Covenant Healthcare Rehabilitation (Holdings) Limited

Report and Financial Statements

For the year ended 30 September 2007

Company information

Directors	Dr M Ishak Hanna (resigned 31 May 2008) J Ramsay (resigned 31 March 2008) H B Ainley (appointed 7 October 2008) N M I Robertson (appointed 19 May 2008)
Company secretary	J Day
Company number	4727103
Registered office	3rd Floor, Station House 8-13 Swiss Terrace London NM6 4RR
Auditors	Ernst & Young LLP Bedford House 16 Bedford Street Belfast BT2 7DT
Bankers	Bank of Scotland The Mound Edinburgh EH1 1YZ
Solicitors	S J Berwin 222 Gray's Inn Road London WC1x 8XF

Directors' Report
For the year ended 30 September 2007

The directors present their report and the financial statements for the year ended 30 September 2007.

Principal activities

The principal activity of the group during the period was the development and operation of private psychiatric facilities.

Business review

The directors are of the opinion that the trading performance was reasonable during the financial year given the market conditions.

The directors have determined that the following financial key performance indicators ("KPI"s), are the most effective measures of progress towards achieving the group's objectives.

KPIs

	2007 £'000	2006 £'000
Turnover	9,094	5,143
EBITDA	1,737	2,048

Turnover has increased due to growing occupancy as the recently opened rehabilitation units mature.

Results and dividends

The profit for the year, after taxation, amounted to £964,000 (2006 - loss £1,561,000).

The directors do not recommend the payment of any dividends.

Long term funding requirements

As highlighted at note 1, the directors are working very closely with the group's sole lender (Bank of Scotland Plc) to secure the group's long term funding needs. The directors would like to record their thanks to the Bank of Scotland Plc for their continued support of the business in making new facilities available to the group and agreeing to waive existing covenant requirements and interest payments while a new long term investor is identified.

Future developments

The directors consider that the sectors in which the group operates offer long term growth prospects although in keeping with the economy as a whole will experience some downturn in current trading due to tighter economic circumstances. As a result the directors are continuously reviewing all business areas to ensure that their trading contribution remains profitable and reflects the broader economic back drop.

Directors' Report
For the year ended 30 September 2007

Principal risks and uncertainties

The principal risk to the business relates to its ongoing bank funding. This is explained in some detail in note 1 to the accounts.

The group's strategy is to follow an appropriate risk policy which effectively manages exposures related to the achievement of business objectives. The key risks which management face are detailed as follows:

Business performance risk
Business performance risk is the risk that the group may not perform as expected either due to internal factors or due to competitive pressures in the markets in which they operate. This risk is managed through a number of measures: authorisation of purchases and capital commitments; ensuring the appropriate management team is in place; budget and business planning; monthly reporting and variance analysis; financial controls; key performance indicators; and regular forecasting.

Business continuity risk
While there is a reliance on physical infrastructure, the group operates from a number of geographically separate facilities which helps the group to minimise the business continuity risk. The group ensures that there is sufficient IT support available should an unforeseen event occur. Management are continually implementing and reviewing business continuity and IT disaster recovery plans to ensure any increase in risk arising from future activities is managed.

Maintaining standards of care & health and safety risk
The group works with the Healthcare Commission throughout the year to ensure the highest standards of care and facilities are provided and maintained. It is committed to ensuring a caring and safe working environment. These risks are managed by the group through the strong promotion of a health and safety culture and well defined care policies and procedures and, health and safety policies together with training programmes for staff.

Management development
Long term growth of the business depends on the group's ability to retain and attract personnel of high quality. This risk is managed through development plans which are regularly reviewed and updated. These are accompanied by specific policies in areas such as training, management development and performance management.

Financial and business control
Strong financial and business controls are necessary to ensure the integrity and reliability of financial and other information on which the group relies for day to day operations, external reporting and for longer term planning. The group exercises financial and business control through a combination of: qualified and experienced financial personnel; performance analysis; budgeting and cash flow forecasting; and clearly defined approval limits.

Financial and business control
Strong financial and business controls are necessary to ensure the integrity and reliability of financial and other information on which the group relies for day to day operations, external reporting and for longer term planning. The group exercises financial and business control through a combination of: qualified and experienced financial personnel; performance analysis; budgeting and cash flow forecasting; and clearly defined approval limits. .

Social, ethical and environmental risk
Due to the group's nature and size no significant social, ethical or environmental risks have been identified by management.

The group has a range of insurances to manage major risks such as business continuity disruption; public liability; property disaster; employee and public liability and medical claims. Management are periodically advised by insurance professionals on the adequacy of cover

Directors' Report
For the year ended 30 September 2007

Financial instruments

The group's principal financial instruments comprise bank borrowings, cash, trade debtors and creditors, and certain other debtors and accruals. The company's principal financial instruments comprise cash, group indebtedness, investments in subsidiaries and certain other debtors and accruals. The main risks associated with these financial assets and liabilities are set out below.

Credit risk
Credit risk levels relating to individual debtors and creditors are monitored by management on a regular basis. Group policies are aimed at minimising risk, requiring that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures.

Liquidity risk
The groups overall borrowings with Bank of Scotland Plc are closely monitored. As discussed in Note 1 to the accounts the directors consider this a vital area of management. Cash is also monitored by management on a regular basis and regular discussions take place with the company's bankers as a way of managing the group's liquidity risk. Cash generation from operations and trade debtors levels are monitored by the board of directors at monthly meetings.

Interest rate risk
Interest rate exposure is managed by use of interest swap derivatives as explained in the notes to the financial statements.

Employee involvement

Meetings with employee representatives took place during the year to keep employees informed as to the performance of the group and plans for the future. Management was also aware of the views of employees through these regular meetings.

Disabled employees

In dealing with applications for employment from the disabled or where individuals became disabled whilst in the group's employment, every reasonable effort is made to provide opportunities for them, having regard to the ability of the individuals concerned, and to provide training and other appropriate facilities.

Fixed assets

The group made fixed assets additions of £800,000 during the period. The properties and other fixed assets are held by subsidiary undertakings.

Directors

The directors who served during the year were:

Dr M Ishak Hanna (resigned 31 May 2008)
J Ramsay (resigned 31 March 2008)
H B Ainley (appointed 7 October 2008)
N M I Robertson (appointed 19 May 2008)

There are no directors' interests requiring disclosure under the Companies Act 1985.

The interests of the directors in the ultimate parent company, Covenant Healthcare Group Limited, are disclosed in those financial statements.

Directors' Report
For the year ended 30 September 2007

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company and the Group's auditors in connection with preparing their report and to establish that the Company and the Group's auditors are aware of that information.

Auditors

The auditors, Ernst & Young LLP, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on 3/2/09 and signed on its behalf.

Director

Statement of directors' responsibilities for the year ended 30 September 2007

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 the Group and of the profit or loss of the Group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' report to the members of Covenant Healthcare Rehabilitation (Holdings) Limited

We have audited the group and parent company financial statements (the "financial statements") of Covenant Healthcare Rehabilitation (Holdings) Limited for the year ended 30 September 2007 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 20. 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 United Kingdom law and 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).

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 group 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 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 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.

Independent Auditors' report to the members of Covenant Healthcare Rehabilitation (Holdings) Limited

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 group's and the parent company's affairs as at 30 September 2007 and of the group's profit 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.

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group and company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon the continued availability of sufficient borrowing facilities to the Covenant Healthcare Group such that the group and company continues to receive financial support from its ultimate parent company. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company was unable to continue as a going concern.

Ernst & Young LLP

Ernst & Young LLP

Registered Auditor

Bedford House
16 Bedford Street
Belfast
BT2 7DT

Date: 6 February 2009

Consolidated profit and loss account
for the year ended 30 September 2007

	Note	2007 £000	2006 £000
Turnover		9,094	5,143
Cost of sales		(5,707)	(4,450)
Gross profit		3,387	693
Administrative expenses		(2,093)	(1,989)
Loss on assets written off		(120)	(210)
Total administrative expenses		(2,213)	(2,199)
Operating profit/(loss)	3	1,174	(1,506)
Profit/(loss) on ordinary activities before taxation		1,174	(1,506)
Tax on profit/(loss) on ordinary activities	6	(210)	(55)
Profit/(loss) for the financial year	14	964	(1,561)

All amounts relate to continuing operations.

The notes on pages 12 to 21 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 30 September 2007

	2007	*2006*
	£000	*£000*
Profit/(loss) for the financial year	964	(1,561)
Total recognised gains and losses relating to the year	964	(1,561)

The notes on pages 12 to 21 form part of these financial statements.

Consolidated balance sheet
as at 30 September 2007

	Note	£000	2007 £000	£000	2006 £000
Fixed assets					
Tangible fixed assets	7		21,832		21,715
Current assets					
Stocks	9	11		4	
Debtors	10	1,354		1,091	
		1,365		1,095	
Creditors: *amounts falling due within one year*	11	(24,158)		(24,898)	
Net current liabilities			(22,793)		(23,803)
Total assets less current liabilities			(961)		(2,088)
Provisions for liabilities					
Deferred tax	12		(531)		(368)
Net liabilities			(1,492)		(2,456)
Capital and Reserves					
Called up share capital	13		-		-
Profit and loss account	14		(1,492)		(2,456)
Shareholders' deficit	15		(1,492)		(2,456)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
3/2/09

Director

The notes on pages 12 to 21 form part of these financial statements.

Company balance sheet
as at 30 September 2007

	Note	2007 £000	2006 £000
Fixed assets			
Fixed asset investments	8	658	2,150
Creditors: *amounts falling due within one year*	11	(2,150)	(2,150)
Total assets less current liabilities		(1,492)	-
Capital and Reserves			
Called up share capital	13	-	-
Profit and loss account	14	(1,492)	-
Shareholders' deficit	15	(1,492)	-

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 3/2/09

Director

The notes on pages 12 to 21 form part of these financial statements.

Notes to the financial statements
For the year ended 30 September 2007

1. Accounting policies

1.1 Fundamental accounting concept

The directors have prepared the financial statements on the going concern basis which assumes that the group and company will continue in operational existence for the foreseeable future. There are material uncertainties that the directors have had to consider which may cast significant doubt on the group's and company's ability to continue as a going concern.

The Covenant Healthcare Group has historically secured its funding requirements principally from its bankers in the form of secured and syndicated borrowings including intra group cross guarantees and security on favour of the bank over the group's and company's assets (see Note 16)

For the year ended 30 September 2007, the group incurred a profit before taxation of £1.2m and reported net current liabilities of £22.8m and net liabilities of £1.5m. At 30 September 2007, the group has debt with the bank of £3.3m and an intra group payable balance of £19.9m with the rest of the Covenant Healthcare Group. The group and company is dependent on support from the ultimate parent company to meet its liabilities as they fall due.

Note 1.1 to the financial statements of Covenant Healthcare Group Limited for the year ended 30 September 2007 discloses the following uncertainties in relation to the continued availability of sufficient borrowing facilities to the Covenant Healthcare Group:
"For the year ended 30 September 2007, the group incurred a loss before taxation of £137.7m and reported net current liabilities of £106.1m and net liabilities of £155.3m. At 30 September 2007 the net debt position with the bank was £104.7m and the liabilities in respect of cumulative redeemable preference shares together with accrued dividend amounting to £91.9m.

During the financial year the group has been in breach of certain of its banking covenants, and continues to be in breach of those covenants. In addition in September 2008 the group failed to make a payment of £3.1m.

In December 2008 Bank of Scotland Plc became the group's sole lender and made available a further facility of £5m to support the group's ongoing trading and avoid insolvency. The directors and its lender are actively seeking a new investor in the group, which continues to achieve positive EBITDA, whilst restructuring the debt finance in a potential debt for equity swap/debt write off to a level where the group can cover the interest and loan payments.

The group's current facilities are subject to covenant waivers to meet the groups funding requirements, which to date have been reviewed and renewed monthly, with the current waiver due to expire on 28 February 2009. The satisfactory ongoing issue of these waivers is vital to the future of the group until such times as a long term financial restructuring is agreed.

Furthermore, the group's current cash flow projections for the period up to 30 September 2010 indicate that, whilst the group is generating positive cash flows, these are not sufficient to meet the capital and interest repayments in respect of the bank loans in accordance with facility agreements in place. As a result Bank of Scotland Plc has agreed that all accrued interest on the loans is rolled up and added to the loans until such time that it notifies the company that such arrangement ceases to apply, thereby enabling the group to meet it's liabilities as they fall due.

Notes to the financial statements
For the year ended 30 September 2007

1. Accounting policies (continued)

Fundamental accounting concept (continued)

The directors consider the group and company to be a going concern for the following reasons:
- *The bank has agreed they will roll up the bank interest into loan capital and have no reason to believe the bank will cease such arrangement before an appropriate new investor has been secured and a consequent restructuring of group debt.*
- *The bank has also indicated an intention to restructure the group debt to a level where the group can cover the interest and loan capital repayment requirements*
- *The directors have projections which show cash flows which will enable the group to meet its liabilities as they fall due during the period whilst the bank interest is rolled up and thereafter to also adequately service interest and capital on the proposed restructuring of the group debt."*

Based on the above, the directors consider that support from the ultimate parent company will be forthcoming and based on the group and company's current cash flow projections to 30 September 2010 the directors consider the group and company to be a going concern.

Should Bank of Scotland Plc not continue to issue monthly financial covenant waivers or roll up the interest, and/or the debt restructuring does not happen, such that the group and company does not continue to receive financial support from its ultimate parent company, the going concern basis may not be valid. In such circumstances, adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which may arise and to reclassify fixed assets as current.

1.2 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

1.3 Cash flow

The group, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.4 Basis of consolidation

The financial statements consolidate the accounts of Covenant Healthcare Rehabilitation (Holdings) Limited and all of its subsidiary undertakings ('subsidiaries').

No profit and loss account for Covenant Healthcare Rehabilitation (Holdings) Limited has been presented as permitted by section 230(4) of the Companies Act 1985.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is not charged on freehold land. Depreciation on other tangible fixed assets is provided at rates calculated to write off the cost of those assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold property	-	2%	straight line
Assets under construction	-	0%	no depreciation charged
Fixtures & fittings	-	10%-25%	straight line

Notes to the financial statements
For the year ended 30 September 2007

1. Accounting policies (continued)

1.6 Investments

Investments in subsidiaries are valued at cost less provision for impairment.

1.7 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

1.8 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

1.9 Pensions

The group operates a defined contribution pension scheme and the pension charge represents the amounts payable by the group to the fund in respect of the year.

1.10 Taxation

It is the group's policy not to pay for group relief taxation benefits obtained at individual company level.

2. Turnover

Turnover represents the amounts receivable for goods and services supplied net of VAT. The turnover and pre – tax profit is attributable to one activity.

All turnover arose within the United Kingdom.

Notes to the financial statements
For the year ended 30 September 2007

3. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

	2007 £000	2006 £000
Depreciation of tangible fixed assets:		
- owned by the group	563	541
Exceptional administrative expenses	120	210

During the year, no director received any emoluments (2006 - £NIL).

4. Auditors' remuneration

	2007 £000	2006 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	14	9

5. Staff costs

Staff costs were as follows:

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Wages and salaries	4,973	3,779	-	-
Social security costs	487	374	-	-
Other pension costs	11	3	-	-
	5,471	4,156	-	-

The average monthly number of employees, including the directors, during the year was as follows:

	Group		Company	
	2007 No.	2006 No.	2007 No.	2006 No.
Administration	32	37	0	0
Healthcare	162	118	0	0
	194	155	0	0

Notes to the financial statements
For the year ended 30 September 2007

6. Taxation

	2007 £000	*2006 £000*
Analysis of tax charge in the year		
***Current tax** (see note below)*		
UK corporation tax charge on profit/loss for the year	47	-
Deferred tax		
Deferred tax liability arising	469	239
Adjustments in respect of previous periods	(306)	(184)
***Total deferred tax** (see note 12)*	163	55
Tax on profit/loss on ordinary activities	210	55

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2006 - lower than) the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2007 £000	*2006 £000*
Profit/loss on ordinary activities before tax	1,174	(1,506)
Profit/loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	352	(452)
Effects of:		
Disallowed expenses and non taxable income	36	65
Non-qualifying depreciation/amortisation	88	89
Accelerated capital allowances	(180)	(240)
Short term timing differences	4	1
Loss surrendered as group relief	78	537
Utilisation of losses brought forward	(331)	-
***Current tax charge for the year** (see note above)*	47	-

Notes to the financial statements
For the year ended 30 September 2007

7. Tangible fixed assets

Group	*Freehold Land and buildings £000*	*Assets under construction £000*	*Fixtures, plant and equipment £000*	*Total £000*
Cost				
At 1 October 2006	21,283	43	1,036	22,362
Additions	41	655	104	800
Disposals	-	(120)	-	(120)
At 30 September 2007	21,324	578	1,140	23,042
Depreciation				
At 1 October 2006	408	-	239	647
Charge for the year	355	-	208	563
At 30 September 2007	763	-	447	1,210
Net book value				
At 30 September 2007	20,561	578	693	21,832
At 30 September 2006	20,875	43	797	21,715

Land and buildings includes land at a cost of £3,000,000 which is not depreciated

8. Fixed asset investments

Company	*Shares in group under-takings £000*
Cost or valuation	
At 1 October 2006 and 30 September 2007	2,150
Impairment	
At 1 October 2006	-
Charge for the year	1,492
At 30 September 2007	1,492
Net book value	
At 30 September 2007	658
At 30 September 2006	2,150

Notes to the financial statements
For the year ended 30 September 2007

8. Fixed asset investments (continued)

Details of the principal subsidiaries can be found under note number 20.

The investment in subsidiaries has been impaired in the year as the Directors have considered the market value of the business and in consequence have written down the value of the investment to equal the net assets of the subsidiaries.

9. Stocks

	Group		Company	
	2007 *£000*	*2006* *£000*	*2007* *£000*	*2006* *£000*
Consumable stock	11	4	-	-

The difference between purchase price or production cost of stocks and their replacement cost is not material.

10. Debtors

	Group		Company	
	2007 *£000*	*2006* *£000*	*2007* *£000*	*2006* *£000*
Trade debtors	1,248	908	-	-
Other debtors	6	87	-	-
Prepayments and accrued income	100	96	-	-
	1,354	1,091	-	-

11. Creditors:
Amounts falling due within one year

	Group		Company	
	2007 *£000*	*2006* *£000*	*2007* *£000*	*2006* *£000*
Bank loans and overdrafts	3,300	2,839	-	-
Trade creditors	229	167	-	-
Amounts owed to group undertakings	19,987	20,830	2,150	2,150
Corporation tax	47	-	-	-
Other creditors	157	142	-	-
Accruals and deferred income	438	920	-	-
	24,158	24,898	2,150	2,150

Notes to the financial statements
For the year ended 30 September 2007

12. Deferred taxation

	Group		Company	
	2007	*2006*	*2007*	*2006*
	£000	*£000*	*£000*	*£000*
At 1 October 2006	368	314	-	-
Charge for the year	163	54	-	-
Other movement	-	-	-	-
At 30 September 2007	531	368	-	-

The provision for deferred taxation is made up as follows:

	Group		Company	
	2007	*2006*	*2007*	*2006*
	£000	*£000*	*£000*	*£000*
Accelerated capital allowances	535	368	-	-
Short term timing differences	(4)	-	-	-
	531	368	-	-

13. Share capital

	2007	*2006*
	£000	*£000*
Authorised		
1,000 Ordinary Shares shares of £1 each	1	1
Allotted, called up and fully paid		
1 Ordinary Shares share of £1	-	-

14. Reserves

	Profit and loss account
	£000
Group	
At 1 October 2006	(2,456)
Profit for the year	964
At 30 September 2007	(1,492)

Notes to the financial statements
For the year ended 30 September 2007

14. Reserves (continued)

Company	*Profit and loss account £000*
Loss for the year	(1,492)
At 30 September 2007	(1,492)

15. Reconciliation of movement in shareholders' deficit

Group	*2007 £000*	*2006 £000*
Opening shareholders' deficit	(2,456)	(895)
Profit/(loss) for the year	964	(1,561)
Closing shareholders' deficit	(1,492)	(2,456)

Company	*2007 £000*	*2006 £000*
Opening shareholders' funds	-	-
Profit/(loss) for the year	(1,492)	-
Closing shareholders' deficit	(1,492)	-

The company has taken advantage of the exemption contained within section 230 of the Companies Act 1985 not to present its own Profit and loss Account.

The profit/(loss) for the year dealt with in the accounts of the company was £1,492,000 (2006 - £NIL).

16. Contingent liabilities

Under the terms of the Group Facility Agreement entered into by Covenant Healthcare Group Limited and Bank of Scotland, the Covenant Healthcare Rehabilitation (Holdings) Limited group has given a first and only legal charge over its property, and a first and only debenture and floating charge over all the group assets, property and undertaking, both present and future in favour of the Bank of Scotland.

In addition each subsidiary in the Covenant group have entered into a composite guarantee agreement with Covenant Healthcare Group Limited in connection with the group borrowings.

At 30 September 2007, the group borrowings drawn down under this facility were £104,736,000 (2006- £102,012,000).

Notes to the financial statements
For the year ended 30 September 2007

17. Pension commitments

The group operates a defined contribution pension scheme. The charge for the year was £11,000 (2006 - £3,000), and there were no amounts due to or from the scheme at the year end.

18. Related party transactions

The directors have taken advantage of the exemption in FRS 8 and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

There are no other transactions requiring disclosure under FRS 8 'Related Party Transactions'.

19. Ultimate parent undertaking and controlling party

The company is a subsidiary undertaking of Covenant Healthcare Limited and its ultimate parent undertaking is Covenant Healthcare Group Limited, both companies of which are registered in England and Wales.

The largest group in which the results of the company are consolidated, and the ultimate parent undertaking and controlling party is Covenant Healthcare Group Limited, whose head office is at 3rd Floor, Station House, 8-13 Swiss Terrace, London NW6 4RR. The consolidated financial statements of this company are also available to the public and may be obtained from the register of companies.

20. Principal subsidiaries

Company name	*Country*	*Percentage Shareholding*	*Description*
Covenant Healthcare Rehabilitation (Property) Limited	United Kingdom	100	Development of Private Hospitals
Covenant Churchill Limited	United Kingdom	100	Dormant
Covenant Healthcare Rehabilitation Gibsburn Limited	United Kingdom	100	Dormant
Covenant Healthcare Rehabilitation Limited	United Kingdon	100	Dormant