NFAH Limited

Directors' report and consolidated financial statements

Registered number 05989700

For the 21 weeks ended 31 March 2007

Contents

Directors' report

The directors present their annual report and the audited consolidated financial statements for the period ended 31 March 2007

Principal activities

The Company was established on 6 November 2006 Its subsidiary NFAG Limited acquired The National Fostering Agency Limited and The National Fostering Agency (Scotland) Limited on 7 December 2006

The principal activities of its subsidiaries are the provision of foster placements and services for local authorities The principal activity of the Company is holding of investments for the group

Business review

Overview

Sales for the 21 week period to 31 March 2007 were £11,198,000 and the Operating profit for the period to 31 March 2007 was £1,098,000

The investment was made in the Group by Sovereign Capital because Sovereign Capital plans to work with the management to expand the business through both organic and acquisitive growth Through this strategy of buy-and-build, the Group intends to further develop the activities of its subsidiaries and their customer base in the areas in which they currently operate and, in addition, to widen their geographic reach

Objectives and strategy

The Mission Statement of the Group is

> *The National Fostering Agency works in partnership with foster carers and local authorities to provide carefully matched placements of quality care*

As part of achieving this Mission, the Group have defined objectives for growth in both sales through increased foster placements and profitability There are also a number of supporting or non-financial objectives which interact with those for sales and profitability growth

These non-financial objectives include the development of new or enhanced services, in partnership with local authorities, for improvements in customer service, particularly through upgrades and advances with the IT systems, and for the recruitment of high quality foster carers and providing effective ongoing training

Markets and regulatory

The Group operates throughout the United Kingdom in 7 regions each having a regional head who leads a locally based team of qualified social workers

There are differences in the regulatory regime across the United Kingdom In England it has been the responsibility of the Commission for Social Care Inspection (CSCI) and from 1 April 2007 Ofsted has taken over that responsibility In Wales it is the Care Standards Inspectorate for Wales, and in Scotland the Scottish Commission for the Regulation of Care However, the services, approach and systems operated by each regional team is the same

The regional teams pride themselves on finding the closest possible match when children need to be placed in foster care All the subsidiaries' foster carers are trained, assessed, approved and fully supported by the subsidiaries

The regional teams work in partnership with local authorities and all other agencies to achieve the best possible outcome for all children who need to be looked after

Directors' report *(continued)*

Business review *(continued)*

Markets and regulatory *(continued)*

The Group is committed to providing the highest standards of training for both staff and foster carers The training programme, which is based upon the Fostering Network guidance, is thorough and continuous and provided by a dedicated training team supported by specialist external trainers when needed All the Group's foster carers receive extensive training that includes

- Communicating with children
- Managing difficult behaviour
- Safe caring
- Working in partnership

In recent years, recording, monitoring and analysing outcomes has become a key part of the national agenda for children and young people This has been highlighted by recent Government policy as detailed in 'Every Child Matters', the National Service Framework and 'A Better Education for Children in Care' The former sets out five outcomes for children and details the priority national target as

- Be healthy
- Stay safe
- Enjoy and achieve
- Make a positive contribution
- Achieve economic well being

The Group's database system provides a sophisticated IT system that ensures that they can measure and record a number of key outcomes for children in its care These are recorded on a secure database and allow the Group to monitor each individual placement and foster carer, as well as providing overall reporting information

Performance

It is planned that the growth with long standing local authority partners will continue in part because the Groups charges are amongst the most competitive in the sector While the Group do offer some of the best value prices, they do not compromise on quality and strive to offer the highest possible standards for local authorities It is Group's policy to have open and transparent charges that are agreed in advance

With other local authorities the growth is planned mainly through new contracts which take a variety of formats including a Service Level Agreement, a Contract for the Provision of Fostering Services, a Service Specification for a Preferred List or a Select List Scheme The Group has been successful in tenders that give them the foundation to develop new services with local authorities or to work with new local authorities

The Group monitors their performance through monthly Management Accounts and KPIs, the most important of which is the number of Foster Placements

Risk and uncertainties

The Group faces risks through the recruitment of inappropriate staff or foster carers, where reputational risks would follow

The Group's staff are appointed after a thorough assessment based on references, qualifications and CRB checks

Directors' report *(continued)*

Business review *(continued)*

Risk and uncertainties (continued)

Foster carers provide security and stability to children in their homes After a thorough assessment and approval by an independent panel all new foster carers attend the Group's 'Skills to Foster' course before they take their first foster placement

The Group operates in a sector that is registered, inspected and reported upon in England by CSCI/Ofsted and the Welsh and Scottish Carer Inspectorates in those countries Reports are done on all the Group's registered offices and are available on the internet

The Group has a Quality Assurance department that ensures it maintains a service to children, foster carers and local authorities that is of the highest standard It is the Quality Assurance department's role to promote continuous improvement in all aspects of the Group's services and it strives to achieve this by setting high performance standards and regularly reviewing and updating policy and procedures The Quality Assurance department provides information, advice and support to staff at all levels across the Group thus ensuring compliance with both internal and external minimum standards and best practice and part of the Quality Assurance department's role is the coordination of all internal and external audits and inspections

In relation to complaints, it is the Quality Assurance department that will advise staff and monitor outcomes and where appropriate responds to formal complaints and when necessary undertakes investigations

The Group's Quality Assurance department liaises with a number of external stakeholders including CSCI, BAAF and Fostering Network thus playing its part in maintaining national minimum standards

Proposed dividend

The directors do not recommend the payment of a dividend

Directors

The directors who held office during the period were as follows

J A C S Greaves	(appointed 6th November 2006, resigned on 17th November 2006)
G A Williams	(appointed 17th November 2006, resigned on 7th December 2006)
D S Dalli	(appointed 17th November 2006)
M J Lovett	(appointed 7th December 2006)
E M Beech	(appointed 7th December 2006)
R Robson	(appointed 7th December 2006)
M G Hill	(appointed 7th December 2006)
P Walters	(appointed 2nd February 2007)

Employees and employment policies

The Group has a policy of involving employees at all levels and keeping them informed through regular briefing session conducted by senior management

The Group has an employment policy which is considered best practice in the country of origin The Group follows an employment policy of non-discrimination on the grounds of sex, race or age and gives full and fair consideration to the employment of disabled persons

Wherever possible the employment member of staff who becomes disabled will be continued and appropriate training and career development offered

Directors' report *(continued)*

Political and charitable contributions

The Group 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 Group'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 Group's auditors are aware of that information

Auditors

KPMG LLP were appointed as auditors during the year 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 forth coming Annual General Meeting

By order of the board

MJ Lovett
Director

Frays Court
71 Cowley Road
Uxbridge
UB8 2AE

16th July 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 Group and the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The Group and the parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Group 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 Group and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP
Aquis Court
31 Fishpool Street
St Albans
AL3 4RF
United Kingdom

Independent auditors' report to the members of NFAH Limited

We have audited the Group and the parent Company financial statements of NFAH Limited for the period ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, 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 5

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 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 NFAH 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 affairs of the Company and the Group as at 31 March 2007 and of the loss for the Group for the period 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 LLP

KPMG LLP
Chartered Accountants
Registered Auditor

16 JULY 2007

Consolidated profit and loss account

for the 21 weeks ended 31 March 2007

	Notes	For the 21 weeks ended 31 March 2007 £000
Turnover	2	11,198
Cost of sales		(6,872)
Gross profit		4,326
Administrative expenses		(3,268)
Other operating income		40
Operating profit		1,098
Interest receivable and similar income	6	6
Interest payable and similar charges	7	(1,510)
Loss on ordinary activities before taxation	3-7	(406)
Tax on loss on ordinary activities	8	(259)
Loss for the financial period		(665)

The profit and loss account has been prepared on the basis that all operations are continuing operations

There are no recognised gains and losses other than those passing through the profit and loss account

Consolidated balance Sheet

at 31 March 2007

	Notes	2007 £000	2007 £000
Fixed assets			
Intangible assets	9		42,130
Tangible assets	10		3,829
			45,959
Current assets			
Debtors	12	4,696	
Cash at bank and in hand		1,846	
		6,542	
Creditors amounts falling due within one year	13	(5,448)	
Net current assets			1,094
Total assets less current liabilities			47,053
Creditors amounts falling due after more than one year	14		(47,620)
Net liabilities			(567)
Capital and reserves			
Called up share capital	16		1
Share premium account	17		97
Profit and loss account	17		(665)
Shareholders' deficit			(567)

These financial statements were approved by the board of directors on 16/7/07 and were signed on its behalf by

MG Hill — signature
MG Hill
Director

EM Beech
Director

Company balance Sheet
at 31 March 2007

	Notes	2007 £000	2007 £000
Fixed assets			
Investments	*11*		294
Current assets			
Debtors due in more than one year	*12*	26,504	
Debtors due in less than one year	*12*	5	
	12	26,509	
Cash at bank and in hand		150	
		26,659	
Creditors amounts falling due within one year	*13*	(839)	
Net current assets			25,820
Total assets less current liabilities			26,114
Creditors amounts falling due after more than one year	*14*		(26,473)
Net liabilities			(359)
Capital and reserves			
Called up share capital	*16*		1
Share premium account	*17*		97
Profit and loss account	*17*		(457)
Shareholders' deficit			(359)

These financial statements were approved by the board of directors on 16/7/07 and were signed on its behalf by

Michael Hill

MG Hill
Director

EM Beech
Director

Consolidated cash flow statement

for the 21 weeks ended 31 March 2007

	Notes	For the 21 weeks ended 31 March 2007 £000
Cash flow from operating activities	19	1,777
Return on investments and servicing of finance	20	(1,864)
Taxation		(300)
Capital expenditure	20	(3,664)
Acquisitions and disposals	20	(45,199)
Cash outflow before management of liquid resources and financing		(49,250)
Financing	20	51,096
Increase in cash in the period		1,846

Reconciliation of net cash flow to movement in net debt

	Notes	For the 21 weeks ended 31 March 2007 £000
Increase in cash in the period		1,846
Cash inflow from increase in debt	21	(49,596)
Change in net debt resulting from cash flows		(47,750)
Other non cash items	21	(72)
Movements in net debt in the period		(47,822)
Net debt at the start of the period	21	-
Net debt at the end of the period	21	(47,822)

Reconciliation of movements in shareholders' funds
for the 21 weeks ended 31 March 2007

	Group For the 21 weeks ended 31 March 2007 £000	Company For the 21 weeks ended 31 March 2007 £000
Loss for the period	(665)	(457)
Issue of ordinary shares	98	98
Net reduction to shareholders' fund	**(567)**	**(359)**
Opening shareholders' fund	-	-
Closing shareholders' deficit	(567)	(359)

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

Basis of preparation

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

The accounts have been prepared on a going concern basis notwithstanding the Group's net liabilities of £567,000 The directors believe this is appropriate in view of the projected operating and funding cash flows of the Group together with their future plans for the business which will enable the Group to meet its liabilities for the foreseeable future

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings up to 31 March 2007 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired in the period are included in the consolidated profit and loss account from the date of acquisition

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised Positive goodwill is amortised to nil be equal annual instalments over its estimated useful life of 20 years

Investments

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

Fixed assets and depreciation

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

Freehold buildings	-	straight line over 50 years
Plant and machinery	-	straight line over 3 years
Fixtures, fittings & equipment	-	25% reducing balance basis
Motor vehicles	-	25% reducing balance basis

No depreciation is provided on freehold land

Turnover

Turnover represents amounts receivable for services net of VAT Turnover is recognised at the end of every month based on the placements made on a daily basis

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the loss 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

Leases

Operating lease rental are charged to the profit and loss account on a straight line basis over the period of the lease

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Financial instruments

In accordance with FRS 4 Capital Instruments, costs related to securing debt and loans have been netted against the face value of the debt These costs are amortised to the profit and loss account as part of interest payable and similar charges over the term of the debt

2 Turnover

The total turnover of the company for the period has been derived from its principal activity wholly undertaken in the United Kingdom

3 Loss on ordinary activities before taxation

	For the 21 weeks ended 31 March 2007 £000
Loss on ordinary activities before taxation is stated after charging	
Depreciation	44
Amortisation of goodwill and other intangible fixed assets	668
Hire of other assets – operating leases	67

Notes *(continued)*

3 Loss on ordinary activities before taxation *(continued)*

Auditors' remuneration

	For the 21 weeks ended 31 March 2007 £000
KPMG LLP	
Amounts receivable by the auditors and their associates in respect of	
Audit of financial statements of subsidiaries pursuant to legislation	36
Other services relating to taxation	8
All other services	3
BDO Stoy Hayward LLP	
Amounts receivable by the auditors and their associates in respect of	
All other services	297
Hazlems Fenton Chartered Accountants	
Amounts receivable by the auditors and their associates in respect of	
All other services	14

The BDO Stoy Hayward LLP fees of £297,000 have been capitalised as part of the cost of investment and finance costs

4 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows

	Number of employees 2007
Directors	5
Administration	118
	123

The aggregate payroll costs of these persons were as follows

	For the 21 weeks ended 31 March 2007 £000
Wages and salaries	1,706
Social security costs	194
	1,900

The Company has no members of staff and the Directors' remuneration is borne by fellow group companies

Notes *(continued)*

5 Directors' emoluments

	For the 21 weeks ended 31 March 2007 £000
Emoluments for qualifying services	123

Emoluments disclosed above include the following amounts paid to the highest director

	For the 21 weeks ended 31 March 2007 £000
Emoluments for qualifying services	55

6 Interest receivable and similar income

	For the 21 weeks ended 31 March 2007 £000
Bank Interest receivable	6

7 Interest payable and similar charges

	For the 21 weeks ended 31 March 2007 £000
On bank loans and overdrafts	598
On all other loans	840
Amortisation of issue costs	72
	1,510

Notes *(continued)*

8 Taxation

Analysis of charge in period

	For the 21 weeks ended 31 March 2007 £000
UK corporation tax	
Current tax on income for the period	**301**
Deferred tax (see note 12)	
Origination of timing differences	**(42)**
Total current tax	**259**

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

	For the 21 weeks ended 31 March 2007 £000
Loss on ordinary activities before taxation	**(406)**
Current tax at 30%	**(122)**
Effects of	
Expenses not deductible for tax purposes	**424**
Small company relief	**(1)**
Current tax charge	**301**

Factors that may affect future current and total tax charges

The recently announced change in corporation tax rate from 30% to 28% on 1 April 2008 and the gradual phasing out of certain capital allowances has not yet been enacted by the House of Commons Once this is enacted, this charge will have a significant effect for the purposes of the current and deferred tax calculations

Notes *(continued)*

9 Intangible fixed assets

Group

	Goodwill £000
Cost	
Acquisition during the period	42,798
At end of period	**42,798**
Amortisation	
Charged in the period	668
At end of period	**668**
Net book value	
At 31 March 2007	**42,130**

Purchased goodwill is being amortised over 20 years The Directors believe that this is appropriate because the trend of growth in the total market is expected to continue, as is the proportion of fostering placements placed by Local Authorities to Independent Fostering Agencies The subsidiary Company, The National Fostering Agency, has grown steadily over the last 10 years and has a strong foundation for continued growth The Group also has a comprehensive Care IT system, a Regional structure across Britain, a central Quality Assurance team and a Carer / Staff Training team to support this Regional structure It is the strength of this Operational foundation which justifies the long term view taken on goodwill

10 Tangible fixed assets

Group

	Freehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Motor vehicles £000	Total £000
Cost					
Transfer on acquisition	-	126	185	299	610
Additions	3,642	-	22	-	3,664
Disposals	-	-	-	(143)	(143)
At end of period	**3,642**	**126**	**207**	**156**	**4,131**
Depreciation					
Transfer on acquisition	-	84	56	211	351
Charge for period	22	5	14	3	44
Disposals	-	-	-	(93)	(93)
At end of period	**22**	**89**	**70**	**121**	**302**
Net book value					
At 31 March 2007	**3,620**	**37**	**137**	**35**	**3,829**

Notes *(continued)*

11 Fixed asset investments

Company

	Shares in group undertakings £000
Cost	
Additions	294
At 31 March 2007	**294**

The companies in which the Company's interest at the period end is more than 20% are as follows

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held Group	Company
Subsidiary undertakings					
NFAG Limited	England & Wales	Holding of investments and properties for the group	Ordinary	100%	100%
The National Fostering Agency Limited	England & Wales	Provision of foster placements and services for local authorities	Ordinary	100%	-
The National Fostering Agency (Scotland) Limited	England & Wales	Provision of foster placements and services for local authorities	Ordinary	100%	-

12 Debtors

	Group 2007 £000	Company 2007 £000
Amounts owed from group companies	-	26,504
Trade debtors	4,375	-
Other debtors and prepayments	301	5
Deferred taxation	20	-
	4,696	26,509

Included in Company debtors due from group companies is £26,504,000 due in more than 1 year

Included in Group debtors is £20,000 which is due in more than 1 year

Notes *(continued)*

12 Debtors *(continued)*

	Deferred taxation £000
At beginning of period	-
Purchased as part of acquisition	(22)
Credit to the profit and loss for the period	42
At 31 March 2007	20

The elements of deferred taxation are as follows

	2007 £000
Difference between accumulated depreciation and amortisation and capital allowances	20
Deferred tax asset	20

13 Creditors: amounts falling due within one year

	Group 2007 £000	Company 2007 £000
Bank loans	2,048	-
Trade creditors	345	-
Corporation tax	465	-
Other taxation and social security	200	-
Accruals and deferred income	2,390	839
	5,448	839

14 Creditors: amounts falling due after more than one year

	Group 2007 £000	Company 2007 £000
Bank loans - Senior Debt	21,148	-
Loan Stock	26,472	26,473
	47,620	26,473

Notes *(continued)*

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

Analysis of debt

	2007 £000
Debt can be analysed as falling due	
In one year or less, or on demand	2,200
Between one and two years	2,800
Between two and five years	11,000
In five years or more	34,998
	50,998
Less issue costs	(1,330)
Net debt	49,668

The total company loan stock of £26,473,000 falls due in five years or more

Bank loans:

Senior debt A Bank loan which accounts for £16,000,000 of the outstanding bank loan attracts an interest rate of LIBOR plus 2 25% with capital repayments at six-monthly intervals on 30 September and 31 March each year until 31 March 2012 commencing on 30 September 2007

Senior debt B Bank loan which accounts for £8,000,000 of the outstanding bank loan attracts an interest rate of LIBOR plus 2 75% with capital repayments in two equal instalments on 30 September 2012 and 31 March 2013

The bank loans are secured by a debenture and standard security giving fixed and floating charges over the properties and assets of the subsidiary undertakings, inter creditor agreements and assignment of insurance policies

In addition the Group has entered into interest rate protection arrangements to hedge its interest rate exposure in respect of £16,000,000 of the aggregate principal amount decreasing at six-monthly intervals on 30 September and 31 March each year until 31 December 2010

Other Loans.

The Company has issued loan stock which accounts for £26,998,000 of the other loan balance This attracts an interest rate of 10% with capital repayments of one third of the balance then outstanding at 7 December 2011, one half of the balance then outstanding at 7 December 2012 and the remaining balance outstanding at 7 December 2013

The loan is secured by fixed and floating charges over the properties and assets of the subsidiary undertakings A debenture is in place to rank the security below the senior debt above

Notes *(continued)*

15 Acquisitions

	The National Fostering Agency (Scotland) Ltd Book value and fair value 7 December 2006 £000	The National Fostering Agency Ltd Book value and fair value 7 December 2006 £000	Total Book value and fair value 7 December 2006 £000
Fixed Assets - Tangible	-	259	259
Current Assets			
Debtors	31	4,475	4,506
Cash	36	-	36
Total assets	67	4,734	4,801
Liabilities			
Creditors	(62)	(1,725)	(1,787)
Bank loans and overdrafts	-	(70)	(70)
Provisions for deferred taxation	-	(22)	(22)
Total liabilities	(62)	(1,817)	(1,879)
Net assets acquired	5	2,917	2,922
Goodwill			42,798
Purchase consideration and cost of acquisition *(Including deferred consideration totalling £555,000)*			45,720

Acquisition costs totalling £845,000 have been included in the purchase consideration Deferred consideration has been assessed as £555,000 based on the performance of the business and other factors The maximum that could be paid is £3,085,000

Notes *(contınued)*

15 Acquısıtıons *(contınued)*

The results of The Natıonal Fosterıng Agency for the perıod from 1 Aprıl 2006 (the begınnıng of ıts financıal year) to the date of acquısıtıon (7 December 2006) and for ıts prevıous financıal year are as follows

	Perıod from 31 March 2006 to 7 December 2006	12 months ended 31 March 2006
	£000	£000
Turnover	23,136	28,279
Operatıng (loss)/profit before deprecıatıon and amortısatıon	(2,509)	3,213
Operatıng (loss)/profit	(2,555)	3,144
(Loss)/profit before taxatıon	(2,555)	3,135
Taxatıon	(759)	(946)
(Loss)/profit after taxatıon	(3,314)	2,189

The results for the perıod from 31 March 2006 to 7 December 2006 are ınclusıve of an exceptıonal cost of £4,660,000 Thıs cost arose as part of the acquısıtıon of the The Natıonal Fosterıng Agency by the group headed by NFAH Ltd where a debtor balance wıth LFA Homes Lımıted (owned by the prevıous owners of The Natıonal Fosterıng Agency), was waıved ımmedıately prıor to the acquısıtıon

Durıng both perıods there were no recognısed gaıns and losses other than those passıng through the profit and loss account

16 Called up Share capıtal

	2007
	£
Authorısed	
50,100 'A' Ordınary shares of 1p each	501
49,900 Ordınary sharcs of 1p each	499
	1,000
Allotted, called up and fully paıd	
50,100 'A' Ordınary shares of 1p each	501
47,400 Ordınary sharcs of 1p each	474
Shares classıfied ın Shareholders' finds	975

On 7 December 2006 the company allotted

50,100 'A' Ordınary shares of £0 01 each for a cash consıderatıon of £1 each
47 400 Ordınary share of £0 01 each for a cash consıderatıon of £1 each

The rıghts of each of the classes of share ın ıssue are the same except for votıng rıghts as follows

Votıng rıghts The ordınary shares, 'A' Ordınary shares and Ordınary shares, have equıvalent votıng rıghts, beıng one vote, except where there ıs a contınuıng default event (as defined ın the Company's Artıcles) whereupon only the holders of the 'A' Ordınary shares have the rıght to vote

Notes *(continued)*

17 Share premium and reserves

Group

	Share premium account £000	Profit and loss account £000
At beginning of period	-	-
Loss for the period	-	(665)
Premium on share issues	97	-
At end of period	**97**	**(665)**

Company

	Share premium account £000	Profit and loss account £000
At beginning of period	-	-
Loss for the period	-	(457)
Premium on share issues	97	-
At end of period	**97**	**(457)**

18 Commitments

Group

Annual commitments under non-cancelled operating leases are as follows

	Other 2007 £000
Operating leases which expire	
Within one year	10
Between two and five years	1
	11

Notes *(continued)*

19 Reconciliation of operating loss to operating cash flows

	2007 £000
Operating profit	1,098
Depreciation and amortisation charges	712
Increase in debtors	(225)
Increase in creditors	142
Loss on disposal of fixed assets	50
Net cash inflow from operating activities	1,777

20 Analysis of cash flows

	2007 £000	2007 £000
Returns on investments and servicing of finance		
Interest received	6	
Interest paid	(468)	
Cashflows that are treated as finance costs	(1,402)	
		(1,864)
Capital expenditure		
Purchase of tangible fixed assets	(3,664)	
		(3,664)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(45,165)	
Overdraft transferred as part of acquisition	(34)	
		(45,199)
Financing		
Issue of share capital	98	
Debt due in less than 1 year		
New secured loans repayable in less than 1 year	2,200	
Debt due in more than 1 year		
New secured loan repayable between 1 and 5 years	13,800	
New secured loan and loan stock repayable in 5 to 10 years	34,998	
Net cash outflow form financing		51,096

Notes *(continued)*

21 Analysis of net debt

	At beginning of the period £000	Cash flow £000	Other non-cash changes £000	At end of period £000
Cash in hand, at bank	-	1,846	-	1,846
Debt due after one year	-	(47,548)	(72)	(47,620)
Debt due within one year	-	(2,048)	-	(2,048)
Total	-	**(47,750)**	**(72)**	**(47,822)**

22 Contingent Liability

Company

The Company has a debenture to guarantee the loans of all Group companies The amounts outstanding at the year end were

	2007 £000
Bank loans - Senior Debt	23,196

23 Related party disclosures

The controlling party is Sovereign Capital Limited Partnership II who control 50 3% of the Company's equity share capital (48,767 'A' Ordinary shares) Sovereign Capital Partnership II LLP loaned the group £14,552,184 of loan stock The details of the loan stock are shown in note 14 The interest charged on the stock in the period amounted to £454,507 and is within accruals at the year end The group paid Sovereign £800,000 in respect of investment services associated with the acquisition Following the acquisition Sovereign Capital provides advisory services to NFAG Limited for £50,000 per annum

Sovereign associates, who were also directors of NFAH Limited during the period, hold 417 Ordinary shares in NFAH Limited G A Williams (a previous director of NFAH Limited who resigned on 7th December 2006) holds 63 Ordinary shares, D S Dalli holds 142 Ordinary shares and R Robson holds 212 Ordinary shares Of the total loan stock, G A Williams loaned £18,688, R Robson loaned £63,347 and D Dalli loaned £42,231 The details of the loan stock are shown in note 14 The interest charged on the loan stock in the period amounted to £3,881 and is within accruals at the year end

E Beech and M Lovett were directors of The National Fostering Agency Limited and The National Fostering Agency (Scotland) Limited prior to the acquisition and are directors of NFAH Limited and NFAG Limited after the acquisition They own 41,900 Ordinary shares in NFAH Limited in equal proportions During the period they loaned the group £11,898,538 through loan stock in equal proportions The details of the loan stock are shown in note 14 The interest charged on the stock in the period amount to £371 626 and is due in equal portions Additionally deferred consideration of £555,000 which is currently accrued, could be payable to E Beech and M Lovett in equal proportions depending on the performance of the business and other factors

Notes *(continued)*

23 Related party disclosures *(continued)*

E Beech and M Lovett are directors of LFA Homes Limited and are directors of NFAH Limited, the head of the group that purchased The National Fostering Agency Limited and The National Fostering Agency (Scotland) Limited As part of the acquisition a debtor balance of £4,660,000 held by The National Fostering Agency Limited was waived with LFA Homes Limited immediately prior to the acquisition

Additionally as part of the acquisition LFA Homes Limited sold two properties to NFAG Limited The first of these properties was sold at market value of £2,600,000 and the second, which was under construction, was sold for the cost of the land and buildings at £877,000 Since the acquisition date there have been no further transactions