

CASTLEBECK GROUP LIMITED

Report and Financial Statements

30 November 2006

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REPORT AND FINANCIAL STATEMENTS 2006

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Brosnan	Chairman
A McLean	Chief Executive
J Mann	Executive Director
M Short	Finance Director
D Cole	Non Executive Director
M Benn	Non Executive Director
E Irwin	Non Executive Director
M Parsons	Non Executive Director

SECRETARY

Jon Hather

REGISTERED OFFICE

Suite 201
The Chambers
Chelsea Harbour
London
SW1 OXF

BANKERS

Royal Bank of Scotland plc
27 Blackwellgate
Darlington
County Durham
DL1 5HX

SOLICITORS

Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Berwin Leighton Paisner
Adelaide House
London Bridge
London
EC4R 9HA

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

DIRECTORS' REPORT

The directors present their annual report and the financial statements, together with the independent auditors report for the year ended 30 November 2006

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Castlebeck Group Limited is an intermediate parent company of a group of companies engaged in the provision of care, treatment and rehabilitation services. The company was acquired by CB Care Limited, a subsidiary of Castle Holdings Limited, on 5 July 2006, at which point all borrowings of the company were repaid.

The loss for the financial year was £4,731,000 (2005 – loss of £3,787,000). The directors do not recommend the payment of a dividend (2005 - £nil), leaving a retained loss of £4,731,000 to be withdrawn from reserves (2005 - £3,787,000).

The loss for the financial year relates to interest incurred until the date of acquisition together with the amortisation of all remaining issue costs, which were released to the profit and loss account upon repayment of the borrowings of the company.

The company will continue to act as an intermediary holding company for the foreseeable future.

PRINCIPAL RISKS AND UNCERTAINTIES

The key business risks and uncertainties affecting the company are considered to be the ability of its subsidiaries to generate distributable income. More details are given on the management of the business and execution of the Group strategy in the consolidated financial statements of CB Care Limited, referred to in note 16.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and since are listed below:

C Sandham	(Resigned 5 July 2006)
G Smith	(Resigned 5 July 2006)
J Ridley-Smith	(Resigned 5 July 2006)
L Dibden	(Resigned 5 July 2006)
D Cole	
R Queen	(Resigned 13 December 2006)
J Mann	(Appointed 3 January 2006)
A McLean	(Appointed 3 January 2006)
M Short	(Appointed 13 December 2006)
D Brosnan	(Appointed 5 July 2006)
M Benn	(Appointed 13 December 2006)
E Irwin	(Appointed 24 October 2006)
O Megartoll	(Appointed 5 July 2006, Resigned 13 December 2006)
M Parsons	(Appointed 5 July 2006)

The interests of the directors and their families in the allotted ordinary shares of the company as appearing in the register maintained under the provisions of the Companies Act 1985, at the beginning of the financial year, were as follows:

	Number of A Ordinary shares At 30 November 2005	Number of B Ordinary shares At 30 November 2005
C Sandham	150,000	-
G Smith	100,000	-
J Ridley-Smith	-	4,250,000
D Cole	52,500	-
R Queen	28,000	-

DIRECTORS' REPORT (continued)

On 5 July 2006, each of the A Ordinary shares and B Ordinary shares were converted into one class of Ordinary shares and acquired by CB Care Limited, hence at the end of the financial year none of the directors have any interest in the share capital of the company. The interests of the directors in the share capital of Castle Holdings Limited, the parent company of CB Care Limited are shown in the financial statements of that company.

AUDITORS

In the case of each of the persons who are directors of the Company at the date when this Report is approved

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Director

Date 19/4/2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors
and signed on behalf of the Board



Director

Date 19/4/2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CASTLEBECK GROUP LIMITED

We have audited the financial statements of Castlebeck Group Limited for the year ended 30 November 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the 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 United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the 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. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP
Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne, England

26 April 2007.

PROFIT AND LOSS ACCOUNT
Year ended 30 November 2006

	Note	2006 £'000	2005 £'000
TURNOVER		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses		(17)	(4)
OPERATING LOSS		(17)	(4)
Interest receivable and similar income	3	-	32
Interest payable and similar charges	4	(6,563)	(5,224)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,580)	(5,196)
Tax on loss on ordinary activities	5	1,849	1,409
LOSS FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	12,13	(4,731)	(3,787)

All amounts derive from continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 30 November 2006

	2006 £'000	2005 £'000
Loss for the financial year	(4,731)	(3,787)
Unrealised surplus on revaluation of investments	37,612	49,447
Total gains recognised in the year	32,881	45,660

BALANCE SHEET
30 November 2006

	Note	2006 £'000	2005 £'000
FIXED ASSETS			
Investments	6	151,208	113,596
CURRENT ASSETS			
Debtors	7	31,779	29,270
Cash		65	1,251
		31,844	30,521
CREDITORS: amounts falling due within one year	8	(100,910)	(4,354)
NET CURRENT (LIABILITIES)/ASSETS		(69,066)	26,167
TOTAL ASSETS LESS CURRENT LIABILITIES		82,142	139,763
CREDITORS amounts falling due after more than one year	9	-	(61,038)
NET ASSETS		82,142	78,725
CAPITAL AND RESERVES			
Called up share capital	11	42	49
Share premium	12	1,402	1,402
Revaluation reserve	12	85,429	74,988
Profit and loss account	12	(4,731)	2,286
TOTAL EQUITY SHAREHOLDERS' FUNDS	13	82,142	78,725

These financial statements were approved by the Board of Directors on 19/4/2007

Signed on behalf of the Board of Directors



Director

NOTES TO THE ACCOUNTS
Year ended 30 November 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been applied consistently in both the current and the prior year.

Accounting convention

The financial statements are prepared under the historical cost convention as modified by the revaluation of fixed asset investments.

Consolidation

Previously the company has prepared group financial statements which consolidate the financial statements of the company and all its subsidiaries. In the current year, the company has relied upon Section 228 of the Companies Act 1985 and has presented the financial statements for the company as an individual undertaking only and not as a group undertaking.

Cashflow statement

The cash flows of the company are included in the consolidated cash flow statement of CB Care Limited. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 (Revised) "Cash Flow Statements" from publishing a cash flow statement.

Investments

Investments held as fixed assets are stated at valuation less provision for any impairment.

Taxation

Current tax, including United Kingdom corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount of debt is increased by the finance costs in respect of the period and reduced by payments made in the period. Issue costs are released to the profit and loss account over the life of the debt instrument.

NOTES TO THE ACCOUNTS
Year ended 30 November 2006

2. DIRECTORS' AND AUDITORS' REMUNERATION

None of the directors received any remuneration in respect of their services to the company during the year (2005 £nil)

5 directors exercised share options during the year (2005 none)

The emoluments of the directors in relation to their services to the subsidiary companies during the year were as follows

	2006 £'000	2005 £'000
Emoluments	616	538
Pension contributions	43	30
	<u>659</u>	<u>568</u>

The analysis of auditors' remuneration is as follows

	2006 £'000	2005 £'000
Fees payable to the company's auditors for the audit of the company's annual accounts	<u>5</u>	<u>6</u>
Total audit fees	<u>5</u>	<u>6</u>
Other services pursuant to legislation		
- Tax services	16	-
- Corporate finance services	58	-
- Other services	<u>8</u>	<u>-</u>
Total non-audit fees	<u>82</u>	<u>-</u>

The total audit fees above were paid by another group company

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 £'000	2005 £'000
Bank interest receivable	<u>-</u>	<u>32</u>

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £'000	2005 £'000
Amortisation of issue costs	3,146	565
Bank loans, overdrafts and other loans repayable within five years	<u>3,417</u>	<u>4,659</u>
	<u>6,563</u>	<u>5,224</u>

NOTES TO THE ACCOUNTS
Year ended 30 November 2006

5. TAX ON LOSS ON ORDINARY ACTIVITIES

i) Analysis of tax credit on ordinary activities

	2006 £'000	2005 £'000
Current taxation		
United Kingdom corporation tax at 30% based on loss for the year	-	-
Group relief	(1,849)	(1,409)
Total current taxation	(1,849)	(1,409)
Deferred tax	-	-
Tax on loss on ordinary activities	(1,849)	(1,409)
<i>ii) Factors affecting tax credit</i>		
Loss on ordinary activities before tax	(6,580)	(5,196)
Tax at 30% thereon	(1,974)	(1,559)
Effects of Expenses not deductible for tax purposes	125	150
Current tax charge	(1,849)	(1,409)

6 INVESTMENTS

	Shares in subsidiary undertakings £'000
Valuation	
At 1 December 2005	113,596
Adjustment arising on revaluation	37,612
At 30 November 2006	151,208

The above represents the company's investment in Castlebeck Care Holdings Limited, Castlebeck Care (Teesdale) Limited, Castlebeck Property Limited and Young Foundations Limited, all of which are wholly owned and are registered in England and Wales (see note 14 for additional information)

NOTES TO THE ACCOUNTS
Year ended 30 November 2006

7 DEBTORS

	2006 £'000	2005 £'000
Amounts due from subsidiary undertakings	31,776	29,197
Other debtors and prepayments	3	73
	<u>31,779</u>	<u>29,270</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £'000	2005 £'000
Bank loans (note 10)	-	3,142
Accruals and deferred income	-	1,212
Amounts due to group undertakings	100,910	-
	<u>100,910</u>	<u>4,354</u>

There are cross guarantees relating to the indebtedness of the company and its ultimate parent undertaking which are secured on the assets of the group companies

9 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 £'000	2005 £'000
Bank loans (note 10)	-	61,038

10 BORROWINGS

	2006 £'000	2005 £'000
Due within one year	-	3,142
Due after more than one year	-	61,038
	<u>-</u>	<u>64,180</u>
Analysis of loan repayments		
Term loans		
Within one year	-	3,142
Between one and two years	-	3,850
Between two and five years	-	15,216
Greater than 5 years	-	41,972
	<u>-</u>	<u>64,180</u>

The term loans were secured by fixed and floating charges on the assets of the group under the terms of a debenture agreement between the group companies and the security trustee. Interest was charged on the term loans at a margin of between 1.75% and 3.75% above LIBOR.

NOTES TO THE ACCOUNTS
Year ended 30 November 2006

11. CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'000
Authorised		
750,000 A Ordinary shares of 1p each	-	8
4,365,090 B Ordinary shares of 1p each	-	44
5,115,090 Ordinary shares of 1p each	52	-
	<u>52</u>	<u>52</u>
Called up, allotted and fully paid		
600,000 A Ordinary shares of 1p each	-	6
4,250,000 B Ordinary shares of 1p each	-	43
4,211,761 Ordinary shares of 1p each	42	-
	<u>42</u>	<u>49</u>

On 15 March 2006 the company repurchased 68,038 A Ordinary shares and 968,791 B Ordinary shares at a value of £28 42 per share

On 5 July 2006 the company passed a special resolution to convert each of the issued and unissued A Ordinary shares of 1p each and B Ordinary shares of 1p each into one class of Ordinary shares of 1p each

On 5 July 2006 the company issued 398,590 ordinary shares of 1p each in respect of share options and warrants exercised

Voting rights

The Ordinary A and B shares shall have one vote per share on a show of hands on a poll at company meetings and are not subject to any special rights or restrictions as to voting

Dividend rights

Any profits which are available for distribution may be determined by the company to be distributed among the A and B Ordinary shareholders pari passu according to the amounts paid up or credited as paid up on the Ordinary shares

Return of capital rights

On winding up of the company or reduction in capital, the remaining assets of the company shall be applied to the holders of the Ordinary A and B shares pari passu according to the amounts paid up or credited as paid up including the premium

12. RESERVES

	Share premium £'000	Profit and loss account £'000	Revaluation reserve £'000	Total £'000
At 1 December 2005	1,402	2,286	74,988	78,676
Loss for the financial year	-	(4,731)	-	(4,731)
Repurchase of own shares	-	(2,286)	(27,171)	(29,457)
Unrealised surplus on revaluation	-	-	37,612	37,612
At 30 November 2006	<u>1,402</u>	<u>(4,731)</u>	<u>85,429</u>	<u>82,100</u>

NOTES TO THE ACCOUNTS
Year ended 30 November 2006

13. MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2006 £'000	2005 £'000
Loss for the financial year	(4,731)	(3,787)
Repurchase of own shares	(29,468)	-
Issue of shares	4	-
Surplus arising on revaluation	37,612	49,447
Net addition to total equity shareholders' funds	3,417	45,660
Opening total equity shareholders' funds	78,725	33,065
Closing total equity shareholders' funds	82,142	78,725

14. ADDITIONAL INFORMATION ON SUBSIDIARY UNDERTAKINGS (SEE NOTE 6)

Name	Country of Incorporation, registration and operation	Activity	Portion of ordinary shares held
Castlebeck Care (Teesdale) Limited	England	Provider of care, treatment and rehabilitation services	100%
Castlebeck Care Holdings Limited	England	Intermediate holding company	100%
Castlebeck Property Limited	England	Dormant company	100%
Young Foundations Limited	England	Provider of care, treatment and rehabilitation services	100%

15. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption contained in Financial Reporting Standard No 8 "Related Party Disclosures" which allows it not to disclose transactions with group entities or investees of the group qualifying as related parties

16. ULTIMATE HOLDING COMPANY

The company is a subsidiary of CB Care Limited a company registered in England and Wales. The ultimate parent company and controlling party is Lydian Capital Partnership LP, a company registered in Jersey.

The parent undertaking of the largest group which includes the company, and for which group accounts are prepared, is Castle Holdings Limited, a company incorporated in Jersey. The parent undertaking of the smallest group which includes the company, and for which group accounts are prepared, is CB Care Limited, a company incorporated in England and Wales. A copy of both sets of group accounts can be obtained from the company's registered office at Suite 201, The Chambers, Chelsea Harbour, London, SW10 0XF.