

Barchester HoldCo Limited

**Directors' report and consolidated
financial statements**

Registered number 05843985

31 December 2007

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Contents

Company Information	1
Directors' report	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements	4
Independent auditors' report to the members of Barchester Holdco Limited	5
Consolidated profit and loss account	7
Reconciliation of movement in shareholders' funds	7
Consolidated Balance sheet	8
Balance sheet	9
Consolidated cash flow statement	10
Notes	11

Company Information

Directors	David Duncan Michael Parsons
Secretary	Jon Hather
Registered office	Suite 201 The Chambers Chelsea Harbour London SW10 0XF
Auditors	KPMG LLP Plym House 3 Longbridge Road Marsh Mills Plymouth PL6 8LT
Solicitors	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
Bankers	The Royal Bank of Scotland plc London Corporate Services 2½ Devonshire Square London EC2M 4XJ
Registered number	05843985

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2007

Principal activity

The principal activity of the Company is that of a holding company

Business review

The Company was incorporated on 12 June 2006

The Company was established as a subsidiary undertaking of Grove Limited in 2006. In 2006, Grove Limited then exchanged by way of a share for share exchange, the issued share capital, of two £1 ordinary shares, in Barchester HoldCo Limited for two £1 ordinary shares in Barchester HoldCo (Jersey) Limited

The directors are satisfied with the result for the year and are confident of continued profitability. Details of the result for the year are set out in the profit and loss account on page 7

Bluehood Limited, a subsidiary of Barchester HoldCo Limited, owns the majority of properties of the Barchester Group

Bluehood rents the properties, through an internal lease arrangement, to Barchester Healthcare Homes Limited (operating company)

The operating company operates under the Barchester brand. Barchester commands a leading position in the UK long term care sector and is the UK's fourth largest provider. The business provides in excess of 10,500 registered beds, spread across its portfolio of 172 high quality homes with a national footprint across the UK, the largest proportion located within London and the South East and the remainder evenly spread throughout the UK. The group has a significant number of private pay residents

The measures that the Board use to monitor the Group's progress against its objectives are

- Occupancy rates,
- Fee levels,
- EBITDA and EBITDA per bed,
- Margin,
- Staff and agency costs,

The business is supported by strong future demand based on the demographics of the UK population. The segment of the UK population aged 85 or over is projected to increase from 1,200,000 in 2006 to 1,800,000 in 2021

An important part of the Company's activities is the strength of its property portfolio of healthcare facilities. In this context, the Company's strategy includes the ongoing economic development of the property portfolio and a regular refurbishment programme

Directors' report *(continued)*

Dividends

The directors do not recommend the payment of a dividend (2006 £nil)

Future prospects

The directors expect the Company to maintain its current performance

Directors and directors' interests

The directors who held office during the year were as follows

David Duncan
Owen McGartoll (resigned 4 October 2007)
Michael Parsons

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the company exceeds book values of those assets at 31 December 2007. However, as the company does not adopt a policy of valuation, the excess of market value over book value has not been quantified

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG LLP will therefore continue in office

By order of the board



J Hather
Secretary

Suite 201
The Chambers
Chelsea Harbour
London
SW10 0XF

30 June 2008

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 the directors have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent 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 judgements 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 which 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

Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom

Independent auditors' report to the members of Barchester Holdco Limited

We have audited the group and parent company financial statements (the "financial statements") of Barchester Holdco Limited for the year ended 31 December 2007 which comprise the Consolidated Profit and loss account, the Consolidated and Company Balance sheets, the Consolidated cash flow statement, the Reconciliation of equity 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 Directors' Report and 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 4.

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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report to the members of Barchester HoldCo 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 group's and the parent company's affairs as at 31 December 2007 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG

KPMG LLP
Chartered Accountants
Registered Auditor

14 July 2008

Consolidated profit and loss account
for the year ended 31 December 2007

	Note	2007 £000	Period from 12 June 2006 To 31 December 2006 £000
Group turnover	<i>1</i>	66,385	27,697
Cost of services		(15,915)	(7,666)
Group gross profit and operating profit		50,470	20,031
Interest payable and similar charges	<i>4</i>	(63,071)	(20,787)
Interest receivable and similar income	<i>4</i>	45	191
Loss on ordinary activities before taxation	<i>2</i>	(12,556)	(565)
Tax on loss on ordinary activities	<i>5</i>	(1,735)	8,376
(Loss)/profit for the financial period		(14,291)	7,811

The group has no recognised gains or losses other than those included above

All items related to continuing operations

There is no difference between the results as stated above and the results on a historical cost basis

Reconciliation of movement in shareholders' funds
for the year ended 31 December 2007

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
(Loss)/profit for the financial period	(14,291)	7,811	(48)	2
Equity shareholder's funds at start of period	7,811	-	2	-
Equity shareholder's (deficit) / funds at end of period	(6,480)	7,811	(46)	2

Consolidated Balance sheet
at 31 December 2007

	<i>Note</i>	2007	2006
		£000	£000
Fixed assets			
Tangible assets	6	1,111,922	1,127,779
Current assets			
Debtors	8	35,896	33,487
Cash		10,873	5,211
		<u>46,769</u>	<u>38,698</u>
Creditors: amounts falling due within one year	9	<u>(178,066)</u>	<u>(164,592)</u>
Net current (liabilities)/assets		(131,297)	(125,894)
Total assets less current liabilities		980,625	1,001,885
Creditors: amounts falling due after more than one year	10	(987,105)	(992,505)
Provisions for liabilities	11	-	(1,569)
Net (liabilities)/assets		(6,480)	7,811
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	12	(6,480)	7,811
Equity shareholder's (deficit) /funds		(6,480)	7,811

These financial statements were approved by the board of directors on 30 June 2008 and were signed on its behalf by



David Duncan
Director

Balance sheet
at 31 December 2007

	Note	2007 £000	2006 £000
Fixed assets			
Investments	7	-	-
Current assets			
	8	956,083	957,388
Creditors amounts falling due within one year	9	(9,037)	(5,762)
Net current assets		947,046	951,626
Total assets less current liabilities		947,046	951,626
Creditors amounts falling due after more than one year	10	(947,092)	(950,055)
Provisions for liabilities	11	-	(1,569)
Net (liabilities)/assets		(46)	2
Capital and reserves			
Called up share capital	13	-	-
Profit and loss account	12	(46)	2
Equity shareholder's (deficit) / funds		(46)	2

These financial statements were approved by the board of directors on 30 June 2008 and were signed on its behalf by



David Duncan
Director

Consolidated cash flow statement
for the year ended 31 December 2007

	<i>Note</i>	2007 £000	Period from 12 June 2006 to 31 December 2006 £000
Cash flow statement			
Net cash inflow from operating activities	15	70,924	3,944
Returns on investments and servicing of finance	16	(63,026)	(12,346)
Capital expenditure	16	(58)	(982,596)
Cash inflow/ (outflow) before financing		7,840	(990,998)
Financing	17	(2,178)	996,209
Increase in cash in the period		5,662	5,211

**Reconciliation of net cash flow to
 movement in net debt**

	2007 £000	Period from 12 June 2006 to 31 December 2006 £000
Increase in cash in the period	5,662	5,211
Cash outflow/(inflow) from new loan finance, net of issue costs	2,178	(996,209)
Cash outflow from group finance	4,248	-
Change in debt resulting from cash flows	12,088	(990,998)
Other non cash movements	-	(120,776)
Movement in net debt in the period	12,088	(1,111,774)
Net debt at beginning of year/incorporation	(1,111,774)	-
Net debt at end of period	18	(1,099,686)

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 financial statements, except as noted below

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2007. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985, Barchester HoldCo Limited is exempt from the requirement to present its own profit and loss account.

As the company is a wholly owned subsidiary of Barchester HoldCo (Jersey) 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. The consolidated financial statements of Barchester HoldCo (Jersey) Limited, within which the company is included, can be obtained from the address given in note 20.

The ultimate parent undertaking, Grove Limited, has confirmed that it will continue to support the Company, and the directors consider it appropriate, therefore, to prepare the accounts on a going concern basis.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any provision for impairment.

Notes (continued)

1 Accounting policies (continued)

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets in equal instalments over their estimated useful economic lives as follows

Freehold buildings	-	50 years
Plant and equipment	-	4 to 10 years

No depreciation is charged on freehold land or assets in the course of construction

The estimated residual value of the Group's freehold buildings reflects the high quality nature of these assets and the Group's practice to maintain these assets in a continual state of sound repair and to make improvements thereto from time to time

Leases

Assets acquired under finance leases are capitalised and the outstanding finance lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Taxation

The charge for taxation is based on the (loss)/profit for the year 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 which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Cash and liquid resources

Cash comprises cash in hand and on overnight deposit accounts and, for the purpose of the cash flow statement only, overdrafts

Liquid resources comprise short term deposits which have maturity dates of up to one year

Turnover

Revenue is derived from leasing its properties to a related undertaking under an operating lease

2 Loss on ordinary activities after taxation

	2007 £000	2006 £000
<i>Loss on ordinary activities after taxation is stated after charging</i>		
Depreciation of tangible fixed assets		
Owned	15,915	7,666
	<u> </u>	<u> </u>

Notes (continued)

2 Loss on ordinary activities before tax (continued)

Auditors' remuneration

	2007 £000	2006 £000
Audit	6	6

The remuneration of the was borne by another group company. The amount above is management's best estimate of the proportion relating to this Company.

3 Staff numbers and costs

There were no persons employed by the Company during the period. The directors received £nil emoluments for services to the Company during the year. The directors received remuneration for services to Grove Limited of which Barchester HoldCo Limited is a subsidiary undertaking, however, the proportion attributable to their services to Barchester HoldCo Limited is not separately identifiable.

4 Net interest payable and similar charges

	2007 £000	2006 £000
On bank loans and overdrafts	(62,278)	(10,232)
On loan notes	-	(7,570)
Amortised loan issue costs	(793)	(993)
Other interest and similar charges	-	(1,992)
	<u>(63,071)</u>	<u>(20,787)</u>
Interest receivable	45	191
	<u>(63,026)</u>	<u>(20,596)</u>

5 Taxation

Analysis of charge in year

	2007 £000	2006 £000
UK corporation tax		
Current tax on income for the year	-	-
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination/reversal of timing differences	216	(8,376)
Adjustments in respect of prior periods	1,519	-
	<u>1,735</u>	<u>(8,376)</u>

Notes (continued)

5 Taxation (continued)

Factors affecting the tax charge for the current year

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

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(12,556)	(565)
Current tax at 30%	(3,767)	(170)
<i>Effects of</i>		
Income not allowable for tax purposes	(1,111)	(197)
Losses carried forward	2,479	8,363
Capital allowances for the year in excess of depreciation	(2,219)	210
Group relief	127	(5,519)
Transfer pricing adjustments	556	(2,687)
Non qualifying depreciation	3,935	-
Total current tax charge (see above)	-	-

6 Tangible fixed assets

Group	Land and buildings £000	Fixtures and fittings £000	Plant and equipment £000	Total £000
<i>Cost</i>				
At 1 January 2007	1,093,254	42,061	130	1,135,445
Additions	58	-	-	58
At 31 December 2007	1,093,312	42,061	130	1,135,503
<i>Depreciation</i>				
At 1 January 2007	3,150	4,484	32	7,666
Charge for year	6,930	8,941	44	15,915
At 31 December 2007	10,080	13,425	76	23,581
<i>Net book value</i>				
At 31 December 2007	1,083,232	28,636	54	1,111,922
At 31 December 2006	1,090,104	37,577	98	1,127,779

Notes (continued)

6 Tangible fixed assets (continued)

The net book value of land and buildings comprises

	2007 £000	2006 £000
Freehold	1,012,877	1,022,574
Long leasehold	70,355	67,530
	<u>1,083,232</u>	<u>1,090,104</u>

7 Fixed asset investments

Company	Shares in subsidiary undertaking £
<i>Cost and net book value</i>	
At beginning of year	1
Additions	-
	<u>1</u>
At end of year	<u>1</u>

The result for the subsidiary listed below are consolidated into those of the Group from the date of acquisition

	Country of incorporation	Principal activity during the year	Class and percentage of shares held
Bluehood Limited	England and Wales	Ownership and rental of properties	Ordinary – 100%

8 Debtors

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Due within one year				
Deferred tax asset	6,641	8,376	-	-
Prepayments and accrued income	29,255	25,111	-	-
Amount owed by related and subsidiary undertakings	-	-	956,083	957,388
	<u>35,896</u>	<u>33,487</u>	<u>956,083</u>	<u>957,388</u>

The amounts owed by related and subsidiary undertakings are unsecured and not subject to any fixed repayment date

Amounts due from related and subsidiary undertakings stated above are legally due on demand and are thus recoverable within one year although it is not expected that the demand would be made or that these amounts will be received within the next year

Notes (continued)

9 Creditors: amounts falling due within one year

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Bank loans and overdrafts (net of unamortised issue costs of £2,790,000 (2006 £2,845,000))	5,673	2,451	3,236	651
Amounts owed to related undertakings	147,037	147,109	5,801	4,749
Other creditors	-	362	-	362
Accruals and deferred income	25,356	14,670	-	-
	<u>178,066</u>	<u>164,592</u>	<u>9,037</u>	<u>5,762</u>

10 Creditors: amounts falling due after more than one year

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Bank loans and overdrafts (net of unamortised issue costs of £12,903,000 (2006 £16,004,000))	987,105	992,505	947,092	950,055

Analysis of total borrowings (excluding interest bearing inter-company borrowings)

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Bank loans and other loans falling due				
In one year or less	5,673	2,451	3,496	651
Between one and two years	7,116	4,630	5,675	4,630
Between two and five years	34,401	26,523	29,658	26,523
In five years or more	945,588	961,352	930,727	918,902
	<u>992,778</u>	<u>994,956</u>	<u>969,556</u>	<u>950,706</u>

The bank loans all bear interest at a margin over LIBOR

Group	Amount outstanding at 2007 year end £000
Bank loans (gross of unamortised finance costs)	<u>1,008,471</u>

The above bank loans bear an average interest rate of a margin over LIBOR of 1.5%

Bank loans and other loans are secured over all buildings of the Group by way of a fixed and floating charges

Notes (continued)

11 Provisions for liabilities

Group and company	Other Provisions £000
At 1 January 2007	1,569
Utilised during the year	(1,569)
	<hr/>
At 31 December 2007	-
	<hr/>

12 Reserves

	Group	Company
	Profit and loss account £000	Profit and loss account £000
At beginning of year	7,811	2
(Loss)/profit for the financial year	(14,291)	(48)
	<hr/>	<hr/>
At end of year	(6,480)	(46)
	<hr/>	<hr/>

13 Share capital

	2007 £	2006 £
Authorised		
100,000 Ordinary shares of £1 each	100,000	100,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2
	<hr/>	<hr/>

Notes (continued)

14 Related party disclosures

The Company has taken advantage of the exemption conferred by FRS 8 and does not disclose transactions with its subsidiary undertakings

15 Reconciliation of operating profit to net cash inflow from operating activities

	2007 £000	2006 £000
Operating profit	50,470	20,031
Depreciation and amortisation charges	15,915	7,666
(Increase)/decrease in debtors	(4,144)	(25,111)
Increase/(decrease) in creditors	10,252	1,358
Increase/(decrease) in provisions	(1,569)	-
	<u>70,924</u>	<u>3,944</u>

16 Analysis of cash flows

	2007 £000	2006 £000
Returns on investments and servicing of finance		
Interest paid	(63,071)	(12,537)
Interest received	45	191
	<u>(63,026)</u>	<u>(12,346)</u>
Capital expenditure		
Payments to acquire tangible fixed assets	(58)	(982,596)

Notes (continued)

17 Financing

	2007 £000	2006 £000
Payment of loans	(2,178)	(444)
New loans, net of issue costs	-	996,653
	<u>(2,178)</u>	<u>996,209</u>

18 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other movements £000	At end of year £000
Cash at bank and in hand	5,211	5,662	-	10,873
	<u>5,211</u>	<u>5,662</u>	<u>-</u>	<u>10,873</u>
Debt due within one year	(2,451)	(2,529)	(56)	(5,036)
Debt due after one year	(992,505)	6,063	(1,300)	(987,742)
Amounts due to ultimate parent undertaking	(122,029)	-	4,248	(117,781)
	<u>(1,111,774)</u>	<u>9,196</u>	<u>2,892</u>	<u>(1,099,686)</u>

19 Post balance sheet events

It has been announced that the corporation tax rate applicable to the Company will change from 30% to 28% from 1 April 2008

20 Ultimate parent company and parent undertaking of larger group of which the Company is a Member

The Company is a wholly owned subsidiary undertaking of Barchester HoldCo (Jersey) Limited, a company incorporated on 28 June 2006 and registered in Jersey

The Company's ultimate parent undertaking is Grove Limited, a company incorporated and registered in Jersey

The smallest group in which the results of the Company are consolidated is that headed by Barchester HoldCo (Jersey) Limited

The largest group in which the results of the Company are consolidated is that headed by Grove Limited. The consolidated accounts of Grove Limited are available to the public and may be obtained from

22 Grenville Street
St Helier
Jersey
JE4 8PX
Channel Islands

Notes (continued)

21 Fair value of assets and liabilities

The Group has derivative financial instruments that have not been recognised at fair value. This is because the group is not required to apply FRS 26 'Financial Instrument Measurement'. The financial instruments are as follows:

Derivative	Maturity Date	Fair value	
		2007 £000	2006 £000
Interest rate swap	28 September 2029	7,018	10,238
Interest rate swap	28 September 2029	1,075	1,075
Interest rate swap	28 September 2029	2,519	3,811
Interest rate swap	28 September 2029	1,561	2,352
LPI swap	30 June 2031	85,101	59,600
LPI swap	30 June 2031	59,214	41,470

The financial instruments held within Barchester Holdco Limited, the company, is nil.