

Avery Care Limited
(formerly Newincco 554 Limited)

**Directors' report and financial
statements**

Registered number 05836940

31 March 2007

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Directors' report

The directors present their first directors' report and financial statements for the period from incorporation to 31 March 2007

Principal activities

The company was incorporated on 5 June 2006

The principal activity of the company during the period was that of a holding company

Change of name

On 26 June 2006, the company changed its name from Newincco 554 Limited to Avery Care Limited

Business review

The results for the period are set out on page 6. The company's loss for the financial period after taxation was £1,549,522

Proposed dividend

The directors do not recommend the payment of a dividend

Directors

The directors who held office during the period were as follows

John Strowbridge	(appointed 29 June 2006)
Ian Matthews	(appointed 29 June 2006)
Hugh Francis	(appointed 1 March 2007)
Olswang Directors 1 Limited	(appointed 5 June 2006)
Olswang Directors 2 Limited	(appointed 5 June 2006)

Financial instruments

The company's financial instruments comprise of interest rate swap contracts, together with cash, debtors, creditors and loans

Political and charitable contributions

The company made no political or charitable donations or incurred any political expenditure during the period

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

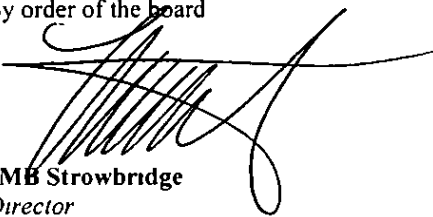
Directors' report *(continued)*

Auditors

KPMG LLP were appointed as the first auditors of the company

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board



JMB Strowbridge
Director

1B Basset Court
Loake Close, Grange Park
Northampton
NN4 5EZ

31 May 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities



KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditors' report to the members of Avery Care Limited (formerly Newincco 554 Limited)

We have audited the financial statements of Avery Care Limited (formerly Newincco 554 Limited) for the period from 5 June 2006, the date of incorporation, to 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report to the members of Avery Care Limited (formerly Newincco 554 Limited) (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its loss for the period from 5 June 2006, the date of incorporation, to 31 March 2007,
- 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 disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern and the terms of the group's funding arrangements. The company incurred a net loss of £1,549,522 during the period ended 31 March 2007 and, at that date, the company's current liabilities exceeded its current assets by £3,408,554. 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 on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

31 May 2007

Profit and Loss Account

for the period from incorporation to 31 March 2007

	<i>Note</i>	10 month period ended 31 March 2007 £
Administrative expenses		(104,533)
Operating loss		(104,533)
Interest receivable	4	29,157
Interest payable	5	(1,474,146)
Loss on ordinary activities before taxation	2-5	(1,549,522)
Tax on loss on ordinary activities	6	-
Loss for the financial period	12	(1,549,522)

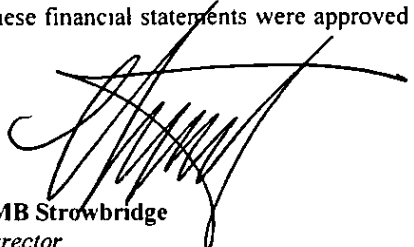
All of the results above derive from continuing activities

All recognised gains and losses for the period are included in the profit and loss account

Balance Sheet
at 31 March 2007

	<i>Note</i>	2007
		£ £
Fixed assets		
Investments	7	28,652,991
Current assets		
Debtors	8	15,479,336
Cash at bank and in hand		40,343
		<hr/>
		15,519,679
Creditors amounts falling due within one year	9	(12,111,125)
		<hr/>
Net current liabilities		(3,408,554)
		<hr/>
Total assets less current liabilities		32,061,545
Creditors amounts falling due after more than one year	10	(33,611,066)
		<hr/>
Net liabilities		(1,549,521)
		<hr/>
Capital and reserves		
Called up share capital	11	1
Profit and loss account	12	(1,549,522)
		<hr/>
Shareholders' deficit		(1,549,521)
		<hr/>

These financial statements were approved by the board of directors on 31 May 2007 and were signed on its behalf by


JMB Strowbridge
Director

Reconciliation of Movements in Shareholders' Funds
for the period from incorporation to 31 March 2007

	10 month period ended 31 March 2007 £
Loss for the financial period	(1,549,522)
New share capital subscribed	1
Opening shareholders' funds	-
Closing shareholders' deficit	<u>(1,549,521)</u>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

The financial statements cover the period from 5 June 2006, the date of incorporation, to 31 March 2007

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluations of land and buildings

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Avery Healthcare Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Avery Healthcare Limited, within which this company is included, can be obtained from the address given in note 15.

Going concern

Notwithstanding net current liabilities at the period end of £3,408,554 the financial statements have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The company is dependent for its working capital on funds provided by Avery Healthcare Limited, the company's ultimate parent. Avery Healthcare Limited has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The support for the company is dependant on the ability of Avery Healthcare Limited to provide the necessary funds. Avery Healthcare Limited made a loss of £4,956,000 in the year ended 31 March 2007 and current liabilities exceeded current assets by £15,083,000 at 31 March 2007. The group's primary investor, has indicated that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the group and in particular will not seek repayment of the amounts currently made available.

The directors of Avery Healthcare Limited have prepared projected group cash flow information for the period ending 22 months from the date of their approval of those financial statements which make assumptions about the level of future trading. They believe that the group will achieve its cash flow forecasts and continue to operate within existing and future funding facilities. However, as with all forecasts, there can be no certainty that the forecasts will be achieved. In particular certain funding, such as the preference share capital, would become immediately repayable on any future listing or sale of Avery Healthcare Limited.

Based on the undertaking from Avery Healthcare Limited and its primary investor the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the uncertainty may cast significant doubt on the company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate. Such adjustments would include the write down of assets to their net realisable value, the reclassification of fixed assets as current assets and the classification of all creditors as falling due within one year.

Notes (continued)

1 Accounting policies (continued)

Investments

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

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Financial instruments

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee

Turnover

Turnover represents the amount receivable in the ordinary course of business from the provision of services (excluding value added tax) to customers. Revenue is recognised on an accruals basis

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Notes (continued)

2 Notes to the profit and loss account

10 month
period ended
31 March
2007
£

Auditors remuneration

Audit of these financial statements	4,000
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4,000

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent, Avery Healthcare Limited

3 Remuneration of directors

No remuneration was paid to the directors, in respect of their services to this company, during the period
The directors were the only employees of the company in the period

4 Interest receivable

10 month
period ended
31 March
2007
£

Bank interest receivable	29,157
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29,157

5 Interest payable

10 month
period ended
31 March
2007
£

On bank loans and overdrafts	1,474,146
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1,474,146

Notes (continued)

6 Taxation

Analysis of charge in period

	10 month period ended 31 March 2007 £
<i>UK corporation tax</i>	
Current tax on income for the period	-
	<hr/>
Tax on loss on ordinary activities	-
	<hr/> <hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is higher than the standard rate of corporation tax in the UK 30%. The differences are explained below

	10 month period ended 31 March 2007 £
<i>Current tax reconciliation</i>	
Loss on ordinary activities before tax	(1,549,522)
	<hr/>
Current tax at 30%	(464,857)
<i>Effects of</i>	
Expenses not deductible	324,525
Unrelieved tax losses arising in the period	26,842
Group relief surrendered	113,490
	<hr/>
Total current tax charge (see above)	-
	<hr/> <hr/>

The company has an unrecognised deferred tax asset of £26,842, in respect of tax losses arising in the period. This asset has not been recognised as their future recoverability against taxable profits cannot be foreseen with reasonable certainty.

Notes (continued)

7 Fixed asset investments

	Shares in group undertakings £
<i>Cost</i>	
At beginning of period	-
Additions	28,652,991
At end of period	28,652,991
<i>Net book value</i>	
At 31 March 2007	28,652,991
At 5 June 2006	-

The company holds 20% or more of the share capital of the following companies

	Country of registration	Nature of business	Shares held class	Proportion of shares held
<i>Subsidiary undertakings</i>				
Hadrian Healthcare Holdings Limited	Great Britain	Care homes	Ordinary	100%
*Hadrian Healthcare Limited	Great Britain	Care homes	Ordinary	100%
*Westdene Management Limited	Great Britain	Property management	Ordinary	100%

* Identifies an indirect shareholding

8 Debtors

	2007 £
Amounts owed by group undertakings	15,306,313
Prepayments and accrued income	833
Other debtors	172,190
	15,479,336

Notes (continued)

9 Creditors: amounts falling due within one year

	2007 £
Bank loans	229,410
Other creditors	167,656
Accruals and deferred income	327,128
Amounts owed to group undertakings	11,386,931
	<u>12,111,125</u>

Although the amounts owed to group undertakings are technically due on demand, the company has received assurances that these amounts will not be called for payment in the foreseeable future

10 Creditors amounts falling due after more than one year

	2007 £
Bank loans	33,611,066
	<u>33,611,066</u>

Analysis of debt

	Bank loans £
At 31 March 2007	
Debt can be analysed as falling due	
In one year or less, or on demand	229,410
Between one and two years	800,686
Between two and five years	10,966,927
In five years or more	21,843,453
	<u>33,840,476</u>

Bank borrowings at 31 March 2007 amounted to £33,840,476 with Royal Bank of Scotland plc

Interest is payable at a rate of LIBOR plus a margin between 1 25%-3%

There is a deed of accession created on 30 June 2006 and registered on 1 July 2006 in favour of John Strowbridge granting a fixed and floating charge to secure all monies due to him, on all property and assets

There is a deed of accession created on 30 June 2006 and registered on 13 July 2006 in favour of Graphite Capital Management Limited granting a fixed and floating charge to secure all monies due to them, on all property and assets

There is a deed of accession created on 30 June 2006 and registered on 17 July 2006 in favour of the Royal Bank of Scotland plc granting a fixed and floating charge to secure all monies due to them, on all property and assets

Notes (continued)

11 Called up share capital

	Number of shares	2007 £
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	1	1
	<hr/>	<hr/>

12 Reserves

	Profit and loss account £
At beginning of period	-
Loss for the period	(1,549,522)
	<hr/>
At end of period	(1,549,522)
	<hr/>

13 Contingent liabilities

The company has guaranteed the indebtedness to the Royal Bank of Scotland plc of the following companies

Avery Healthcare Limited
Avery Health Limited
Avery Care Developments Limited
Supreme Care Homes Limited
Supreme Network Limited

The company acts as a guarantor, or surety, for the above fellow subsidiary undertakings in banking and other agreements entered into by them in the normal course of business. The company's maximum unprovided liability in respect of these is £19,630,368

Group borrowings are secured on the property and assets of the group

Notes (continued)

14 Fair value of assets and liabilities

The company have entered into interest rate swap contracts to hedge against interest rate risk on the bank loans with Royal Bank of Scotland

Balance hedged £	Terms	Maturity date	Fair value £
9,000,000	Fixed at 5.19%	July 2009	102,000
10,000,000	Cap 6.20% / Collar at 4.75%	July 2009	9,000

15 Ultimate parent undertaking and related party disclosures

The company is controlled by its parent undertaking, Avery Healthcare Limited, which is the ultimate parent company. Avery Healthcare Limited has no single controlling party.

The company is a subsidiary undertaking of Avery Healthcare Limited. The only group in which the results of the company are consolidated is that headed by Avery Healthcare Limited. No other group financial statements include the results of the company. The consolidated financial statements of Avery Healthcare Limited are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.