

Craegmoor Investments Limited

Annual report

for the year ended 31 December 2004

Registered no: 4790555



Craegmoor Investments Limited

Report and financial statements for the year ended 31 December 2004

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Craegmoor Investments Limited

Directors and advisers

Directors

A E Smith (Appointed 21 December 2005)
D Keating (Appointed 21 December 2005)
J Spurling (Appointed 3 January 2006)

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

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Bankers

Barclays Bank plc
PO Box 544
54 Lombard Street
London
EC3V 9EX

Craegmoor Investments Limited

Directors' report for the year ended 31 December 2004

Review of business and future developments

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

This Annual Report for Craegmoor Investments Limited presents, on pages 6 to 34, the consolidated financial statements for the Craegmoor Investments Limited Group ("the Group") for the year ended 31 December 2004.

Craegmoor Investments Limited is an intermediate parent company that invests in a group of companies engaged in the business of ownership, operation and management of care homes.

On 3 September 2004 Craegmoor Investments Limited purchased Autism TASC Services Limited for a consideration of £2,563,000 and on 31 December 2004 the Company purchased Craegmoor Facilities Company Limited (formerly called Forward Housing Limited) from its subsidiary undertaking Parkcare Homes (No.2) Limited for a consideration of £100,962.

Audit opinion qualification

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

Results and dividends

The loss for the year of £8,848,000 (30 weeks ending 31 December 2003: £2,151,000) has been deducted from reserves. The directors do not recommend the payment of an ordinary dividend for the year ended 31 December 2004 (30 weeks ending 31 December 2003: £Nil).

Directors

The directors of the Company who held office up to the date of this report are listed on page 1. In addition M Stratford resigned as a director on 20 May 2004, R Saville resigned as a director on 9 November 2005 and J Newell resigned on as a director on 31 December 2005.

Directors' interests

J Newell, R Saville, and M Stratford were directors of the ultimate parent company in the United Kingdom, Craegmoor Limited and their share interests are shown in the directors' report of that company.

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

No director had any other interests in Craegmoor Investments Limited.

Changes in fixed assets

The movements in tangible and intangible fixed assets during the year are set out in notes 11, 12 and 13 to the financial statements.

Post balance sheet events

Details of post balance sheet events are set out in note 31 to the consolidated financial statements.

Property values

In the opinion of the directors there was no significant difference between market and book values of properties at 31 December 2004.

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 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 individuals potential aptitude and ability. This includes provision of any appropriate training and support.

Craegmoor Investments Limited

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

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 30 days (2003: 30 days).

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.

The Group has also entered into financial derivatives, principally interest rate transactions, to manage the interest rate risk arising from the Group's operations and its sources of finance.

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 interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks.

Statement of directors' responsibilities

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

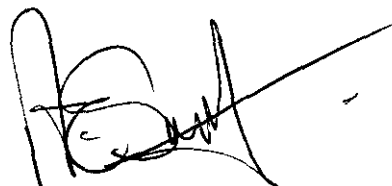
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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.

Auditors

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

By order of the board



A E Smith
Director
14 March 2006

Independent auditors' report to the members of Craegmoor Investments Limited

We have audited the financial statements, which comprise the consolidated profit and loss account, the group and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except that the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned 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 in respect of trade debtors was limited because, as stated in Note 1 (*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 set out in more detail in Note 1 to the financial statements. As a result, we have been unable to satisfy ourselves as to the valuation of trade debtors or to assess the adequacy of the provision for doubtful amounts. We concur with the directors' assessment of the remaining uncertainty as explained in Note 1.

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

Going concern

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

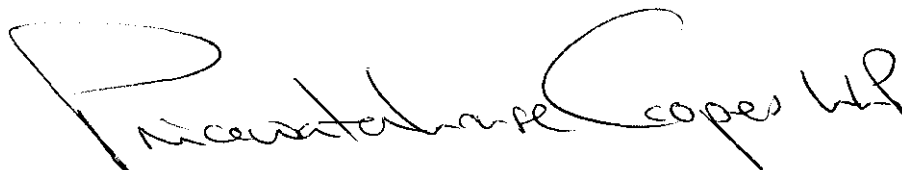
Independent auditors' report to the members of Craegmoor Investments Limited (continued)

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

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

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

During the year, the company did not maintain complete records of sales transactions and cash receipts because of the difficulties described above. Accordingly, in this respect, in our opinion proper accounting records, as required by Section 221 of the Companies Act 1985, have not been kept in respect of trade debtors and provisions for credit notes and doubtful debts.

A large, stylized handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over the printed name of the firm.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
15 March 2006

Craegmoor Investments Limited

Consolidated profit and loss account for the year ended 31 December 2004

		Year to 31 December 2004	Year to 31 December 2004	Year to 31 December 2004	30 weeks to 31 December 2003	30 weeks to 31 December 2003	30 weeks to 31 December 2003
		Before exceptional items	Exceptional items (Note 3)	Total	Before exceptional items	Exceptional items (Note 3)	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Turnover							
- Continuing	2	143,716	-	143,716	-	-	-
- Acquisitions	2	323	-	323	63,971	-	63,971
Total turnover	2	144,039	-	144,039	63,971	-	63,971
Cost of sales	2	(96,552)	-	(96,552)	(41,127)	-	(41,127)
Gross profit	2	47,487	-	47,487	22,844	-	22,844
Administrative expenses excluding depreciation and goodwill amortisation		(19,404)	(6,216)	(25,620)	(5,449)	-	(5,449)
EBITDA*		28,083	(6,216)	21,867	17,395	-	17,395
Depreciation	12	(9,843)	-	(9,843)	(4,523)	-	(4,523)
Goodwill amortisation	11	-	(1,394)	(1,394)	-	(640)	(640)
Total administrative expenses	2	(29,247)	(7,610)	(36,857)	(9,972)	(640)	(10,612)
Operating profit							
- Continuing	2	18,157	(7,610)	10,547	-	-	-
- Acquisitions	2	83	-	83	12,872	(640)	12,232
Total operating profit	2	18,240	(7,610)	10,630	12,872	(640)	12,232
Profit / (Loss) on sale of fixed assets		766	-	766	(117)	-	(117)
Interest receivable and similar income	6	544	-	544	595	-	595
Interest payable and similar charges	7	(21,737)	-	(21,737)	(9,084)	(4,670)	(13,754)
Loss on ordinary activities before taxation	8	(2,187)	(7,610)	(9,797)	4,266	(5,310)	(1,044)
Taxation on loss on ordinary activities	9	949	-	949	(2,508)	1,401	(1,107)
Loss on ordinary activities after taxation		(1,238)	(7,610)	(8,848)	1,758	(3,909)	(2,151)
Loss for the period	21			(8,848)			(2,151)

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

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

Craegmoor Investments Limited

Consolidated statement of total recognised gains and losses for the year ended 31 December 2004

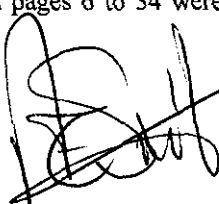
		Year to 31 December 2004	30 weeks to 31 December 2003
	Note	£'000	£'000
Loss for the financial period		(8,848)	(2,151)
Unrealised surplus on revaluation of properties	12 & 21	5,205	-
Total recognised losses for the year		(3,643)	(2,151)

Craegmoor Investments Limited

Balance sheets as at 31 December 2004

	Note	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Fixed assets					
Intangible assets	11	24,417	-	25,811	-
Tangible assets	12	251,050	-	252,354	-
Investments	13	4	134,866	4	132,202
		275,471	134,866	278,169	132,202
Current assets					
Consumable stocks		186	-	189	-
Debtors	14	131,449	-	71,667	-
Restricted deposit accounts	16(c)	3,525	-	9,809	-
Cash at bank and in hand		9,935	-	8,281	-
		145,095	-	89,946	-
Creditors: amounts falling due within one year	15	(44,623)	(2,656)	(51,992)	(67,249)
Net current assets / (liabilities)		100,472	(2,656)	37,954	(67,249)
Total assets less current liabilities		375,943	132,210	316,123	64,953
Creditors: amounts falling due after more than one year	16	(319,675)	(72,210)	(254,401)	(4,953)
Provisions for liabilities and charges	19	(2,062)	-	(3,873)	-
Net assets		54,206	60,000	57,849	60,000
Capital and reserves					
Called up share capital	20	60	60	60	60
Share premium account	21	59,940	59,940	59,940	59,940
Revaluation reserve	21	5,205	-	-	-
Profit and loss account	21	(10,999)	-	(2,151)	-
Equity shareholders' funds	22	54,206	60,000	57,849	60,000

The financial statements on pages 6 to 34 were approved by the board of directors on 14 March 2006 and were signed on its behalf by:



A E Smith
Director

Craegmoor Investments Limited

Consolidated cash flow statement for the year ended 31 December 2004

		Year to 31 December 2004	30 weeks to 31 December 2003
	Note	£'000	£'000
Net cash inflow from operating activities	24	32,037	3,598
Returns on investments and servicing of finance	25(a)	(18,916)	(13,217)
Taxation – UK corporation tax paid		(28)	(690)
Capital expenditure and financial investment	25(b)	(6,155)	(3,322)
Acquisitions and disposals	25(c)	(2,599)	(124,379)
Cash inflow / (outflow) before management of liquid resources and financing		4,339	(138,010)
Financing	25(d)	1,209	134,405
Increase / (Decrease) in cash in the year		5,548	(3,605)

Reconciliation of net cash flow to movement in net debt

Increase / (Decrease) in cash in the year (excluding acquisitions)	26	5,584	(3,605)
Acquisitions	26	(36)	-
Increase / (Decrease) in cash in the year (total)		5,548	(3,605)
Debt relating to acquisitions	27	(13)	(161,597)
Repayment of loan and lease financing	27	5,060	226,325
Change in net debt resulting from cash flows:			
Repayment of rolled up interest	27	2,550	-
Loan finance obtained net of issue costs	27	15	(310,539)
New finance leases (non-cash)	27	(45)	(335)
(Decrease) / Increase in restricted deposits	27	(6,284)	9,809
Amortisation of issue costs (non-cash)	27	(575)	(4,889)
Rolled up interest (non cash)	27	(4,264)	-
Movement in net debt in the year		1,992	(244,831)

Craegmoor Investments Limited

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

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.

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

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

Going Concern

By not delivering audited financial statements within 6 months of the year end, the company and certain of its subsidiaries have not complied with obligations relating to certain borrowings included in the financial statements. Under the terms of the relevant agreements, these failures potentially give rise to events of default which require remediation. The directors have kept the lenders and, where relevant, the lenders' guarantor fully informed of the group's financial position and the progress on resolving the accounting difficulties described above. As a result, the directors are currently in advanced, constructive discussions with lenders to the group and their guarantor for a continuation of current facilities and agreement of revised lending covenants and obligations. The financial statements have been prepared on the going concern basis which assumes that the company and its subsidiaries will successfully conclude these discussions and thus continue to operate normally for the foreseeable future.

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

Basis of consolidation

The consolidated profit and loss account, cash flow statement and balance sheet include the financial statements of the Company and its subsidiary undertakings up to 31 December 2004. All intragroup balances and transactions are eliminated fully on consolidation. The results of businesses acquired are included in the consolidated profit and loss account from the date control passes.

On the acquisition of a business, the acquired assets and liabilities are recorded at their fair values reflecting their condition at that date. All changes to those assets and liabilities (with the exception of subsequent adjustments to fair value as permitted by FRS 7, "Fair values in acquisition accounting") and the resulting gains and losses that arise after the Group has gained control of the business are charged to the post acquisition profit and loss account. In the parent company's own accounts, investments in subsidiaries are carried at cost, less any provision for impairment in value.

Craegmoor Investments Limited

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

1 Principal accounting policies (continued)

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.

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.

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

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

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 adjusted weighted cost of capital of 8.5% (2003: 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.

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.

Craegmoor Investments Limited

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

1 Principal accounting policies (continued)

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.

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.

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.

Stocks

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

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, is 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 18.

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.

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 agreement. Further details are given in note 16(c).

Craegmoor Investments Limited

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

	Year to 31 December 2004	Year to 31 December 2004	Year to 31 December 2004	30 weeks to 31 December 2003	30 weeks to 31 December 2003	30 weeks to 31 December 2003
	Continuing	Acquisitions	Total	Continuing	Acquisitions	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	143,716	323	144,039	-	63,971	63,971
Cost of sales	(96,368)	(184)	(96,552)	-	(41,127)	(41,127)
Gross profit	47,348	139	47,487	-	22,844	22,844
Administrative expenses (before exceptional items)	(29,191)	(56)	(29,247)	-	(9,972)	(9,972)
Exceptional items	(7,610)	-	(7,610)	-	(640)	(640)
Total administrative expenses	(36,801)	(56)	(36,857)	-	(10,612)	(10,612)
Operating profit	10,547	83	10,630	-	12,232	12,232

Full details of acquisitions during the year are given in note 23.

3 Exceptional items

	Year to 31 December 2004	30 weeks to 31 December 2003
	£'000	£'000
Exceptional administrative expenses and interest costs:		
Amortisation of goodwill	1,394	640
Impairment of tangible fixed assets	6,216	-
Amortisation of issue costs (Note 7)	-	4,670
	7,610	5,310

In accordance with the Group's five year valuation policy the land and buildings acquired during 1994 and 1999 were revalued by external valuers, Christie & Co., as at 31 December 2004. In addition, the directors reassessed the carrying value of the remaining freehold land and buildings, 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. Finally, 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. Consequently an impairment charge of £6,216,000 has been recognised (2003: £Nil).

Exceptional interest charges in 2003 relate to the amortisation of issue costs associated with the loan notes redeemed during that year. At 31 December 2003 these issue costs had no value and therefore it was deemed appropriate to fully amortise the remaining costs of £4,670,000. The exceptional interest costs are shown in note 7.

Craegmoor Investments Limited

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

4 Directors' emoluments

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

5 Employee information

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

	Year to 31 December 2004	30 weeks to 31 December 2003
Analysis by function	Number	Number
Nursing	5,097	4,984
Ancillary	783	766
Administration	576	563
	6,456	6,313

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

	Year to 31 December 2004	30 weeks to 31 December 2003
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	75,403	32,285
Social security costs	6,199	2,631
Other pension costs	130	54
	81,732	34,970

6 Interest receivable and similar income

	Year to 31 December 2004	30 weeks to 31 December 2003
	£'000	£'000
Interest receivable on restricted deposit accounts	180	76
Other bank interest receivable	364	449
Proceeds from redemption of interest rate swap arrangement	-	70
	544	595

Craegmoor Investments Limited

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

7 Interest payable and similar charges

	Year to 31 December 2004 £'000	30 weeks to 31 December 2003 £'000
ON BANK LOANS AND OVERDRAFTS:		
Repayable within 5 years by instalments	8	6
Repayable within 5 years not by instalments	-	306
ON LOAN NOTES:		
On Class A & Class B floating rate loan notes repayable partly in more than 5 years by instalments	-	809
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	14,370	5,150
MBIA guarantee fee and surveillance fees	566	217
On interest cap hedging agreement	1,749	1,282
Amortisation of loan note issue costs	576	219
Exceptional amortisation of loan note issue costs (Note 3)	-	4,670
On undrawn facilities	127	12
Other bank interest	5	82
ON OTHER LOANS:		
On loans to other group companies	4,264	957
On finance leases	72	44
	21,737	13,754

Craegmoor Investments Limited

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

8 Loss on ordinary activities before taxation

	Year to 31 December 2004 £'000	30 weeks to 31 December 2003 £'000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets:		
Owned assets	9,140	4,242
Assets held under finance leases	703	281
Amortisation of goodwill	1,394	640
(Profit) / Loss on disposal of tangible fixed assets	(766)	117
Operating lease rentals:		
Land and buildings	522	223
Plant and machinery	264	102
Auditors' remuneration:		
Audit (Company: £10,000 (2003: £3,000))	366	15
Other services to the Company and its UK subsidiaries	204	780

Non-audit fees of £204,000 were paid to PricewaterhouseCoopers LLP, the majority of which related to tax advice provided to the Craegmoor Group. 2003 fees of £780,000 related to work performed in association with the refinancing of the Craegmoor Group.

Craegmoor Investments Limited

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

9 Taxation on loss on ordinary activities

	Year to 31 December 2004 £'000	30 weeks to 31 December 2003 £'000
Current taxation:		
UK corporation tax at 30% (30 weeks ending 31 December 2003: 30%)	931	1,411
Adjustment in respect of previous periods	(69)	-
Total current taxation	862	1,411
Deferred taxation:		
Current year	(139)	(304)
Adjustment in respect of previous periods	(1,672)	-
Total deferred taxation	(1,811)	(304)
Tax (credit) / charge on ordinary activities	(949)	1,107

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

	Year to 31 December 2004 £'000	30 weeks to 31 December 2003 £'000
Loss on ordinary activities	(9,797)	(1,044)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (30 weeks ending 31 December 2003: 30%)	(2,939)	(313)
Effects of:		
Expenses not deductible for tax purposes	3,863	927
Capital allowances less than depreciation	146	297
Movement on tax losses	(7)	500
Adjustment in respect of previous periods	(69)	-
Ineligible fixed asset disposals	(278)	-
Capital gains tax	146	-
Current tax charge	862	1,411

The effect of exceptional items on the taxation charge for 2004 is to reduce the tax charge by £Nil (2003: £1,401,000).

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 £30,223,000 (2003: £21,635,000). Deferred tax liabilities have not been discounted.

In accordance with group accounting policy, deferred tax has not been recognised on an amount of tax losses carried forward due to the uncertainty over their recoverability. The total amount unrecognised is £3,558,000 (2003: £1,160,000) in respect of losses totalling £11,860,000 (2003: £3,867,000).

Craegmoor Investments Limited

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

10 Loss on ordinary activities after taxation

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit for the year was £Nil (30 weeks to 31 December 2003: £Nil).

11 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 1 January 2004 and at 31 December 2004	26,451
Amortisation	
At 1 January 2004	640
Charge for the year	1,394
At 31 December 2004	2,034
Net book value	
At 31 December 2004	24,417
At 31 December 2003	25,811

Craegmoor Investments Limited

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

12 Tangible fixed assets

Group	Freehold land and buildings £'000	Furniture, fittings, plant, equipment and motor vehicles £'000	Total £'000
Cost / Valuation			
At 1 January 2004	251,055	37,697	288,752
Acquisitions (Note 23)	2,543	41	2,584
Additions	4,554	4,966	9,520
Acquired from other group companies	-	187	187
Disposals	(3,150)	(894)	(4,044)
Revaluations (see next page)	4,588	-	4,588
At 31 December 2004	259,590	41,997	301,587
Depreciation			
At 1 January 2004	14,291	22,107	36,398
Charge for the period	4,404	5,439	9,843
Disposals	(698)	(605)	(1,303)
Impairments (see next page)	6,216	-	6,216
Revaluations (see next page)	(617)	-	(617)
At 31 December 2004	23,596	26,941	50,537
Net book value			
At 31 December 2004	235,994	15,056	251,050
At 31 December 2003	236,764	15,590	252,354

Included within tangible fixed assets above are assets held for resale. Tangible fixed assets held for resale at 31 December 2004 are shown below:

	Freehold land and buildings £'000	Furniture, fittings, plant, equipment and motor vehicles £'000	Total £'000
Cost / Valuation at 31 December 2004	5,219	1,847	7,066
Depreciation at 31 December 2004	(2,118)	(1,083)	(3,201)
Net book value at 31 December 2004	3,101	764	3,865

Craegmoor Investments Limited

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

12 Tangible fixed assets (continued)

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. Land and buildings occupied by the Group, which were acquired by Craegmoor Group Limited during 1994 and 1999, were revalued by external valuers, Christie & Co, Chartered Surveyors and Valuers, as at 31 December 2004. This was on the basis of existing use value in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. The directors have also considered the value of the remaining properties at 31 December 2004, and have performed "value in use" calculations for certain of these properties. Similar value in use calculations were performed by the directors at the previous year end.

These have been reviewed in order to compare the assumed performance to the actual results. Details of the results of these assessments are shown in note 3. This resulted in an increase in the net carrying value of certain of these properties by £5,205,000, which has been credited to the revaluation reserve, and an impairment of £6,216,000, which has been charged in the profit and loss account in 2004.

The net book value of furniture, fittings, plant, equipment and motor vehicles includes £870,000 (2003: £1,572,000) in respect of assets held under finance leases. Depreciation of £703,000 (2003: £558,000) was charged in the year on assets held under finance leases.

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

Freehold land and buildings	2004 £'000	2003 £'000
Cost	255,002	251,055
Aggregate depreciation based on cost	(17,997)	(14,291)
Net book value based on cost	237,005	236,764

13 Fixed asset investments

Group	Other investments £'000
Cost and net book value at 1 January 2004	4
Acquisitions	-
Cost and net book value at 31 December 2004	4

Other investments includes listed investments with a book value of £1,606 (2003: £1,606) and a market value of £Nil (2003: £Nil) and government gilts with a book value and market value of £2,000 (2003: £2,000).

Company	Shares in group undertakings £'000	Loans to group undertakings £'000	Other investments £'000	Total £'000
Cost and net book value at 1 January 2004	132,201	-	1	132,202
Acquisitions (Note 23)	1,664	1,000	-	2,664
Cost and net book value at 31 December 2004	133,865	1,000	1	134,866

Other investments include government gilts with a book value and market value of £1,000 (2003: £1,000).

A list of the Company's principal interests in group undertakings is included in note 34.

Craegmoor Investments Limited

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

14 Debtors

	Group	Company	Group	Company
	2004	2004	2003	2003
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	11,973	-	7,738	-
Amounts owed by group companies	113,067	-	59,270	-
Corporation tax recoverable	107	-	152	-
Prepayments and accrued income	2,654	-	2,110	-
Other debtors	3,648	-	2,397	-
	131,449	-	71,667	-

Amounts owed by group companies comprise interest free loans. These loans are repayable on demand.

15 Creditors: amounts falling due within one year

	Group	Company	Group	Company
	2004	2004	2003	2003
	£'000	£'000	£'000	£'000
Bank overdraft – unsecured	169	-	4,063	-
Loan notes (note 16(a))	3,802	-	3,534	-
Bank loans (note 16(b))	-	-	219	-
Trade creditors	5,733	-	2,292	-
Amounts owed to group companies	15,180	2,656	23,801	67,249
Obligations under finance leases (note 17)	234	-	705	-
Other taxation and social security	3,544	-	2,073	-
Accruals and deferred income	12,262	-	10,878	-
Other creditors	3,699	-	4,427	-
	44,623	2,656	51,992	67,249

Loan notes due within one year are shown net of unamortised issue costs totalling £588,000 (2003: £571,000). Amounts owed to group companies comprise interest free loans. These loans are repayable on demand.

Craegmoor Investments Limited

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

16 Creditors: amounts falling due after more than one year

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Loan notes (see (a) below)	229,269	-	233,082	-
Amounts owed to group companies	90,371	72,210	21,076	4,953
Obligations under finance leases (note 17)	35	-	243	-
	319,675	72,210	254,401	4,953

Amounts owed to group companies include loans to Craegmoor Group Limited, a fellow Craegmoor group company, issued under the Subordinated Loan Agreement dated 13 August 2003. At 31 December 2004 these loan notes totalled £16,098,000, (2003: £14,603,000) and are due for repayment in 2023. The remaining amounts owed to group companies comprise interest free loans. There are no defined repayment terms but the companies have confirmed to the directors of Craegmoor Investments Limited that they will not seek any repayments of this loan within the next 12 months.

(A) Loan notes

	2004 £'000	2003 £'000
Class A1 Secured floating rate 2013 Loan Notes	51,054	54,900
Class A2 Secured fixed rate 2023 Loan Notes	97,199	97,062
Class M Secured floating rate 2023 Loan Notes	29,215	29,133
Class B1 Secured floating rate 2023 Loan Notes	14,605	14,566
Class B2 Secured fixed rate 2023 Loan Notes	40,998	40,955
	233,071	236,616

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 Craegmoor 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 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 £4,105,500 (2003: £984,400) 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.

Craegmoor Investments Limited

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

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

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%.

The liabilities disclosed are net of the costs incurred in association with the issue of loan notes. These issue costs totalled £7,333,304 of which £794,275 (2003: £218,576) have been amortised through the profit and loss account at 31 December 2004.

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, RJ Homes 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.*

2013 secured floating rate Class A and Class B Loan Notes

The existing financing structure at 27 July 2001 of Craegmoor Group Limited and its subsidiaries consisting of secured floating rate loan notes with a nominal value of £110,500,000, comprising £72,500,000 Class A and £38,000,000 Class B Loan notes, remained in place at the start of the period. The Class A notes were being redeemed at quarterly intervals commencing on 15 March 2001.

On 15 September 2003 all of the outstanding loan notes were redeemed bringing the total redemption during the period to £105,649,025. The costs associated with the issue of the loan notes totalled £6,304,191. During 2003 up to the date of redemption £350,000 of issue costs were amortised and charged to the profit and loss account. The unamortised issue costs at redemption totalled £4,669,987. These costs were amortised on redemption bringing the total amortisation charged through the profit and loss account in 2003 to £6,304,191.

(B) Bank loans

The existing financing structure of Craegmoor Group Limited included a bank loan provided under the Expenses Loan Facility Agreement dated 23 November 2000. Under the terms of the agreement the loan is repayable in equal instalments over a four year period, and bears interest at commercial rates linked to 3 month LIBOR. During 2004 all remaining amounts under this facility were repaid. At 31 December 2003 the outstanding amount totalled £218,736.

Craegmoor Investments Limited

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

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

(C) Restricted deposits

As part of the 2003 refinancing, the group were required to retain £9,808,755 as restricted deposits, as security to fund approved acquisition opportunities. Of this amount £7,065,512 was released during the year (2003: £Nil) on completion of capital works. 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 2004 this was £670,760 (2003: £Nil). £111,000 of interest was earned on these amounts during the year.

Total restricted deposits are shown separately on the Group balance sheet under current assets. However, the note has been included within creditors falling due after more than one year for completeness with regard to the 2003 refinancing.

17 Analysis of financial liabilities

The disclosures made in notes 17 and 18 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 3. Short term debtors and creditors arising directly from the Group's operations are excluded from the following disclosures.

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 2004 was:

	Floating rate borrowings	Fixed rate borrowings	Total borrowings	Weighted average interest rate	Weighted average time for which rate is fixed
	£'000	£'000	£'000	%	Years
Sterling – financial liabilities					
At 31 December 2004	169	233,340	233,509	6.9	13.9
At 31 December 2003	4,282*	237,564*	241,846	6.8	14.7*

*£98,599 has been reclassified as fixed rate borrowings from floating rate borrowings in recognition of the availability of swaps that manage the interest rate risk.

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

Finance leases repayable as follows:

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
In one year or less	234	-	705	-
Between one and two years	35	-	221	-
Between two and five years	-	-	22	-
	269	-	948	-

Craegmoor Investments Limited

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

17 Analysis of financial liabilities (continued)

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

	Group	Company	Group	Company
	2004	2004	2003	2003
	£'000	£'000	£'000	£'000
In one year or less	4,559	-	8,387	-
Between one and two years	4,693	-	4,390	-
Between two and five years	16,121	-	15,077	-
In more than five years	214,406	-	220,144	-
Less: Unamortised issue costs	(6,539)	-	(7,100)	-
	233,240	-	240,898	-

18 Financial instruments

(a) Financial assets

	Bank and cash balances		Short term loans and deposits	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Sterling	9,935	8,281	3,525	9,809

All bank and cash balances are non interest bearing.

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 4.3% (2003: 3.4%).

(b) Foreign currency exposures

As at 31 December 2004 and 31 December 2003 the Group had no foreign currency exposures.

Craegmoor Investments Limited

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

18 Financial instruments (continued)

(c) Fair values of financial assets and liabilities

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

	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial instruments held or issued to finance the Group's operations:				
Bank and cash balances	9,935	9,935	8,281	8,281
Short term deposits	3,525	3,525	9,809	9,809
Short term borrowings and current portion of long term borrowings	(4,559)	(4,559)	(8,387)	(8,387)
Long term borrowings	(235,220)	(238,713)	(239,611)	(238,664)
Finance leases	(269)	(269)	(948)	(948)
Financial instruments held to manage interest rate exposure				
Interest rate swaps	(11,253)	(14,223)	(11,861)	(11,861)
	(237,841)	(244,304)	(242,717)	(241,770)

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.

(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 related movements are as follows:

	Gains £'000	Losses £'000	Total net loss £'000
Unrecognised gains and losses on hedges at 1 January 2004	-	-	-
Gains and losses arising in 2004 not recognised	-	2,362	2,362
Unrecognised gains and losses on hedges at 31 December 2004	-	2,362	2,362
Expected to be recognised after 2004	-	2,362	2,362

Craegmoor Investments Limited

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

19 Provisions for liabilities and charges

Group	Deferred tax £'000
At 1 January 2004	3,873
Credit to the profit and loss account	(1,811)
At 31 December 2004	2,062

Deferred taxation

	2004 £'000	2003 £'000
Tax effect of timing differences at 30% (2003: 30%) because of:		
Fixed asset timing differences	2,100	3,911
Short term timing differences	(1)	(1)
Losses	(37)	(37)
Potential liability	2,062	3,873

20 Called up share capital

	2004 £'000	2003 £'000
Authorised		
62,000 (2003: 62,000) Ordinary shares of £1 each	62	62
Allotted, called up and fully paid		
60,000 (2003: 60,000) Ordinary shares of £1 each	60	60

21 Other reserves

Group	Share premium account £'000	Revaluation reserve £'000	Profit and loss £'000
As at 1 January 2004	59,940	-	(2,151)
Loss for the period	-	-	(8,848)
Unrealised surplus on revaluation of properties	-	5,205	-
At 31 December 2004	59,940	5,205	(10,999)
Company	Share premium account £'000	Profit and loss £'000	
As at 1 January 2004 and at 31 December 2004	59,940	-	

Craegmoor Investments Limited

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

22 Reconciliation of movements in shareholders' funds

Group	2004	2003
	£'000	£'000
Loss for the financial period	(8,848)	(2,151)
Surplus on revaluation of properties	5,205	-
Net proceeds on issue of ordinary share capital	-	60,000
Net (reduction in) / addition to shareholders' funds	(3,643)	57,849
Opening shareholders' funds	57,849	-
Closing shareholders' funds	54,206	57,849

Company	2004	2003
	£'000	£'000
Net proceeds on issue of ordinary share capital	-	60,000
Net addition to shareholders' funds	-	60,000
Opening shareholders' funds	60,000	-
Closing shareholders' funds	60,000	60,000

23 Acquisitions

During the year the Group acquired the entire share capital of Autism TASC Services Limited for a total consideration of £1,563,105 as analysed below:

	Autism TASC Services Limited	Fair value adjustments	Total at fair values
	£'000	£'000	£'000
Tangible fixed assets	1,041	1,543	2,584
Overdraft	(36)	-	(36)
Current assets	43	-	43
Creditors due within one year	(17)	-	(17)
Creditors due after more than one year	(1,011)	-	(1,011)
	20	1,543	1,563

In addition the company acquired the entire share capital of Craegmoor Facilities Company Limited (formerly called Forward Housing Limited) from its subsidiary undertaking Parkcare Homes (No.2) Limited on 31 December 2004 for a consideration of £100,962 being the value of net assets in Craegmoor Facilities Company Limited. This acquisition has been excluded from the analysis above, as it does not represent an addition to the Group.

The contribution of the acquisition 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 acquisition 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
Autism TASC Services Limited	3 September 2004	1	323	83	110	5

Craegmoor Investments Limited

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

24 Reconciliation of operating profit to operating cash flows

	Year ended 31 December 2004 £'000	30 weeks ended 31 December 2003 £'000
Operating profit	10,630	12,232
Depreciation on tangible fixed assets	9,843	4,523
Impairment of tangible fixed assets	6,216	-
Amortisation of goodwill	1,394	640
(Increase) / Decrease in debtors	(5,986)	1,592
Decrease / (Increase) in intercompany debtors	1,804	(34,395)
Decrease in stocks	3	-
Increase in intercompany creditors	2,569	16,784
Increase in creditors	5,564	2,222
Net cash outflow from operating activities	32,037	3,598

25 Notes to the consolidated cash flow statement

	Year ended 31 December 2004 £'000	30 weeks ended 31 December 2003 £'000
25(a) Returns on investments and servicing of finance		
Interest received	544	595
Interest paid	(19,388)	(13,762)
Interest element of finance lease rental payments	(72)	(46)
Purchase of investments	-	(4)
Net cash outflow for returns on investments and servicing of finance	(18,916)	(13,217)

	Year ended 31 December 2004 £'000	30 weeks ended 31 December 2003 £'000
25(b) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(9,662)	(3,327)
Sale of tangible fixed assets	3,507	5
Net cash outflow for capital expenditure and financial investment	(6,155)	(3,322)

Craegmoor Investments Limited

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

25 Notes to the consolidated cash flow statement (continued)

	Year ended 31 December 2004 £'000	30 weeks ended 31 December 2003 £'000
25(c) Acquisitions and disposals		
Purchase of businesses	(2,563)	(132,202)
Net cash (overdrawn) / in hand from new acquisitions	(36)	7,823
Net cash outflow for acquisitions	(2,599)	(124,379)

The acquisition of Craegmoor Facilities Company Ltd by the company has been excluded from the above analysis as it was acquired from a subsidiary undertaking of the company for a non cash consideration.

	Year ended 31 December 2004 £'000	30 weeks ended 31 December 2003 £'000
25(d) Analysis of changes in financing during the period		
Increase of restricted deposit	6,284	(9,809)
New loan finance / (issue costs)	(15)	310,539
Debt due beyond a year:		
Repayment of loan notes	(4,105)	(172,589)
Repayment of bank loan	(218)	(53,283)
Capital element of finance lease rental payments	(737)	(453)
Issue of ordinary share capital	-	60,000
Net cash inflow from financing	1,209	134,405

26 Movement in cash balances

	2004 £'000	2003 £'000
As at 1 January	4,218	-
Acquisitions	(36)	7,823
Net cash inflow / (outflow)	5,584	(3,605)
At 31 December	9,766	4,218

	Cash at bank and in hand £'000	Bank overdraft £'000	Total £'000
Analysis of cash balances			
As at 1 January 2004	8,281	(4,063)	4,218
At 31 December 2004	9,935	(169)	9,766

Craegmoor Investments Limited

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

27 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 2004	(8,281)	4,063	(9,809)	257,910	948	244,831
Acquisitions	36	-	-	-	13	49
Net cash (inflow) / outflow	(1,690)	(3,894)	-	-	-	(5,584)
Decrease in restricted deposit	-	-	6,284	-	-	6,284
Repayment of loan finance	-	-	-	(4,323)	-	(4,323)
Payment of principal under finance leases	-	-	-	-	(737)	(737)
Inception of finance lease contracts (non-cash)	-	-	-	-	45	45
Amortisation of issue costs (non-cash)	-	-	-	575	-	575
New loans drawn down / issue costs	-	-	-	(15)	-	(15)
Rolled up interest (non cash)	-	-	-	4,264	-	4,264
Repayment of rolled up interest	-	-	-	(2,550)	-	(2,550)
At 31 December 2004	(9,935)	169	(3,525)	255,861	269	242,839

The Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of £44,758 (2003: £335,913).

28 Capital commitments

At 31 December 2004 Craegmoor Investments Limited had no capital commitments (2003: £Nil).

29 Financial commitments

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

	Land and buildings 2004 £'000	Land and buildings 2003 £'000
Expiring within one year	134	153
Expiring between one and two years inclusive	-	70
Expiring in more than five years	421	276
	555	499

Craegmoor Investments Limited

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

30 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 £239,610,000 (2003: £243,716,000).

There is a fixed charge over the assets of the company and a cross guarantee in respect of the external loan undertaken by Craegmoor Funding (No. 2) Limited amounting £10,000 (2003: £10,000).

31 Post balance sheet events

On 19 May 2005 Craegmoor Investments Limited purchased the entire share capital of Sapphire Care Services Limited for a consideration of £7,735,000 and the entire share capital of Proactive Training Solutions Limited for a consideration of £1,000. Of the total consideration, £3,984,000 was deferred and is payable by instalments.

32 Ultimate parent undertaking

The directors regard Craegmoor Group Limited, a company registered in England and Wales, as the immediate parent company of Craegmoor Investments Limited and Craegmoor Limited, a company registered in England and Wales, as the ultimate parent company in the United Kingdom of Craegmoor Group Limited. Copies of Craegmoor Limited's consolidated financial statements may now be obtained from its registered office: Craegmoor House, Perdiswell Park, Worcester, WR3 7NW. At 31 December 2003 Legal & General Group Plc owned 47.61% 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 of Craegmoor Limited.

33 Related party transactions

The legal fees charged by the legal practice of the Company Secretary to certain Group companies, BLG (Professional Services) Limited, during the period amounted to £581,120 (2003: £1,152,392). The creditor balance outstanding at 31 December 2004 amounted to £181,675 (2003: £117,562).

There are no other related party transactions requiring disclosure under FRS 8 "Related party disclosures".

Craegmoor Investments Limited

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

34 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 ³	England & Wales	Ordinary £1 shares	100
Alphabet Children's Services Limited ³	England & Wales	Ordinary £1 shares	100
Apdale Limited ¹¹	England & Wales	Ordinary £1 shares	100
Autism TASCC Services Ltd	England & Wales	Ordinary £1 shares	100
Boughton Manor Nursing Home Limited ⁴	England & Wales	Ordinary £1 shares	100
Challenge Care Limited ¹¹	England & Wales	Ordinary £1 shares	100
Comfort Services Limited ³	England & Wales	Ordinary £1 shares	100
Concept Care Limited ⁴	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (March) Limited ⁶	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (Norfolk) Limited ³	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (Peterborough) Limited ³	England & Wales	Ordinary £1 shares	100
Conquest Care Homes (Soham) Limited ³	England & Wales	Ordinary £1 shares	100
Cotswold Care Services Limited ¹¹	England & Wales	Ordinary £1 shares	100
Craegmoor Facilities Company Ltd	England & Wales	Ordinary £1 shares	100
Craegmoor Finance (No 2) PLC ³	England & Wales	Ordinary £1 shares	100
Craegmoor Finance PLC ³	England & Wales	Ordinary £1 shares	100
Craegmoor Funding PLC ³	England & Wales	Ordinary £1 shares	100
Craegmoor Funding (No 2) Limited ³	Cayman Islands	Ordinary £1 shares	100
Craegmoor Healthcare Company Limited ⁷	England & Wales	Ordinary £1 shares	100
Craegmoor Holdings Limited ⁵	England & Wales	Ordinary £1 shares	100
Ferguson Care Limited ³	England & Wales	Ordinary £1 shares	100
Grovedraft Limited ¹¹	England & Wales	Ordinary £1 shares	100
GWS Claremont Limited ¹¹	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 ³	England & Wales	Ordinary £1 shares	100
Health & Care Services Yorks Limited ¹	England & Wales	Ordinary £1 shares	100
Heddfan Care Limited ¹⁰	England & Wales	Ordinary £1 shares	100
Independent Community Living Limited ⁹	England & Wales	Ordinary £1 shares	100
Independent Community Living (Holdings) Limited ⁸	England & Wales	Ordinary £1 shares	100
Inputrelate Limited ¹²	England & Wales	Ordinary £1 shares	100
J C Care Limited ¹²	England & Wales	Ordinary £1 shares	100
Johnston Care Limited ¹¹	England & Wales	Ordinary £1 shares	100
Lansdowne Road Limited ¹⁰	England & Wales	Ordinary £1 shares	100

Craegmoor Investments Limited

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

34 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 %
La Pierre Care Homes Limited ¹¹	England & Wales	Ordinary £1 shares	100
London Parkcare Limited ³	England & Wales	Ordinary £1 shares	100
Lothlorien Community Limited ¹⁰	England & Wales	Ordinary £1 shares	100
		Ordinary £100 shares	100
Parkcare Homes Limited ³	England & Wales	Ordinary £1 shares	100
Parkcare Homes (No.2) Limited ¹²	England & Wales	Ordinary £1 shares	100
RJ Homes Limited ¹⁰	England & Wales	Ordinary £1 shares	100
Southbank Private Nursing Home Limited ⁴	England & Wales	Ordinary £1 shares	100
Southern Counties Care Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (Care Homes) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (Learning Disabilities) Limited	England & Wales	Ordinary £1 shares	100
Speciality Care (Rehab) Limited ³	England & Wales	Ordinary £1 shares	100
Speciality Care (Rest Care) Limited ⁴	England & Wales	Ordinary £1 shares	100
Speciality Healthcare Limited ³	England & Wales	Ordinary £1 shares	100
Spring Crescent Limited ¹¹	England & Wales	Ordinary £1 shares	100
Strathmore Care Services Limited ¹¹	England & Wales	Ordinary £1 shares	100
Strathmore College Limited ¹¹	England & Wales	Ordinary £1 shares	100
Treehome Limited ¹¹	England & Wales	Ordinary £1 shares	100
Ty-Craig Nursing Home Limited ⁴	England & Wales	Ordinary £1 shares	100
Yorkshire Care Homes Limited ²	England & Wales	Ordinary £1 shares	100
Yorkshire Parkcare Company Limited ³	England & Wales	Ordinary £1 shares	100

¹ Owned by Health & Care Services (UK) Limited

⁷ Owned by Craegmoor Investments Limited

² Owned by Yorkshire Parkcare Company Limited

⁸ Owned by Inputrelate Limited

³ Owned by Craegmoor Holdings Limited

⁹ Owned by Independent Community Living (Holdings) Limited

⁴ Owned by Parkcare Homes Limited

¹⁰ Owned by JC Care Limited

⁵ Owned by Craegmoor Healthcare Company Limited

¹¹ Owned by Parkcare Homes (No.2) Limited

⁶ Owned by Conquest Care Homes (Peterborough) Limited

All the above companies operated in their country of incorporation or registration. With the exception of Craegmoor Finance PLC, Craegmoor Finance (No 2) PLC, Craegmoor Funding PLC, Craegmoor Funding (No2) Limited and Inputrelate Limited, the principal activity of all subsidiary undertakings is the operation of care homes. The principal activity of Craegmoor Finance PLC, Craegmoor Finance (No 2) PLC, Craegmoor Funding PLC and Craegmoor Funding (No 2) Limited is the provision of funds to Craegmoor Investments Limited and its subsidiaries. The principal activity of Inputrelate Limited and Independent Community Living (Holdings) Limited is as an intermediate holding company.