

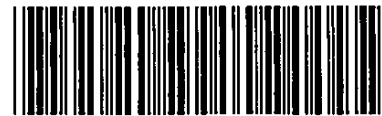
Barchester PropCo Limited

**Directors' report and financial
statements**

Registered number 06322222

31 December 2010

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Company information

Directors	Michael Parsons David Duncan
Secretary	Jon Hather
Auditors	KPMG LLP Plym House 3 Longbridge Road Marsh Mills Plymouth PL6 8LT
Bankers	Royal Bank of Scotland London Corporate Services 2½ Devonshire Square London EC2M 4XJ
Solicitors	Berwin Leighton Paisner Adelaide House London Bridge London EC4R 9HA
Registered office	Suite 201 The Chambers Chelsea Harbour London SW10 0XF
Registered number	06322222

Directors' report

The directors present their directors' report and the audited financial statements for the year ended 31 December 2010

Principal activities

The principal activity of the Company is the ownership and leasing of nursing and care homes

Business review

The directors are satisfied with the result for the period. Details of the result for the year are set out in the profit and loss account on page 6

Barchester PropCo Limited, rents the nursing and care homes it owns to Barchester Healthcare Homes Limited, a related undertaking who carry out the operation of nursing and care trade

Dividends

The directors do not recommend the payment of a dividend (2009 £nil)

Directors and directors' interests

The directors who held office during the year were as follows

David Duncan
Michael Parsons
Jon Hather

Donations

The company made no political or charitable donations during the year (2009 £nil)

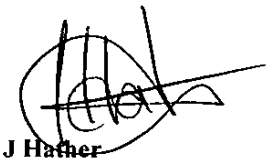
Disclosure of information to auditors

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 Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed 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 2011

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)

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 auditor's report to the members of Barchester PropCo Limited

We have audited the financial statements of Barchester PropCo Limited for the year ended 31 December 2010 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

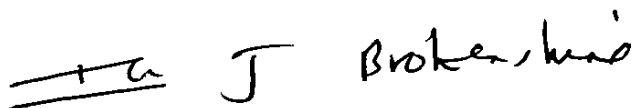
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Barchester PropCo Limited
(continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

 Ian J Brokenshire

Ian J Brokenshire (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
3 Longbridge Road
Plymouth
PL6 8LT

7 July 2011

Profit and loss account

for the year ended 31 December 2010

	Note	2010 £000	2009 £000
Turnover	1	4,824	4,568
Cost of sales <i>(including exceptional costs of £nil (2009 £2,609,000))</i>		(759)	(3,399)
Gross and operating profit		4,065	1,169
Interest payable and similar charges	5	(4,543)	(4,681)
Loss on ordinary activities before taxation	2	(478)	(3,512)
Tax credit/(charge) on loss on ordinary activities	6	617	(623)
Profit/(loss) for the financial year	13	139	(4,135)

There were no acquisitions or discontinued activities in either period

Statement of total recognised gains and losses
for the year ended 31 December 2010

	2010 £000	2009 £000
Profit/(loss) for the financial year	139	(4,135)
Unrealised surplus on revaluation of properties	5,468	3,717
Unrealised deficit on revaluation of properties	(65)	(4,409)
Total recognised gains and losses relating to the financial year	5,542	(4,827)

Reconciliation of movements in equity shareholders' funds
for the year ended 31 December 2010

	2010 £000	2009 £000
Profit/(loss) for the financial year	139	(4,135)
Revaluation of properties	5,403	(692)
Opening equity shareholders' funds	7,193	12,020
Closing equity shareholders' funds	12,735	7,193

Note of historical cost profits and losses
for the year ended 31 December 2010

	2010 £000	2009 £000
Reported loss on ordinary activities before taxation	(478)	(3,512)
Difference between historical cost depreciation charge and actual depreciation charge calculated on the revalued amount	108	112
Historical cost loss on ordinary activities before taxation	(370)	(3,400)
Historical cost profit/(loss) for the year retained after taxation	247	(4,023)

Balance sheet
at 31 December 2010

		2010	2009
		£000	£000
Fixed assets			
Tangible assets	7	77,737	67,960
Current assets			
Debtors	8	132,275	100,578
Cash at bank and in hand		274	2,326
		<u>132,549</u>	<u>102,904</u>
Creditors amounts falling due within one year	9	<u>(94,007)</u>	<u>(75,927)</u>
Net current assets		<u>38,542</u>	<u>26,977</u>
Total assets less current liabilities		<u>116,279</u>	<u>94,937</u>
Creditors amounts falling due after more than one year	10	(103,533)	(87,735)
Provisions for liabilities	11	(11)	(9)
Net assets		<u>12,735</u>	<u>7,193</u>
Capital and reserves			
Called up share capital	12	-	-
Revaluation Reserve	13	17,925	12,630
Profit and loss account	13	(5,190)	(5,437)
Equity shareholders' funds		<u>12,735</u>	<u>7,193</u>

These financial statements were approved by the board of directors on 30 June 2011 and were signed on its behalf by



D Duncan
Director

Company Number 06322222

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 accounting standards and under the historical cost accounting rules modified to include the revaluation of freehold properties

The Company is exempt from the requirement of FRS 1 (revised 1996) to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Barchester New PropCo HoldCo Limited and its cash flows are included within the consolidated cash flow statement of that company

As the Company is a wholly owned subsidiary of Grove 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 Grove Limited within which the Company is included, can be obtained from the address given in note 16

Going Concern

The company has considerable financial resources together with long term support from the whole Grove Group. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements

Fixed assets and depreciation

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from the fair value at the balance sheet date. Valuations of care homes are calculated on an investment basis

To ensure that the carrying amount of the properties can be supported, the carrying amounts are subject to annual impairment reviews in accordance with Financial Reporting Standard 11 'Impairment of fixed assets and goodwill'

Impairment reviews are undertaken where there are indications that the carrying value may not be recoverable. An impairment loss on assets carried at cost is recognised in the profit and loss account to reduce the carrying value to the recoverable amount. An impairment loss on assets carried at revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the profit and loss account

Increases in the carrying amount of land and buildings arising on revaluation are recognised in the revaluation reserve. Decreases in the carrying amount are recognised in the revaluation reserve where they reverse previous increases of the same asset, all other decreases are recognised in the profit and loss account

The directors consider it appropriate for land and buildings to be revalued rather than being accounted for under the historic cost method

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

Freehold buildings	-	50 years
Fixtures & Fittings	-	10 years
Motor vehicles	-	4 years

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

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

Notes (continued)

1 Accounting policies (continued)

Turnover

Revenue is derived from leasing its properties to related undertakings under operating leases and is recognised on a straight line basis over the period of the lease

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 which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Financial instruments

The Company 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'

2 Profit on ordinary activities before taxation

	2010 £000	2009 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	749	790
Rental income from group undertakings	(4,824)	(4,568)
	<u> </u>	<u> </u>
<i>Exceptional items</i>		
Impairment of land and buildings	-	2,609
	<u> </u>	<u> </u>

3 Auditors remuneration

	2010 £000	2009 £000
Audit	4	4
	<u> </u>	<u> </u>

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

4 Remuneration of directors

The Company had no employees other than directors (2009 nil)

The directors received £nil (2009 £nil) emoluments for services to the Company during the year. The directors received remuneration for services to Grove Limited, of which Barchester PropCo Limited is a subsidiary undertaking, however, the proportion attributable to their services to Barchester PropCo Limited is not separately identifiable.

5 Interest payable and similar charges

	2010 £000	2009 £000
On bank loans and overdrafts	4,284	4,409
Amortisation of loan issue costs	424	517
Less loan issue costs recharged to related undertakings	(165)	(245)
	<u> </u>	<u> </u>
	4,543	4,681
	<u> </u>	<u> </u>

Notes (continued)

6 Taxation

	2010 £000	2009 £000
UK corporation tax		
Current tax on loss for the period	-	617
Adjustments in respect of prior years	(619)	-
	<hr/>	<hr/>
Total current tax	(619)	617
	<hr/>	<hr/>
Deferred tax (see note 11)		
Origination/reversal of timing differences	(1)	3
Adjustments in respect of prior years	3	3
	<hr/>	<hr/>
Total deferred tax	2	6
	<hr/>	<hr/>
Tax on loss on ordinary activities	(617)	623
	<hr/>	<hr/>

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28 %) The differences are explained below

	2010 £000	2009 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(478)	(3,512)
	<hr/>	<hr/>
Current tax at 28% (2009 28 %)	(134)	(983)
	<hr/>	<hr/>
Effects of		
Income not allowable for tax purposes	(21)	(22)
Group relief	(917)	(86)
Non-qualifying depreciation	207	952
Transfer pricing adjustments	864	760
Capital allowances for period in excess of depreciation	1	(4)
Adjustments in respect of prior years	(619)	-
	<hr/>	<hr/>
Total current tax charge (see above)	(619)	617
	<hr/>	<hr/>

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above.

On 23 March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011. This change became substantively enacted on 29 March 2011 and therefore the effect of the rate would create an additional reduction in the deferred tax liability of approximately £392. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

Notes (continued)

7 Tangible fixed assets

	Assets in the course of construction	Freehold land and buildings	Fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost/valuation					
At 1 January 2010	-	74,895	1,104	21	76,020
Additions	222	5,083	50	-	5,355
Disposals	(222)	-	(128)	(21)	(371)
Revaluation	-	3,341	-	-	3,341
At 31 December 2010	-	83,319	1,026	-	84,345
Depreciation					
At 1 January 2010	-	7,427	625	8	8,060
Charge for period	-	486	260	3	749
Disposals	-	-	(128)	(11)	(139)
Impairment*	-	65	-	-	65
Revaluations	-	(2,127)	-	-	(2,127)
At 31 December 2010	-	5,851	757	-	6,608
Net book value					
At 31 December 2010	-	77,468	269	-	77,737
At 31 December 2009	-	67,468	479	13	67,960

Included within land and buildings is £12,200,000 of land which is not depreciated (2009 £9,820,000)

* £nil of the impairment has been recognised through the profit and loss account as the valuation was below historic cost (2009 £2,609,000)

Notes (continued)

7 Tangible fixed assets (continued)

The net book value of land and buildings comprises

	2010 £000	2009 £000
Freehold	77,468	67,468

The following information relates to tangible fixed assets carried on the basis of revaluations in accordance with FRS 15 'Tangible fixed assets'

	2010 £000	2009 £000
Historical cost of revalued assets	64,360	59,378
Aggregate depreciation thereon	(4,548)	(4,049)
Historical cost net book value	59,812	55,329

The tangible fixed assets held by the Company were professionally valued on 30 November 2010 in accordance with the Appraisal and Valuation manual of the Royal Institution of Chartered Surveyors by Colliers CRE, external surveyors, in accordance with Financial Reporting Standard 15 (FRS15) 'Tangible fixed assets'. The valuation was £77,737,000 representing open market value of the properties as investments, having regard to the total annual rental payable by Barchester Healthcare Homes Limited to Barchester PropCo Limited as at the date of valuation.

The Colliers review was conducted in accordance with the practice statements in the valuation standards (The Red Book) published by the Royal Institution of Chartered Surveyors. Colliers CRE are members of the Royal Institution of Chartered Surveyors and have appropriate qualification and recent experience in the valuation of properties in the relevant locations.

Company Directors are not aware of any material change in the value between 30 November 2010 and 31 December 2010, therefore valuations have not been updated per FRS15.

8 Debtors

	2010 £000	2009 £000
Due within one year.		
Amounts owed by group undertakings	132,208	100,511
Prepayments and accrued income	67	67
	132,275	100,578

The amounts owed by group undertakings are unsecured, interest free and not subject to any fixed repayment date.

Notes (continued)

9 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Bank loans and overdrafts (net of £467,000 unamortised issue costs (2009 £467,000))	1,732	319
Amounts owed to group undertakings	90,080	73,084
Corporation tax	-	617
Accruals and deferred income	2,195	1,907
	<u>94,007</u>	<u>75,927</u>

The amounts due to group undertakings are legally due on demand and are thus due within one year, although it is not expected that these amounts would be demanded within the next year

10 Creditors: amounts falling due after more than one year

	2010 £000	2009 £000
Bank loans and overdrafts (net of £798,000 unamortised issue costs (2009 £1,265,000))	<u>103,533</u>	<u>87,735</u>

11 Provisions for liabilities

	Deferred tax provision £000	Total £000
At 31 December 2009	9	9
Amounts provided	2	2
	<u>11</u>	<u>11</u>
At 31 December 2010	<u>11</u>	<u>11</u>

The deferred tax provision relates to

	2010 £000	2009 £000
Difference between accumulated depreciation and amortisation and capital allowances	<u>11</u>	<u>9</u>
Deferred tax liability	<u>11</u>	<u>9</u>

On 22 June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010 and therefore the effect of the rate reduction on the deferred tax balances as at 31 December 2010 has been included in the figures above.

The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 26 per cent to 23 per cent, if these applied to the deferred tax balance at 31 December 2010, would be to further reduce the deferred tax liability by approximately £1,177.

Notes (continued)

12 Called up share capital

	2010 £	2009 £
<i>Allotted, issued and fully paid</i>		
1 ordinary share of £1 each	1	1

13 Reserves

	Revaluation reserve £000	Profit and loss account £000	Total £000
At beginning of the year	12,630	(5,437)	7,193
Retained profit for the year	-	139	139
Unrealised surplus on revaluation of properties	5,403	-	5,403
Transfer between revaluation reserve and profit and loss account	(108)	108	-
At end of the year	17,925	(5,190)	12,735

14 Commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows

	2010 £000	2009 £000
Contracted	-	-

15 Fair value of assets and liabilities

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

Derivative	Maturity Date	Notional value £000	Fair value	
			2010 £000	2009 £000
Interest rate swap	28 June 2013	1,332	(129)	(126)
Interest rate swap	28 June 2013	3,334	(330)	(320)
Interest rate swap	28 June 2013	3,632	(311)	(285)
Interest rate swap	28 June 2013	2,773	(253)	(239)
Interest rate swap	28 June 2013	1,968	(67)	(14)
Interest rate swap	28 June 2013	2,208	(22)	-
Interest rate swap	30 June 2013	6,624	(58)	-
Interest rate swap	30 June 2013	10,024	(1,103)	(954)
Interest rate swap	30 June 2013	5,929	(225)	(37)
Interest rate swap	30 June 2013	8,317	(749)	(714)
Interest rate swap	30 June 2013	10,896	(920)	(849)
Interest rate swap	30 June 2013	4,013	(432)	(375)
Interest rate swap	30 June 2013	38,533	(3,748)	(3,689)

Notes *(continued)*

16 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 New Propco Holdco Limited, a Company incorporated 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 New Propco Holdco Limited. The largest group in which the results of the Company are consolidated is that headed by Grove Limited. The consolidated accounts of Barchester New Propco Holdco Limited are available to the public and may be obtained from

22 Grenville Street
St Helier
Jersey
JE4 8PX
Channel Islands