £73,510))	604	644
The number of directors who received company pension contributions to personal pension schemes in the year was 3 (2004: 5).		
Aggregate emoluments include £62,525 (2004: £58,475) compensation paid for loss of office.		
Highest paid director:	£'000	£'000
Aggregate emoluments (excluding company pension contributions to the director's personal pension scheme of £24,000 (2004: £24,000))	203	173

6 Employee information

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

	31 December 2005 Number	31 December 2004 Number
Nursing	5,772	5,917
Ancillary	989	942
Administrative	961	857
	7,722	7,716
Staff costs (for the above persons)	£'000	£'000 Restated*
Wages and salaries	97,864	91,273
Social security costs	8,108	7,392
Other pension costs	269	263
	106,241	98,928

* The prior year pension costs have been restated to include all pension contributions payable by the Group. The disclosed figure of £75,000 in the prior year's financial statements did not disclose all pension charges.

There was no effect of this adjustment on net assets, loss for the financial year or the tax charge for the year.

Craegmoor Limited

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

7 Interest receivable and similar income

	31 December 2005 £'000	31 December 2004 £'000
Interest receivable on restricted deposit accounts	78	252
Other bank interest receivable	261	438
Interest receivable on rental deposits	40	-
Other interest receivable	52	-
	431	690

8 Interest payable and similar charges

	31 December 2005 £'000	31 December 2004 £'000
ON BANK LOANS AND OVERDRAFTS:		
Repayable within 5 years by instalments	-	8
Repayable within 5 years not by instalments	893	537
On undrawn facilities	356	387
Other bank interest	35	25
ON LOAN NOTES:		
On Series A & Series B floating rate 2005 loan notes repayable within 5 years not by instalments	-	71
On 2013 fixed rate loan notes repayable partly in more than 5 years not by instalments	5,783	5,498
On Class A1, Class M and Class B1 secured floating rate loan notes repayable partly in more than 5 years and Class A2 and Class B2 fixed rate loan notes repayable partly in more than 5 years	14,573	14,370
MBIA guarantee fee and surveillance fees	573	566
On interest swap and cap hedging agreements	1,440	1,768
Utilisation of onerous financing provision	(787)	(811)
Unwind of discount on onerous financing provision	211	241
Amortisation of loan note issue costs	676	754
ON OTHER LOANS:		
On finance leases	533	631
Utilisation of onerous finance lease provision	(168)	(131)
Unwind of discount on onerous finance lease provision	96	86
OTHER INTEREST:		
Interest payable on overdue taxes	50	-
	24,264	24,000

Craegmoor Limited

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

9 Loss on ordinary activities before taxation

	31 December 2005	31 December 2004 Restated (Note 1)
	£'000	£'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets:		
Owned assets	11,357	10,207
Assets held under finance leases	143	730
Amortisation of goodwill	3,104	3,100
Net losses on disposals of tangible fixed assets	12,166	517
Operating lease rentals:		
Land and buildings	5,018	4,914
Plant and machinery	397	298
Auditors' remuneration for:		
Audit (Company £10,000 (2004 £10,000))	395	455
Other services to the Company and its UK subsidiaries	178	204

Non-audit fees of £178,000 were paid to PricewaterhouseCoopers LLP, the majority of which related to tax advice and valuation services provided to the Group. 2004 fees of £204,000 related predominantly to tax advice provided to the Group.

Craegmoor Limited

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

10 Taxation on loss on ordinary activities

	31 December 2005 £'000	31 December 2004 £'000
Current taxation:		
Adjustment in respect of prior years	(239)	(42)
Deferred taxation:		
Current year	256	3
Adjustment in respect of prior years	245	3,587
	501	3,590
Tax credit on ordinary activities	262	3,548

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

	31 December 2005 £'000	31 December 2004 Restated* £'000
Loss on ordinary activities	48,978	14,113
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	14,693	4,234
Effects of:		
Expenses not deductible for tax purposes	(2,225)	(2,732)
Impairments	(8,099)	(1,630)
Depreciation in excess of capital allowances	(3,045)	(3)
Unutilised losses	(1,324)	-
Other	-	131
Adjustment in respect of prior years	(239)	(42)
	(239)	(42)

* The reconciliation of the tax charge for the year ended 31 December 2004 has been restated to show impairments as separate to other expenses not deductible in order to provide more clarity as to the nature of these expenses.

There was no effect of this adjustment on net assets, loss for the financial year or the tax charge for the year.

Craegmoor Limited

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

10 Taxation on loss on ordinary activities (continued)

There is no effect of this adjustment on net assets, profit for the financial year and the tax charge for the year.

There is no effect of exceptional items on the taxation charge for the year (2004: £Nil).

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property was sold without it being possible to claim rollover relief. The total amount unprovided for is £50,000,000 (2004: £31,000,000). Deferred tax liabilities have not been discounted.

In accordance with the Craegmoor Group accounting policy a deferred tax asset has not been recognised due to the uncertainty over the recoverability of the following:

	2005	2004
	£'000	£'000
Short term timing differences	1,207	-
Losses	1,636	312
Unrecognised asset	2,843	312

11 Loss on ordinary activities after taxation

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the financial period was £142,000 (2004: £71,000).

12 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 1 January 2005	61,775
Acquisitions	48
At 31 December 2005	61,823
Amortisation	
At 1 January 2005	10,573
Charge for the year	3,104
At 31 December 2005	13,677
Net book value	
At 31 December 2005	48,146
At 31 December 2004	51,202

Craegmoor Limited

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

13 Tangible fixed assets

Group	Short leasehold land and buildings £'000	Freehold land and buildings £'000	Furniture, fittings, plant, equipment and motor vehicles £'000	Total £'000
Cost / Valuation				
At 1 January 2005 (restated*)	4,352	281,996	47,001	333,349
Acquisitions (note 25)	-	8,473	67	8,540
Additions	43	2,647	11,346	14,036
Disposals	-	(9,669)	(505)	(10,174)
Revaluations (see below)	-	37,695	-	37,695
Impairment (see below)	-	(1,747)	-	(1,747)
At 31 December 2005	4,395	319,395	57,909	381,699
Depreciation				
At 1 January 2005 (restated*)	1,093	24,873	29,658	55,624
Charge for the year	78	5,431	5,991	11,500
Disposals	-	(2,076)	(286)	(2,362)
Revaluations (see below)	-	(6,995)	-	(6,995)
Impairment (see below)	-	28,740	-	28,740
At 31 December 2005	1,171	49,973	35,363	86,507
Net book value				
At 31 December 2005	3,224	269,422	22,546	295,192
At 31 December 2004 (restated*)	3,259	257,123	17,343	277,725

* Following extensive reconciliation work on fixed assets during 2005, certain assets were reclassified. In addition to this the opening cost and brought forward depreciation of certain other assets were corrected, although this did not affect the net carrying value of these assets as at that date.

There was no effect of this adjustment on net assets, loss for the financial year or the tax charge for the year.

Craegmoor Limited

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

13 Tangible fixed assets (continued)

Included within tangible fixed assets at 31 December are assets held for resale as follows (2004: total net book value £3,865,000).

	Freehold land and buildings £'000
Cost / Valuation at 31 December 2005	9,972
Depreciation at 31 December 2005	(3,561)
Net book value at 31 December 2005	6,411

The Group has followed FRS 15 "Tangible fixed assets" during the year and has chosen to revalue its land and buildings on a rolling basis such that all properties are covered by independent, professional valuations over a five year cycle. In accordance with the Group's accounting policy, the land and buildings occupied by the Group, which were acquired by Craegmoor Group Limited during 1995 and 2000, were revalued by external valuers, Christie & Co., Chartered Surveyors and Valuers, as at 31 December 2005. The directors have chosen to revalue a number of other properties in addition to those purchased in 1995 and 2000. These valuations were carried out on the basis of existing use value in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. As a result of this independent valuation, certain of these properties have been revalued upwards by a total £44,690,000 (2004: £7,123,000). Of this £264,000 (2004: £Nil) represented a reversal of prior years' impairments and has been credited to the profit and loss account in the year. The balance a revaluation of £44,426,000 (2004: £7,123,000) has been credited to the revaluation reserve. Certain other properties involved in this exercise have been impaired by a total of £6,609,000 (2004: £2,085,000). Of this, £572,000 (2004: £Nil) represented a reversal of prior years' revaluations and has been debited to the revaluation reserve. The balance, an impairment of £6,037,000 (2004: £2,085,000) has been charged to the profit and loss account.

For other properties in the Group's portfolio, the directors have performed various other procedures in order to assess their carrying value:

a) "Value in Use" calculations

The directors have performed "value in use" calculations for certain properties on an existing use open market value basis in accordance with the requirements of FRS 11, "Impairments of fixed assets and goodwill". The valuations considered the expected future performance of the entities based upon all known conditions. A risk adjusted weighted average cost of capital of 8.5% was used in these calculations. The directors' value in use calculations at 31 December 2005 identified the need to impair the carrying value of certain properties by £66,000 (2004: £1,437,000). This impairment has been charged to the profit and loss account in the year.

b) Look back tests

Where properties had been subject to "value in use" calculations in prior years, the directors have reviewed actual performance of those properties up to 31 December 2005 and compared this performance to that assumed when the test was carried out (a 'look back test'). This review resulted in a total reduction in carrying value of these properties of £10,469,000 (2004: £805,000). Of this, £1,858,000 (2004: £149,000) represented a reversal of prior years' revaluations and has been debited to the revaluation reserve. The balance, an impairment of £8,611,000 (2004: £656,000), has been charged to the profit and loss account.

c) Properties to be disposed

As referred to also in note 4, the directors have identified certain properties for disposal during 2006 that do not meet future business requirements. As a result, the directors have written these assets down to the lower of cost or estimated net realisable value. The total reduction in carrying value of these properties is £13,343,000 (2004: £1,889,000). Of this, £796,000 (2004: £635,000) represents a reversal of prior years' revaluations and has been debited to the revaluation reserve. The balance, an impairment of £12,547,000 (2004: £1,254,000), has been charged to the profit and loss account.

Craegmoor Limited

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

13 Tangible fixed assets (continued)

In summary, the above exercises have resulted in the following adjustments to the carrying values of land and buildings in 2005:

	Revaluations	Reversal of prior years' revaluations	Impairments
	£'000	£'000	£'000
Independent valuations	44,690	(572)	(6,037)
Value in use calculations	-	-	(66)
Look back tests	-	(1,858)	(8,611)
Properties to be disposed	-	(796)	(12,547)
	44,690	(3,226)	(27,261)

Of the above revaluation of £44,690,000, £6,995,000 has reversed previously charged depreciation on those properties. The balance of £37,695,000 has been booked to the gross carrying value of those properties.

The net book value of furniture, fittings, plant, equipment and motor vehicles includes an amount of £1,392,000 (2004: £898,000) in respect of assets held under finance leases. Depreciation of £65,000 (2004: £730,000) was charged in the year on these assets.

If freehold land and buildings had not been revalued they would have been included at the following amounts:

	2005	2004
	£'000	£'000
Freehold land and buildings		
Cost	263,033	261,581
Aggregate depreciation based on cost	(30,180)	(25,472)
Net book value based on cost	232,853	236,109

14 Fixed asset investments

Group

Cost and net book value 1 January 2005 and 31 December 2005 of other investments was £6,000.

Other investments includes listed investments with a book value of £1,606 (2004 £1,606) and a market value of £Nil (2004 £Nil) and government gilts with a book value and market value of £2,000 (2004 £2,000).

Company

	Shares in group undertakings
	£'000
Cost and net book value at 1 January 2005 and at 31 December 2005	3,151

Interests in group undertakings

A list of the Company's principal interests in group undertakings is included in note 36.

Craegmoor Limited

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

15 Debtors

	Group	Company	Group	Company
	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	11,337	-	15,076	-
Amounts owed by subsidiary undertakings	-	-	-	440
Corporation tax recoverable	-	-	73	72
Other debtors	805	-	1,515	8
Prepayments	5,306	-	3,138	15
	17,448	-	19,802	535

16 Creditors: amounts falling due within one year

	Group	Company	Group	Company
	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
Bank overdraft – unsecured	5,588	-	2,133	-
Loan notes (note 17(a))	4,091	-	3,802	-
Trade creditors	5,305	-	6,173	-
Amounts owed to subsidiary undertakings	-	63	-	504
Obligations under finance leases (note 18)	270	-	339	-
Corporation tax payable	385	-	-	-
Other taxation and social security	4,867	-	3,273	-
Other creditors	1,914	-	1,817	-
Accruals and deferred income	16,396	9	14,117	5
	38,816	72	31,654	509

Loan notes due within one year are shown net of unamortised issue costs. These costs total £602,000 (2004: £587,000).

Craegmoor Limited

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

17 Creditors: amounts falling due after more than one year

	Group	Company	Group	Company
	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
Loan notes (see (a) below)	316,057	-	314,537	-
Bank loans (see (b) below)	14,550	-	14,242	-
Obligations under finance leases (note 18)	4,167	-	3,022	-
	334,774	-	331,801	-

(a) Loan notes

	2005	2004
	£'000	£'000
Class A1 Secured floating rate 2013 Loan Notes	46,917	51,054
Class A2 Secured fixed rate 2023 Loan Notes	97,351	97,199
Class M Secured floating rate 2023 Loan Notes	29,305	29,215
Class B1 Secured floating rate 2023 Loan Notes	14,648	14,605
Class B2 Secured fixed rate 2023 Loan Notes	41,048	40,998
2013 Unsecured fixed rate Loan Notes	90,879	85,268
	320,148	318,339

Class A1 Secured floating rate 2013 Loan Notes, Class A2 Secured fixed rate 2023 Loan Notes, Class M Secured floating rate 2023 Loan Notes, Class B1 Secured floating rate 2023 Loan Notes and Class B2 Secured fixed rate 2023 Loan Notes

On 13 August 2003, Craegmoor Funding (No.2) Limited, a wholly owned subsidiary, entered into financing arrangements to fund the redemption of certain existing loan notes and bank borrowings and to provide resources to fund further acquisitions and new development opportunities of the Group. It issued a combination of fixed and floating rate loan notes with an aggregate nominal value of £244,700,000, comprising £57,500,000 Class A1 Secured floating rate 2013 Loan Notes, £100,000,000 Class A2 Secured fixed rate 2023 Loan Notes, £30,000,000 Class M Secured floating rate 2023 Loan Notes, £15,000,000 Class B1 Secured floating rate 2023 Loan Notes and £42,200,000 Class B2 Secured fixed rate 2023 Loan Notes. The Class A Notes are unconditionally guaranteed as to schedule interest and principal payments by a guarantor, MBIA Assurance S.A.

The Class A1 Secured floating rate 2013 Loan Notes are repayable in quarterly instalments commencing on 15 December 2003 and ending on 15 December 2013 when the loan notes will be fully redeemed. During the year £4,389,000 (2004: £4,106,000) of the Class A1 loan notes were redeemed. The Class A2 Secured fixed rate 2023 Loan Notes are repayable in quarterly instalments commencing 15 March 2014 and ending on 15 September 2023 when the loan notes will be fully redeemed. The Class M Secured floating rate 2023 Loan Notes, Class B1 Secured floating rate 2023 Loan Notes and Class B2 Secured fixed rate 2023 Loan Notes are due to repaid in 2023.

The Class A1 Secured floating rate 2013 Loan Notes bear interest at a rate equal to LIBOR plus 0.50%; the Class A2 Secured fixed rate 2023 Loan Notes bear interest at a rate equal to 5.321%; the Class M Secured floating 2023 rate Loan Notes bear interest at a rate equal to LIBOR plus 1.65%; the Class B1 secured floating rate 2023 Loan Notes bear interest at a rate equal to LIBOR plus 2.90%; and the Class B2 Secured fixed rate 2023 Loan Notes bear an interest rate of 7.782%.

Craegmoor Limited

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

17 Creditors: amounts falling due after more than one year (continued)

The liabilities disclosed are net of the costs incurred in association with the issue of loan notes. These issue costs totalled £7,333,000 (2004: £7,333,000) of which £1,381,000 (2004: £794,000) have been amortised through the profit and loss account at 31 December 2005.

The 2013 Secured floating rate Loan Notes and the 2023 Secured fixed and floating rate Loan Notes are secured by fixed and floating charges over the property, undertakings and assets of the security group companies being the following related companies: *Alphabet Children's (Fostering) Services Limited, Alphabet Children's Services Limited, Apdale Limited, Autism TASC Services Limited, Boughton Manor Nursing Home Limited, Challenge Care Limited, Comfort Services Limited, Concept Care Limited, Conquest Care Homes (March) Limited, Conquest Care Homes (Norfolk) Limited, Conquest Care Homes (Peterborough) Limited, Conquest Care Homes (Soham) Limited, Cotswold Care Services Limited, Craegmoor Facilities Company Limited, Craegmoor Healthcare Company Limited, Craegmoor Holdings Limited, Craegmoor Investments Limited, Ferguson Care Limited, Grovedraft Limited, GWS Claremont Limited, Health & Care Services Humbs. Limited, Health & Care Services (NW) Limited, Health & Care Services (UK) Limited, Health & Care Services Yorks Limited, Heddfan Care Limited, Independent Community Living (Holdings) Limited, Independent Community Living Limited, Inputrelate Limited, J C Care Limited, Johnston Care Limited, Lansdowne Road Limited, La Pierre Care Homes Limited, Lothlorien Community Limited, London Parkcare Limited, Parkcare Homes Limited, Parkcare Homes (No. 2) Limited, Proactive Training Solutions Limited, RJ Homes Limited, Sapphire Care Services Limited, Southbank Private Nursing Home Limited, Southern Counties Care Limited, Speciality Care (Care Homes) Limited, Speciality Care (Learning Disabilities) Limited, Speciality Care (Rehab) Limited, Speciality Healthcare Limited, Speciality Care (Rest Care) Limited, Spring Crescent Limited, Strathmore Care Services Limited, Strathmore College Limited, Treehome Limited, Ty-Craig Nursing Home Limited, Yorkshire Care Homes Limited and Yorkshire Parkcare Company Limited.*

Series A and Series B floating rate unsecured 2005 Loan Notes

On 27 July 2001, Craegmoor No.2 Limited, a wholly owned subsidiary, entered into financing arrangements in order to fund the purchase of Craegmoor Group Limited and its subsidiaries. It issued floating rate loan notes with an aggregate nominal value of £3,440,504, comprising £500,000 Series A Loan Notes and £2,940,504 Series B Loan Notes, due to be repaid in 2005. The loan notes are unsecured and bear interest at a rate equal to LIBOR. Of these Loan Notes £439,824 were issued to the Company and therefore the net amount issued by the Group is £3,000,680.

All of the external Loan Notes were redeemed during the prior year with £1,864,873 repaid on 2 July 2004 and £1,135,807 repaid on 9 July 2004.

The Loan Notes with a nominal value of £439,824 issued to the Company were redeemed during the year.

Costs incurred in association with the issue of the loan notes totalled £50,049, all of which had been amortised as at 31 December 2004.

2013 Unsecured fixed rate Loan Notes

In addition, further unsecured loan notes were issued by Craegmoor No.2 Limited on 27 July 2001 with a nominal value of £76,785,000. Loan notes with a nominal value of £8,830,000 were redeemed on 19 November 2003 and further loan notes with a nominal value of £206,000 were repaid on 10 January 2005. The remaining loan notes with a nominal value of £67,749,000 are due to be repaid in 2013. In addition to the redemption of loan notes with a nominal value of £8,830,000 interest of £1,469,000 accruing from 27 July 2001 to 19 November 2003 on these loan notes was paid on 19 November 2003. In addition to the redemption of loan notes with a nominal value of £207,000 interest of £54,000 accruing from 27 July 2001 to 10 January 2005 on these loan notes was paid on 10 January 2005. The loan notes bear interest at a fixed rate of 6.75%. Interest that accrues on the principal amount from 27 July 2002 to 28 September 2005 will be capitalised and added to the principal amount of the loan notes on which interest shall accrue. During the year this amounted to £5,783,000 (2004: £5,498,000). The total accrued interest at 31 December 2005 on these loan notes is £23,197,000 (2004: £17,416,000). Originally the first payment was due to be made on 28 March 2006 in respect of the period from 29 September 2005, but this has now been deferred such that the first payment will be due in September 2007.

Craegmoor Limited

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

17 Creditors: amounts falling due after more than one year (continued)

The associated liabilities disclosed are net of the costs incurred in association with the issue of the loan notes. These issue costs totalled £1,117,000. Issue costs of £128,000 relating to the £8,830,000 of principal redeemed on 19 November 2003 were amortised on redemption resulting in issue costs of £989,000 being carried forward. Amortisation that had been charged through the profit and loss account to the date of redemption on the loan notes redeemed on 19 November 2003 totalled £89,000. This resulted in a net amortisation charge of issue costs at redemption of £39,000 on the loan notes redeemed. At 31 December 2005 a total of £975,000 (2004: £886,000) of the issue costs had been amortised through the profit and loss account. The amortisation charge through the profit and loss account in the year against the remaining issue costs of £988,550 relating to the loan notes that were not redeemed during 2003 was £89,000 (2004: £165,000).

(b) Bank loans

On 16 October 2003 the Group entered into a £60,000,000 warehousing facility agreement to partly fund future acquisitions and developments. This facility is available for a two year period from inception and the amounts drawn down bear interest at commercial rates linked to the 3 month LIBOR rate. At 31 December 2005 the amounts drawn on the facility totalled £14,550,000 (2004: £14,242,000).

(c) Restricted deposits (included within current assets)

As part of the 2003 refinancing, the Group was required to retain amounts as restricted deposits, as security to fund approved acquisition opportunities. In addition the agreement also requires the lower of net sale proceeds and 110% of the secured property values on disposal to be retained as a restricted deposit. At 31 December 2005 restricted deposits were £3,174,000 (2004: £3,525,000).

18 Analysis of financial liabilities

The disclosures made in notes 18 and 19 should be read in conjunction with the discussion of the Group's objectives, policies and strategies with regard to financial instruments in the Directors' report on page 4.

After taking into account the various interest rate swaps entered into by the Group, the interest rate profile of the Group's financial and capital liabilities at 31 December 2005 was:

	Floating rate borrowings £'000	Fixed rate borrowings £'000	Total borrowings £'000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling - financial liabilities					
At 31 December 2005	20,138	324,585	344,723	6.8	11.7
At 31 December 2004	16,375	321,700	338,075	6.9	12.6

The interest rates on floating rate borrowings are determined by reference to the 3 month LIBOR.

Craegmoor Limited

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

18 Analysis of financial liabilities (continued)

Finance leases repayable as follows:

	Group 2005 £'000	Company 2005 £'000	Group 2004 £'000	Company 2004 £'000
In one year or less	270	-	339	-
Between one and two years	278	-	122	-
Between two and five years	1,422	-	308	-
Over five years	2,467	-	2,592	-
	4,437	-	3,361	-

Bank loans, overdrafts and other borrowings (excluding finance leases) repayable as follows:

	Group 2005 £'000	Company 2005 £'000	Group 2004 £'000	Company 2004 £'000
In one year or less	10,281	-	6,522	-
Between one and two years	19,568	-	18,935	-
Between two and five years	17,237	-	16,121	-
Over five years	299,166	-	299,778	-
Less: Unamortised issue costs	(5,966)	-	(6,642)	-
	340,286	-	334,714	-

At 31 December 2005 the Group had the following undrawn committed borrowing facilities:

	2005 £'000	2004 £'000
Expiring in more than one year but not more than two years	45,450	45,758

19 Financial instruments

(a) Financial assets

	Bank and cash balances 2005 £'000	2004 £'000	Short term loans and deposits 2005 £'000	2004 £'000
Sterling	1,868	9,998	3,074	3,525

All bank and cash balances are non interest bearing.

Of the restricted deposit balances £3,074 (2004: £3,525) was placed on short term money markets.

Surplus cash is deposited for short term periods typically on the overnight money market. The weighted average interest rate on the deposit account balances is 4.0% (2004: 4.3%).

Craegmoor Limited

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

19 Financial instruments (continued)

(b) Currency exposures

As at 31 December 2005 and 31 December 2004 the Group had no currency exposures.

(c) Fair values of financial assets and liabilities

The comparison of fair and book values of all the Group's financial assets and liabilities is set out below:

	2005		2004	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Financial instruments held or issued to finance the Group's operations:				
Bank and cash balances	1,868	1,868	9,998	9,998
Short term deposits	3,074	3,074	3,525	3,525
Short term borrowings and current portion of long term borrowings	(10,281)	(10,281)	(6,522)	(6,522)
Long term borrowings	(336,022)	(344,424)	(334,834)	(338,326)
Finance leases	(4,437)	(3,584)	(3,361)	(2,436)
Financial instruments held to manage interest rate exposure				
Interest rate swaps	(3,895)	(18,347)	(4,471)	(14,223)
	(349,733)	(371,694)	(335,665)	(347,984)

The following methods and assumptions were used in estimating the fair values for financial instruments:

Short term borrowings, cash and deposits approximate to their short maturities.

Long term borrowings: Bonds – quoted closing market value.

Interest rate instruments – discounted cash flow analysis based on interest rates derived from market yield curves.

Finance leases – discounted cash flow based on Group's estimated risk weighted, risk free average cost of capital.

(d) Hedges

The Group's policy is to hedge its interest rate exposure using interest rate swaps. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Unrecognised gains or losses on instruments used for hedging interest rate exposures and the movements therein are as follows:

	Gains	Losses	Total net loss
	£'000	£'000	£'000
Unrecognised gains and losses on hedges at 1 January 2005	-	(9,752)	(9,752)
Gains and losses arising in 2005 that were not recognised in that year	-	(4,700)	(4,700)
Unrecognised gains and losses on hedges at 31 December 2005	-	(14,452)	(14,452)
Expected to be recognised after 2005	-	(14,452)	(14,452)

Craegmoor Limited

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

20 Provisions for liabilities and charges

Group	Deferred tax £'000	Onerous contracts and litigation £'000	Total £'000
At 1 January 2005	497	5,396	5,893
Acquisitions (note 25)	4	-	4
Net (credit) / charge in the year	(501)	880	379
Unwind of discounting	-	307	307
At 31 December 2005	-	6,583	6,583

Deferred taxation

	2005 £'000	2004 £'000
Tax effect of timing differences at 30% (2003: 30%) because of:		
Fixed asset timing differences	829	2,173
Short term timing differences	(829)	(1,622)
Losses	-	(54)
Potential liability	-	497

Onerous financing provisions and litigation matters

Provisions have been recorded for the onerous interest levels on certain finance lease and interest rate swap arrangements. They have been established on the basis of expected future onerous interest payments over the remaining life of the relevant leases and agreements, discounted at the Group's estimated risk weighted, risk free average cost of capital of 8.5%. The provisions are expected to be utilised, with the discounts unwinding accordingly, over the remaining terms of the corresponding finance arrangements.

In light of a number of outstanding litigation actions, provisions have been made which represent management's best estimate of the amounts required to settle or remove the actions. In accordance with the exemption available within FRS12, further details have not been disclosed as in the Directors' opinion to do so would not be in the best interests of the Group.

Craegmoor Limited

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

21 Called up share capital

	2005 £'000	2004 £'000
Authorised		
600,000 (2004: 600,000) ordinary shares of £1 each	600	600
3,400,000 (2004: 3,400,000) Class A ordinary shares of 10p each	340	340
	940	940
Allotted, called up and fully paid		
492,922 (2004: 492,922) ordinary shares of £1 each	493	493
3,170,000 (2004: 3,170,000) Class A ordinary shares of 10p each	317	317
	810	810

A warrant instrument is attached to the 2013 secured floating rate loan notes. The terms of the warrant instrument entitle the Noteholders to subscribe at a price of £1 for 230,000 'A' ordinary shares in Craegmoor Limited. These subscription rights are exercisable on the occurrence of a sale, a listing or a change of control.

On 3 December 2004 7,500 ordinary shares were issued for cash. The nominal value of these shares was £7,500 and the consideration received was £7,500 after deducting expenses of £Nil.

22 Other reserves

Group	Share premium account £'000	Revaluation reserve £'000	Employee benefit trust £'000	Profit and loss account £'000
At 1 January 2005	2,724	21,773	(156)	(32,006)
Loss for the year	-	-	-	(48,716)
Purchase of own shares held in trust (note 23)	-	-	(16)	-
Share option cost	-	-	-	60
Unrealised surplus on revaluation of properties	-	44,426	-	-
Impairment of previously revalued properties	-	(3,226)	-	-
At 31 December 2005	2,724	62,973	(172)	(80,662)

Company	Share premium account £'000	Employee benefit trust £'000	Profit and loss account £'000
At 1 January 2005	2,724	(156)	(201)
Loss for the year	-	-	(142)
Purchase of own shares held in trust (note 23)	-	(16)	-
Share option cost	-	-	60
At 31 December 2005	2,724	(172)	(283)

The share premium account is shown net of costs of £129,085 that were incurred in 2001 through the raising of the share capital of the Company in that year.

Craegmoor Limited

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

23 Employee Benefit Trust

Craegmoor Limited Employee Trust (2004) was formed on 24 November 2004 to enable employees (including directors), former employees, their family and dependants to purchase shares in the Company. The aims of the Trust are to encourage employees and enable them to benefit from the value of the business that they are helping to create.

120,211 Ordinary shares of £1 each were purchased by the trustees, Crossman Trust Company Limited, on 30 November 2004 for consideration of £156,193, to be held on behalf of Craegmoor Group employees. The 120,211 ordinary shares were vested with a director of the Company on 20 December 2004. The purchase of the shares by the EBT was financed utilising a loan from Craegmoor Limited. The loan is unsecured and carries interest at 5%. Dividend income from, and voting rights of, the shares held by the Trust have been waived. In the event of winding up the shares held by the Trust rank *pari passu* with those external to it.

In addition the Trust borrowed £13,277 from the Company in order to settle its legal fees in connection with the establishment and administration of the Trust.

5,000 Ordinary shares of £1 each were purchased by the trustees, Crossman Trust Company Limited, on 7 March 2005 for consideration of £16,000, to be held on behalf of Craegmoor Group employees. The purchase was again financed using a loan from Craegmoor Limited.

The total number of shares held by the Trust, the option conditions of which had not yet unconditionally vested at 31 December 2005, is 125,211 (2004: 120,211) with a market value of £400,675 (2004: £384,675).

The total amount due from the Trust to the Company at 31 December 2005 was £185,470 (2004: £169,470).

In accordance with UITFs 38 and 17 the consideration paid in acquiring the Company's own shares has been deducted from shareholders' funds.

Craegmoor Limited

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

24 Reconciliation of movements in shareholders' funds

Group	2005 £'000	2004 £'000
Loss for the financial year	(48,716)	(10,565)
Net proceeds on issue of ordinary share capital	-	7
Purchase of own shares (note 23)	(16)	(156)
Share option cost	60	-
Surplus on revaluation of properties	44,426	7,123
Impairment of previously revalued properties	(3,226)	(784)
Net increase to shareholders' deficit	(7,472)	(4,375)
Opening shareholders' deficit	(6,855)	(2,480)
Closing shareholders' deficit	(14,327)	(6,855)
Company	2005 £'000	2004 £'000
Loss for the financial period	(142)	(71)
Net proceeds on issue of ordinary share capital	-	7
Purchase of own shares (note 23)	(16)	(156)
Share option cost	60	-
Net reduction in shareholders' funds	(98)	(220)
Opening shareholders' funds	3,177	3,397
Closing shareholders' funds	3,079	3,177

Craegmoor Limited

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

25 Acquisitions

During the year the Group made acquisitions for a total cash consideration of £7,747,000 and deferred contingent consideration amounting to £800,000, dependent on certain performance factors was still outstanding as at 31 December 2005. Acquisitions are analysed below:

	Sapphire Care Services Limited	Proactive Training Solutions Limited	Gatehouse	Charolais Crescent	Total at book values	Fair value adjustments	Total at fair values
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Intangible fixed assets	48	-	-	-	48	-	48
Tangible fixed assets	1,886	-	364	174	2,424	6,116	8,540
Debtors	161	4	-	-	165	-	165
Cash	26	2	-	-	28	-	28
Creditors due within one year	(207)	(3)	-	-	(210)	-	(210)
Creditors due after more than one year	(20)	-	-	-	(20)	-	(20)
Provisions for liabilities and charges	(4)	-	-	-	(4)	-	(4)
	1,890	3	364	174	2,431	6,116	8,547

No separate goodwill arises as it is included in the fair values of the properties acquired. The fair values are based upon independent valuations of the properties and their associated trade, although the directors consider these fair values to be provisional given the contingent consideration of £800,000 still outstanding.

The contribution of the acquisitions to the turnover and operating profit, net operating cash flows and capital expenditure of the Group is set out below. The financing and taxation arrangements of the acquisitions have been integrated into the Group's existing operations and as a result are not separately disclosed.

	Date of acquisition	Number of homes acquired	Contribution to turnover	Contribution to operating profit	Contribution to operating cashflows	Contribution to capital expenditure
			£'000	£'000	£'000	£'000
Sapphire Care Services Limited	19 May 2005	6	949	209	314	-
Proactive Training Solutions Limited	19 May 2005	-	-	2	-	-
Gatehouse	7 June 2005	1	39	3	8	-
Charolais Crescent	25 February 2005	1	142	48	49	-
Total		8	1,130	262	371	-

No pre-acquisition results have been disclosed for the acquisitions above on the basis that none of these are individually material to the Group as a whole.

Craegmoor Limited

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

26 Reconciliation of operating profit to operating cash flows

	2005	2004 Restated (Note 1)
	£'000	£'000
Operating (loss) / profit	(12,979)	9,714
Depreciation on tangible fixed assets	11,500	10,937
Impairment of tangible fixed assets	14,451	4,178
Amortisation of goodwill	3,104	3,100
Share option cost	60	-
Decrease / (Increase) in debtors	2,427	(4,886)
Decrease in stocks	123	3
Increase in creditors and provisions	4,067	2,193
Net cash inflow from operating activities	22,753	25,239

27 Notes to the consolidated cash flow statement

	2005	2004
	£'000	£'000
27(a) Returns on investments and servicing of finance		
Interest received	431	690
Interest paid	(18,137)	(17,740)
Interest element of finance lease rental payments	(331)	(631)
Net cash outflow for returns on investments and servicing of finance	(18,037)	(17,681)

	2005	2004
	£'000	£'000
27(b) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(12,618)	(15,165)
Purchase of own shares (note 23)	(16)	(156)
Sale of tangible fixed assets	8,192	3,510
Net cash outflow for capital expenditure and financial investment	(4,442)	(11,811)

Craegmoor Limited

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

27 Notes to the consolidated cash flow statement (continued)

	2005	2004
	£'000	£'000
27(c) Acquisitions and disposals		
Purchase of businesses (note 25)	(7,747)	(7,621)
Net cash / (overdraft) acquired with new acquisitions	28	(11)
Net cash outflow for acquisitions	(7,719)	(7,632)

	2005	2004
	£'000	£'000
27(d) Analysis of changes in financing during the period		
Decrease of restricted deposit	351	9,284
New loan finance	308	9,885
Debt due beyond a year:		
Repayment of loan notes	(4,650)	(7,105)
Repayment of bank loan	(8)	(219)
Capital element of finance lease rental payments	(369)	(809)
Issue of ordinary share capital	-	7
Net cash (outflow) / inflow from financing	(4,368)	11,043

28 Movement in cash balances

	2005	2004
	£'000	£'000
At 1 January	7,865	8,833
Acquisitions	28	(11)
Net cash outflow	(11,713)	(957)
At 31 December	(3,820)	7,865

	Cash at bank and in hand	Bank overdraft	Total
	£'000	£'000	£'000
Analysis of cash balances			
At 1 January 2005	9,998	(2,133)	7,865
Movement in the year	(8,230)	(3,455)	(11,685)
At 31 December 2005	1,768	(5,588)	(3,820)

Craegmoor Limited

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

29 Analysis of net debt

	Cash at bank and in hand	Overdrafts	Restricted deposit	Loans	Finance lease obligations	Net debt
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2005	(9,998)	2,133	(3,525)	332,581	3,361	324,552
Acquisitions	(28)	-	-	8	26	6
Net cash outflow / (inflow)	8,258	3,455	-	-	-	11,713
Decrease in restricted deposit	-	-	351	-	-	351
Repayment of loan finance	-	-	-	(4,658)	-	(4,658)
Payment of principal under finance leases	-	-	-	-	(369)	(369)
Inception of finance lease contracts (non-cash)	-	-	-	-	1,419	1,419
Amortisation of issue costs (non-cash)	-	-	-	676	-	676
New loans drawn down	-	-	-	308	-	308
Rolled up interest (non- cash)	-	-	-	5,783	-	5,783
At 31 December 2005	(1,768)	5,588	(3,174)	334,698	4,437	339,781

The only major non cash transactions entered into by the Group were in relation to finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of £1,419,000 (2004: £45,000).

30 Capital commitments

At 31 December 2005 neither the Group nor the Company had any capital commitments (2004: £Nil).

31 Financial commitments

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

	Land and buildings 2005 £'000	Land and buildings 2004 £'000
Expiring within one year	109	142
Expiring within two to five years	92	-
Expiring after five years	4,953	4,858
	5,154	5,000

Craegmoor Limited

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

32 Contingent liabilities

There is a fixed charge over the assets of the Group and a cross guarantee in respect of the external loan undertaken by Craegmoor Funding (No. 2) Limited amounting to £235,220,000 (2004 restated: £239,610,000).

The prior year contingent liability figure has been restated to take account of movements on the loan balance that were not reflected in the figure disclosed in the financial statements for the year ended 31 December 2004.

There was no effect of this adjustment on net assets, loss for the financial year or the tax charge for the year.

At 31 December 2005 the Company had no contingent liabilities (2004: £Nil).

33 Post balance sheet events

On 13 March 2006 the 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 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.

34 Controlling party

At 31 December 2005, Legal & General Group Plc owned 47.67% (2004: 47.67%) of the issued share capital of Craegmoor Limited via an intermediate subsidiary and a limited partnership. The directors consider that there is no single controlling party.

35 Related party transactions

The legal fees charged by the legal practice of the Company Secretary, BLG (Professional Services) Limited, to certain Group companies during the period amounted to £220,056 (2004: £638,120). The creditor balance outstanding at 31 December 2005 amounted to £78,062 (2004: £181,675).

The fees charged by Legal & General Ventures Limited for professional services rendered during the period amounted to £35,869 (2004: £35,250). The creditor balance outstanding at 31 December 2005 amounted to £17,781 (2004: £Nil). There are no other related party transactions requiring disclosure under FRS 8 "Related party disclosures".

Craegmoor Limited

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

36 Interests in group undertakings

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held %
Alphabet Children's (Fostering) Services Limited ⁵	England & Wales	Ordinary £1 shares	100
Alphabet Children's Services Limited ⁵	England & Wales	Ordinary £1 shares	100
Apdale Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Autism TASCC Services Limited ¹²	England & Wales	Ordinary £1 shares	100
Boughton Manor Nursing Home Limited ⁶	England & Wales	Ordinary £1 shares	100
Challenge Care Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Comfort Services Limited ⁵	England & Wales	Ordinary £1 shares	100
Concept Care Limited ⁶	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (March) Limited ⁵	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (Norfolk) Limited ⁵	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (Peterborough) Limited ⁵	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (Soham) Limited ⁵	England & Wales	Ordinary £1 shares	100
Cotswold Care Services Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Craegmoor No. 2 Limited ⁸	England & Wales	Ordinary £1 shares	100
Craegmoor Facilities Company Limited ¹² (Formerly Forward Housing Limited)	England & Wales	Ordinary £1 shares	100
Craegmoor Facilities Company No2 Limited ⁹	England & Wales	Ordinary £1 shares	100
Craegmoor Service Company No2 Limited ⁹	England & Wales	Ordinary £1 shares	100
Craegmoor Finance (No 2) PLC ⁵	England & Wales	Ordinary £1 shares	100
Craegmoor Finance PLC ⁵	England & Wales	Ordinary £1 shares	100
Craegmoor Funding PLC ⁵	England & Wales	Ordinary £1 shares	100
Craegmoor Funding (No 2) Limited ⁵	Cayman Islands	Ordinary £1 shares	100
Craegmoor Group Limited ¹⁰	England & Wales	Ordinary £1 shares	100
Craegmoor Healthcare Company Limited ¹²	England & Wales	Ordinary £1 shares	100
Craegmoor Holdings Limited ⁷	England & Wales	Ordinary £1 shares	100
Craegmoor Homes Limited ⁹	England & Wales	Ordinary £1 shares	100
Craegmoor Investments Limited ⁹	England & Wales	Ordinary £1 shares	100
Cranley Limited ⁹	England & Wales	Ordinary £1 shares	100
Ferguson Care Limited ⁵	England & Wales	Ordinary £1 shares	100
Greymount Properties Ltd ¹¹	England & Wales	Ordinary £1 shares	100
Grovedraft Limited ¹⁶	England & Wales	Ordinary £1 shares	100
GWS Claremont Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Health & Care Services Humbs. Limited ¹	England & Wales	Ordinary £1 shares	100
Health & Care Services (NW) Limited ¹	England & Wales	Ordinary £1 shares	100
Health & Care Services (UK) Limited ⁵	England & Wales	Ordinary £1 shares	100
Health & Care Services Yorks Limited ¹	England & Wales	Ordinary £1 shares	100
Heddfan Care Limited ¹⁵	England & Wales	Ordinary £1 shares	100
Highway (Burnley) Limited ¹¹	England & Wales	Ordinary £1 shares	100
Hometrack Limited ⁹	England & Wales	Ordinary £1 shares	100
Independent Community Living Limited ¹⁴	England & Wales	Ordinary £1 shares	100
Independent Community Living (Holdings) Limited ¹³	England & Wales	Ordinary £1 shares	100
Innova Healthcare Limited ³	England & Wales	Ordinary £1 shares	100

Craegmoor Limited

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

36 Interests in group undertakings (continued)

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held %
Inputrelate Limited ¹²	England & Wales	Ordinary £1 shares	100
Irvine Care Limited ³	England & Wales	Ordinary £1 shares	100
J C Care Limited ¹²	England & Wales	Ordinary £1 shares	100
Johnston Care Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Lansdowne Road Limited ¹⁵	England & Wales	Ordinary £1 shares	100
La Pierre Care Homes Limited ¹⁶	England & Wales	Ordinary £1 shares	100
London Parkcare Limited ⁵	England & Wales	Ordinary £1 shares	100
Lothlorien Community Limited ¹⁵	England & Wales	Ordinary £1 shares	100
		Ordinary £100 shares	100
Parkcare Homes Limited ⁵	England & Wales	Ordinary £1 shares	100
Parkcare Homes (No.2) Limited ¹²	England & Wales	Ordinary £1 shares	100
Proactive Training Solutions Limited ¹²	England & Wales	Ordinary £1 shares	100
RJ Homes Limited ¹⁵	England & Wales	Ordinary £1 shares	100
Sapphire Care Services Limited ¹²	England & Wales	Ordinary 'A' £1 shares	100
		Ordinary 'B' £1 shares	100
Southbank Private Nursing Home Limited ⁶	England & Wales	Ordinary £1 shares	100
Southern Counties Care Limited ⁵	England & Wales	Ordinary £1 shares	100
Specialised Courses Offering Purposeful Education Limited ²	England & Wales	Ordinary £1 shares	100
Speciality Care (Addison Court) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (Care Homes) Limited ⁵	England & Wales	Ordinary £1 shares	100
Speciality Care (Cedar Grove) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (EMI) PLC ³	England & Wales	10p ordinary shares	100
		10p convertible preference - shares	100
Speciality Care (Learning Disabilities) Limited ⁵	England & Wales	Ordinary £1 shares	100
Speciality Care (Medicare) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (Rehab) Limited ⁵	England & Wales	Ordinary £1 shares	100
Speciality Care (Reit Homes) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (Rest Care) Limited ⁶	England & Wales	Ordinary £1 shares	100
Speciality Care (Rest Homes) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (UK Lease Homes) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care Limited ⁹	England & Wales	10p ordinary shares	100
		£1 cumulative redeemable preference shares	100
Speciality Equestrian Centre Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Healthcare Limited ⁵	England & Wales	Ordinary £1 shares	100
Spring Crescent Limited ¹⁶	England & Wales	Ordinary £1 shares	100

Craegmoor Limited

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

36 Interests in group undertakings (continued)

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held %
Strathmore Care Services Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Strathmore College Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Treehome Limited ¹⁶	England & Wales	Ordinary £1 shares	100
Ty-Craig Nursing Home Limited ⁶	England & Wales	Ordinary £1 shares	100
Yorkshire Care Homes Limited ⁴	England & Wales	Ordinary £1 shares	100
Yorkshire Parkcare Company Limited ⁵	England & Wales	Ordinary £1 shares	100

¹ Owned by Health & Care Services (UK) Limited

⁹ Owned by Craegmoor Group Limited

² Owned by Speciality Care (Medicare) Limited

¹⁰ Owned by Craegmoor No 2 Limited

³ Owned by Speciality Care Limited

¹¹ Owned by Cranley Limited

⁴ Owned by Yorkshire Parkcare Company Limited

¹² Owned by Craegmoor Investments Limited

⁵ Owned by Craegmoor Holdings Limited

¹³ Owned by Inputrelate Limited

⁶ Owned by Parkcare Homes Limited

¹⁴ Owned by Independent Community Living (Holdings) Limited

⁷ Owned by Craegmoor Healthcare Company Limited

¹⁵ Owned by JC Care Limited

⁸ Owned by Craegmoor Limited

¹⁶ Owned by Parkcare Homes (No.2) Limited

All the above companies operated in their country of incorporation or registration with the exception of Craegmoor Funding (No.2) Limited, which was operated in England and Wales.

With the exception of Craegmoor Facilities Company Limited, Craegmoor Facilities Company No2 Limited, Craegmoor Finance PLC, Craegmoor Finance (No 2) PLC, Craegmoor Funding PLC, Craegmoor Funding (No2) Limited, Craegmoor Group Limited, Craegmoor Holdings Limited, Craegmoor Investments Limited, Craegmoor No.2 Limited, Craegmoor Services Company No2 Limited, Cranley Limited, Independent Community Living (Holdings) Limited, Inputrelate Limited, Speciality Care Limited and Speciality Care (Medicare) Limited, the principal activity of all subsidiary undertakings is the operation of care homes.

The principal activity of Craegmoor No. 2 Limited, Craegmoor Finance PLC, Craegmoor Finance (No 2) PLC, Craegmoor Funding PLC and Craegmoor Funding (No 2) Limited is the provision of funds to Craegmoor Group Limited and its subsidiaries.

The principal activity of Craegmoor Group Limited, Craegmoor Holdings Limited, Craegmoor Investments Limited, Inputrelate Limited, Cranley Limited, Independent Community Living (Holdings) Limited, Speciality Care Limited and Speciality Care (Medicare) Limited is as an intermediate holding company.

The principal activity of Craegmoor Facilities Company Limited, Craegmoor Facilities Company No2 Limited and Craegmoor Service Company No2 Limited is the procurement and supply of services, facilities and other supplies to other Craegmoor Group companies.