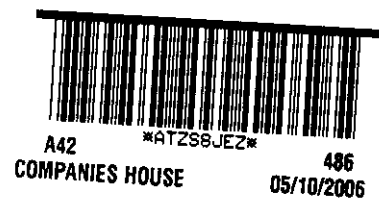


Health and Care Services (UK) Limited
Annual Report
for the year ended 31 December 2005

Registered number: 2083074



Health and Care Services (UK) Limited

Annual report for the year ended 31 December 2005

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Health and Care Services (UK) Limited

Directors and advisors

Executive directors

A E Smith
D Keating
J Spurling
C Cameron
P Cavanagh

Secretary

BLG (Professional Services) Limited
Beaufort House
15 St. Botolph Street
London
EC3A 7NJ

Registered Auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Solicitors

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Registered office

Craegmoor House
Perdiswell Park
Worcester
WR3 7NW

Bankers

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

Health and Care Services (UK) Limited

Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activity of the company continues to be the provision of care.

Review of business and future developments

Both the level of continuing business and the year end position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

On 31 December 2004 the Company's current assets, current liabilities and employees were transferred to Craegmoor Facilities Company Limited, a fellow group company, at no gain or loss. Following this transfer, the Company has retained only fixed assets and associated leases, intercompany balances and tax balances. Revenue is recognised by the Company in accordance with its accounting policy (see note 1 to the financial statements), although the sales ledger balances arising are transferred to Craegmoor Facilities Company Limited, who also retain the risk with respect to bad and doubtful amounts. Craegmoor Facilities Company Limited also charges the Company a management fee for administering its working capital and employees. As such, the Company only recognises turnover, management charges, depreciation, amortisation, property rental charges, interest and tax charges in its profit and loss account.

Results and dividends

The profit and loss account shows a loss after tax for the year of £277,000 (2004: restated profit of £185,000). The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: £Nil).

Directors and their interests

The following directors have held office since 1 January 2005:

A E Smith		
M Hill	Appointed 12 December 2005	Resigned 7 April 2006
D Keating	Appointed 6 March 2006	
J Spurling	Appointed 6 March 2006	
C Cameron	Appointed 15 March 2006	
M Byrne	Resigned 18 November 2005	
A Murray	Appointed 23 May 2005	Resigned 31 December 2005
D Pointer	Resigned 13 April 2005	
P Cavanagh	Appointed 01 July 2006	

No director had any share interests in respect of Health and Care Services (UK) Limited.

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

No other director at 31 December 2005 had any interest in the share capital of Craegmoor Limited.

No directors, other than those listed below, held any share options over the ordinary share capital of Craegmoor Limited.

	31 December 2005*	1 January 2005
Michael Byrne	-	1,750
Margaret Hill	4,000	4,000
Andrew Murray	-	1,750

* At date of resignation if earlier

These share options have an exercise price of £1 each and may be exercised on the sale of Craegmoor Limited by its current shareholders.

Health and Care Services (UK) Limited

Directors' report for the year ended 31 December 2005 (continued)

Changes in fixed assets

Movements in tangible fixed assets during the year are set out in note 11 to the financial statements.

Financial instruments

The Company's financial instruments primarily comprise debtors and creditors with other group companies arising directly from its operations. No trading in financial instruments has been undertaken.

There are no significant risks arising directly from the Company's financial instruments. However, the Company is reliant on the ongoing support of the Craegmoor Group, which has long term financing and overdraft facilities in place. The Board of Craegmoor Limited, the ultimate parent undertaking, has reviewed and agreed the policies for managing the risks related to these facilities as set out below:

Liquidity and credit risk:

The Group has secured long term financing and overdraft facilities with financial institutions who have high credit ratings that are designed to ensure the Company has sufficient available funds for operations. The £320,148,000 of debt, in the form of loan notes, is repayable over 18 years.

Interest rate and cash flow risk:

The Group has entered into interest rate swaps to ensure certainty over future interest cashflows. As a consequence, 94% of the Group's borrowings are at fixed rates of interest.

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The directors are responsible for preparing financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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 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 confirm that they have complied with the above requirements in preparing the financial statements.

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 the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The Company has elected, in accordance with section 386 of the Companies Act UK 1985, to dispense with the obligation to appoint auditors annually.

By order of the Board



C Cameron

Director

15 September 2006

Health and Care Services (UK) Limited

Independent auditors' report to the members of Health and Care Services (UK) Limited

We have audited the financial statements of Health and Care Services (UK) Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Birmingham

15 September 2006

Health and Care Services (UK) Limited

Profit and loss account for the year ended 31 December 2005

		2005 Total	2004 Total
	Note	£'000	£'000
Turnover	3	4,778	5,955
Cost of sales		-	(3,773)
Gross profit		4,778	2,182
Administrative expenses		(4,064)	(1,228)
Operating profit	7	714	954
Interest payable	8	(924)	(579)
Other finance income		4	3
(Loss) / profit on ordinary activities before taxation		(206)	378
Tax on ordinary activities	9	(71)	(193)
(Loss) / profit for the financial year	17	(277)	185

All activities relate to continuing operations.

Health and Care Services (UK) Limited

Statement of total recognised gains and losses for the year ended 31 December 2005

		2005	2004
	Note	£'000	£'000
(Loss) / profit for the financial year		(277)	218
Prior year adjustment- FRS 17 "Retirement Benefits"		-	(33)
(Loss) / profit for the financial year as restated		(277)	185
Reversal of prior years' revaluations on impaired properties	11	(10,893)	-
Actuarial (losses) / gains on retirement benefit schemes		(124)	22
Deferred tax credit / (charge) on actuarial (loss) / gain		41	(11)
Total recognised (losses) / gains for the year		(11,253)	196

Note of historical cost profits and losses for the year ended 31 December 2005

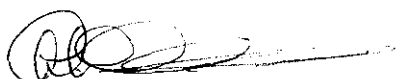
	2005	2004
	£'000	£'000
Reported (loss) / profit on ordinary activities before taxation	(206)	378
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	194	199
Historical cost profit on ordinary activities before taxation	(12)	577
Historical cost profit for the year retained	(83)	384

Health and Care Services (UK) Limited

Balance sheet as at 31 December 2005

	Notes	2005 £'000	2004 Restated (Note 2) £'000
Fixed assets			
Investments	10	-	-
Tangible assets	11	2,776	14,570
Current assets			
Debtors	12	15,046	14,680
		15,046	14,680
Creditors: amounts falling due within one year	13	(11)	(331)
Net current assets		15,053	14,349
Total assets less current liabilities		17,811	28,919
Creditors: amounts falling due after more than one year	14	(11,287)	(11,187)
Provisions for liabilities and charges	15	(16)	(43)
Net assets excluding pension (liability) / asset		6,508	17,689
Pension (liability) / asset		(101)	8
Net assets including pension (liability) / asset		6,407	17,697
Capital and reserves			
Called up share capital	16	601	601
Share premium account	17	177	177
Revaluation reserve	17	1,660	12,929
Profit and loss account	17	3,926	3,947
Other reserves	17	43	43
Total equity shareholders' funds	18	6,407	17,697

The financial statements on pages 5 to 21 were approved by the board of directors on 15 September 2006 and signed on its behalf by:



C Cameron
Director

Health and Care Services (UK) Limited

Notes to the financial statements for the year ended 31 December 2005

1 Principal accounting policies

The financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the principal accounting policies, which have been consistently applied, is set out below:

Problems arising from closure of the Regional Accounting Centres

In 2004, as part of a process of streamlining the financial operations of the Group, the decision was taken to close 11 regional accounting centres, transfer the processes to a newly established Shared Service Centre in Worcester and at the same time migrate the accounting systems to a new computer software system. Difficulties were encountered with the transfer process that led to a number of serious accounting issues within the Shared Service Centre including, most significantly, difficulties in allocating cash received from debtors against their accounts, the lack of timely completion of key accounting reconciliations and some inaccuracies in the customer invoicing process resulting in the need to subsequently issue credit notes and make provision for doubtful debts. This led to delays for many months in determining the exact recoverability or otherwise of the trade debtor amounts as at 31 December 2004 and consequently to the production of the 2004 statutory accounts while investigations were completed.

The directors took extensive actions to assess the full recoverability of trade debtors, and full provision was made where amounts were determined not to be collectible. Nonetheless, some uncertainty remained at the date the 2004 financial statements were approved by the Board in December 2005. Consequently, the Company did not maintain complete records relating to the allocation of sales transactions and cash receipts during the year ended 31 December 2004. However, by virtue of the transfer of trade debtor balances to another group company before the year-end, the uncertainty was removed from the company balance sheet. The report of the auditors for the year ended 31 December 2004 made reference to the failure to maintain proper accounting records as required by Section 221 of the Companies Act 1985 in respect solely of the allocation of sales transactions and cash receipts.

In 2005 and 2006 further significant progress has been made with key reconciliations now being performed and cash being correctly allocated to the sales ledger. The Company is now maintaining adequate accounting systems which enable it to account for transactions on a day-to-day basis. Further work is ongoing to improve still further the processes within the Shared Service Centre.

Going Concern

In the refinancing (note 19), the funders of the business agreed to waivers of past covenant breaches or to periods of time to enable remedial action to be taken. The directors believe that subsequent covenants have been met and the Group has adequate financial resources. The accounts have therefore been prepared on a going concern basis.

Health and Care Services (UK) Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

1 Principal accounting policies (continued)

Tangible fixed assets

The cost of fixed assets is their purchase cost, and any costs directly attributable to bringing them into working condition for their intended use. Land and buildings are revalued by independent, professionally qualified valuers every five years, on an existing use open market value basis, and in the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required.

Increases in the revalued amounts of land and buildings are credited to Revaluation reserves.

Freehold land is not depreciated. Subsequent to a revaluation depreciation, on freehold properties is based on revalued amounts. Depreciation on other tangible fixed assets is calculated to write off cost, less estimated residual values, by equal annual instalments on the following bases:

Freehold buildings	-over 50 years
Building improvements	-over 20 years
Equipment	- over 7 years
Furniture and fittings	- over 3, 5 or 10 years
Motor vehicles	- over 4 years
Computer equipment	- over 4 years

Provision is made for any impairment in the period in which it arises. The impairment is calculated by comparing the carrying value to the recoverable amount as required by FRS 11, "Impairment of fixed assets and goodwill". The recoverable amount of land and buildings is taken to be the higher of realisable value and value in use. Value in use is determined by reference to the expected future cash flows of the care home, discounted at a risk weighted cost of capital of 8.5% (2004: 8.5%). Realisable value is determined by professional valuers on an existing use open market value basis.

Provisions for impairment in the carrying value of land and buildings are charged against Revaluation reserves in the Balance Sheet to the extent that they relate to a reversal of prior increases. Impairments to below historical cost are charged to the profit and loss account.

Corporation tax

UK Corporation tax is provided at amounts expecting to be paid (or recovered) using the tax rates and bases that have been enacted or substantially enacted by the balance sheet date. Corporation Tax payable is reduced wholly or in part by the surrender of losses by fellow group companies. Payments made, if any, to surrendering companies for losses are reflected in the tax charge.

Deferred taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is only recognised to the extent that the transfer of economic benefits in the future is deemed to be more likely than not. Deferred tax assets and liabilities recognised are not discounted.

Operating leases

Operating lease rentals are charged to the profit and loss account in equal annual instalments over the lease term.

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

1 Principal accounting policies (continued)

Investments

The carrying value of fixed asset investments is based on cost less provision for impairment.

Cash flow statement

The company is a wholly owned subsidiary of Craegmoor Limited, and the cash flows of the company are included in the consolidated group cash flow statement of that company. Consequently, the company is exempt under the terms of Financial Reporting Standard No. 1 (Revised) from publishing a cash flow statement.

Consolidation

The company has taken advantage of the exemption under section 228(i) of the Companies Act, not to prepare and file consolidated accounts. The results of the company are included within the group accounts of Craegmoor Limited its ultimate parent undertaking that is incorporated in the United Kingdom. In accordance with section 228(ii), the company will deliver to the registrar, copies of these group accounts.

2 Changes in accounting policy

The Company has adopted FRS 21 "Events after the Balance Sheet date" and FRS 25 "Financial Instruments: Disclosure and Presentation". The adoption of these standards represents a change in accounting policy although its adoption has no impact on the loss for the year or net assets.

The company has also adopted FRS 28 "Corresponding Amounts" in these financial statements, which also represents a change of accounting policy. During the current year the Directors have revised the method of allocating certain intercompany balances between debtors and short and long term creditors, primarily in respect of funding arrangements with a fellow subsidiary undertaking. Given adjustments made in the current year, the Directors have reclassified the corresponding intercompany amounts within the balance sheet in order to ensure comparability. The reclassifications made have no affect on the loss for the year or net assets.

3 Turnover

Turnover represents amounts invoiced and accrued for services provided during the period, excluding Value Added Tax. Where services are invoiced in advance the related income is deferred to match the period in which the service is provided.

4 Related party transactions

The Company has taken advantage of the exemption granted under paragraph 3 (c) of FRS 8 and not disclosed any transactions with other group companies where they are more than 90% owned by a common parent.

5 Directors' emoluments

The emoluments of the directors were paid by Craegmoor Healthcare Company Limited, a fellow subsidiary of Craegmoor Limited. The directors were also directors of a number of other fellow subsidiaries during the year ended 31 December 2005 and 31 December 2004 and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the emoluments of the directors are disclosed within the accounts of Craegmoor Healthcare Company Limited.

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

6 Employee information

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

	2005	2004
Analysis by function	Number	Number
Nursing	-	208
Ancillary	-	41
Administration	-	8
	-	257

On 31 December 2004, the company's employee contracts were transferred from the company to a fellow subsidiary undertaking, Craegmoor Facilities Company Limited. As such, the directors consider that the company did not have any employees during the year.

	2005	2004
Staff costs (for the above persons)	£'000	£'000
Wages and salaries	-	2,801
Social security costs	-	213
Other pension costs (Note 20)	46	28
	46	3,042

7 Operating profit

	2005	2004
	£'000	£'000
Operating profit is stated after charging:		
Depreciation of tangible fixed owned assets	315	459
Profit on disposal of fixed assets	-	(24)
Operating lease rentals:		
Land and buildings	-	13
Plant and machinery	-	7
Auditors' remuneration:		
Audit	-	12
Management charge from fellow subsidiary	3,733	-

The audit fee of £4,000 for the Company for the year ended 31 December 2005 is borne by a fellow subsidiary company and included within the management charge.

The management charge from fellow subsidiary undertaking, Craegmoor Facilities Company Limited, relates to an allocation of operating costs incurred on behalf of the company and its fellow subsidiaries.

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

8 Net interest payable

	2005	2004
	£'000	£'000
Interest payable on amounts owed to group undertakings	(924)	(582)
Bank interest receivable	-	3
	(924)	(579)

9 Tax on (loss) / profit on ordinary activities

	2005	2004
	£'000	£'000
Current taxation		
Group relief and balancing payments at 30% (2004 : 30%)	97	192
Adjustment in respect of previous periods	1	30
Total current taxation	98	222
Deferred taxation		
Current year – origination and reversal of timing differences	(16)	(24)
Adjustment in respect of previous periods	(11)	(5)
Total deferred taxation	(27)	(29)
Tax charge	71	193

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

	2005	2004
	£'000	£'000
(Loss) / profit on ordinary activities	(206)	378
(Loss) / Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(62)	113
Effects of:		
Expenses not deductible for tax purposes	78	89
Capital Allowances for the year less than depreciation	16	24
Transfer pricing adjustments and balancing payment	65	(32)
Adjustment to tax charge in respect of previous periods	1	30
Ineligible fixed asset disposals	-	(2)
Current tax charge	98	222

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property was sold without it being possible to claim rollover relief. The total amount unprovided for is £3,879,000 (2004: £3,879,000).

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

10 Investments

	Total
	£'000

Shares in subsidiary undertakings at cost

At 1 January 2005 and 31 December 2005

-

The company's subsidiary undertakings are as follows:

Name of undertaking	Principal activity	Description of shares held	Proportion of Nominal value of issued shares held
Health & Care Services (NW) Limited	Operation of residential and nursing homes	Ordinary £1 shares	100%
Health & Care Services (Yorks) Limited	Dormant company	Ordinary £1 shares	100%
Health & Care Services (Humbs) Limited	Operation of residential and nursing homes	Ordinary £1 shares	100%

All of the above companies are incorporated in England and Wales. The total cost of the investment is £9.

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

11 Tangible fixed assets

	Freehold land and buildings	Fixtures and fittings	Motor vehicles	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 January 2005	14,697	1,598	129	16,424
Additions	-	68	95	163
Impairment	(10,893)	-	-	(10,893)
Disposals	(749)	-	-	(749)
At 31 December 2005	3,055	1,666	224	4,945
Accumulated depreciation				
At 1 January 2005	456	1,273	125	1,854
Charge for the year	257	53	5	315
At 31 December 2005	713	1,326	130	2,169
Net book value				
At 31 December 2005	2,342	340	94	2,776
At 31 December 2004	14,241	325	4	14,570
The net book value of motor vehicles includes £94,000 (2004: £Nil) in respect of assets held under finance leases. Depreciation of nil (2004: £Nil) was charged in the year on these assets.				
In accordance with the Company's accounting policy, the land and buildings occupied by the Company were revalued by independent external valuers, Christie & Co., Chartered Surveyors and Valuers, as at 31 December 2005. These valuations were carried out on the basis of existing use value in accordance with the appraisal and valuation manual of the Royal Institution of Chartered Surveyors. As a result of this independent valuation, certain of these properties have been impaired by a total of £10,893,000 (2004: £Nil). This represented a reversal of prior years' revaluations and has been debited to the revaluation reserve.				
If freehold land and buildings had not been revalued they would have been included at the following amounts:				
	2005		2004	
	£'000		£'000	
Cost	3,495		3,495	
Aggregate depreciation based on cost	(711)		(648)	
Net book value based on cost	2,784		2,847	

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

12 Debtors

	2005 £'000	2004 Restated (Note 2) £'000
Amounts falling due within one year		
Amounts owed by group undertakings	15,046	14,671
Corporation tax recoverable	-	9
	15,046	14,680

Amounts owed by group undertakings are interest free and are payable on demand.

13 Creditors: amounts falling due within one year

	2005 £'000	2004 Restated (Note 2) £'000
Amounts owed to group undertakings	-	331
Obligations under Finance Leases	11	-
	11	331

Amounts owed to group undertakings are interest free and are payable on demand.

14 Creditors: amounts falling due after more than one year

	2005 £'000	2004 Restated (Note 2) £'000
Amounts owed to group undertakings	11,204	11,187
Obligations under finance leases	83	-
	11,287	11,187

There are no defined repayment terms on amounts owed to group undertakings but the relevant group undertaking has confirmed to the directors of the Company that it will not seek any repayments of this loan within 12 months after the year-end.

Finance leases repayable as follows:

	2005 £'000	2004 £'000
In one year or less	11	-
Between one and two years	12	-
Between two and five years	71	-
	94	-

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

15 Provisions for liabilities and charges

	£'000
	Deferred tax
At 1 January 2005	43
Credited to profit and loss account	(27)
At 31 December 2005	16

	2005	2004
	£'000	£'000
The amount provided for deferred taxation comprises:		
Timing differences relating to accelerated capital allowances	16	43

16 Called up share capital

	2005	2004
	£'000	£'000
Authorised		
700,000 (2004: 700,000) ordinary shares of £1 each	700	700
Allotted, called up and fully paid		
601,300 (2004: 601,300) ordinary shares of £1 each	601	601

17 Reserves

	Share premium account	Profit and loss account	Revaluation reserve	Other reserves
	£'000	£'000	£'000	£'000
At 1 January 2005	177	3,939	12,929	43
Prior year adjustment – FR17 “Retirement Benefits”	-	8	-	-
At 1 January 2005 as restated	177	3,947	12,929	43
Loss for the financial year	-	(277)	-	-
Impairment of previously revalued properties	-	-	(10,893)	-
Transfer from revaluation reserve to profit and loss account – Revaluation surplus realised following sale of property	-	376	(376)	-
Actuarial loss on retirement benefits to net of recognised deferred tax	-	(120)	-	-
At 31 December 2005	177	3,926	1,660	43

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

18 Reconciliation of movement in shareholders' funds

	2005	2004
	£'000	£'000
(Loss) / profit for the financial year	(277)	181
Impairment of previously revalued properties	(10,893)	-
Actuarial (loss) on retirement benefit	(120)	22
Net (decrease) / increase in shareholders' funds	(11,290)	203
Opening equity shareholders' funds	17,697	17,494
Closing equity shareholders' funds	6,407	17,697

19 Post balance sheet events

On 13 March 2006 the Craegmoor Group completed a refinancing exercise with the injection of £8.25m from shareholders following the issue of new loan notes. The capital injection was used to refinance group companies. In addition the Borrower Security Trustee of the securitisation arrangements, to which the Company is a party, agreed to waive past breaches or to provide a period of time in which breaches must be remedied. The Company has complied with the obligations attaching to the waivers.

20 Pension scheme

The company operates a defined benefit pension scheme, the "Health and Care Services (UK) Limited Pension and Life Assurance Scheme" for staff at one of its homes. The scheme is professionally valued tri-annually, under the projected unit method.

The pension cost relating to the above defined benefit scheme is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial valuation of the scheme was at 31 December 2004. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 2.5% per annum higher than increases in earnings and 3.50% higher than increases in present and future pensions.

At the date of the latest actuarial valuation the market value of the assets of the "Health and Care Pension and Life Assurance Plan" was £576,000 (2004: £202,000). The actuarial value of these assets was sufficient to cover 85% (2004: 87%) of the benefits which had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees are 32.7% and 6% respectively.

The total net pension cost of the company was £46,000 during the year (2004: £28,000).

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

20 Pension scheme (continued)

The most recent valuation of the company's defined benefit pension scheme, the "Health and Care Pension and Life Assurance Plan" has been updated to 31 December 2004 to take account of the requirements of FRS 17. The major assumptions used to calculate the present value of scheme liabilities were as follows:

	2005 %	2004 %	2003 %	2002 %
Discount rate	4.70	5.30	5.30	5.40
Inflation rate	3.00	3.00	3.00	2.42
Rate of increase in salaries	4.00	4.00	4.00	4.00
Rate of increase of pensions in payment	3.00	3.00	3.00	2.42

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

20 Pension scheme (continued)

The assets of the scheme and the expected rate of return and liabilities of the scheme at 31 December were:

	Long term rate of return expected at 31 December 2005	Value at 31 December 2005	Long term rate of return expected at 31 December 2004	Value at 31 December 2004	Long term rate of return expected at 31 December 2003	Value at 31 December 2003
	%	£'000	%	£'000	%	£'000
Other – Deposit Administration Contract	6.0	576	6.5	449	6.5	354
Market value of scheme		576		449		354
Present value of scheme liabilities		(677)		(437)		(363)
Deficit in the scheme		(101)		12		(9)
Related deferred tax asset/liability		-		(4)		3
Net Asset (Liability)		(101)		9		(6)

Analysis of the amount charged to operating profit:

	2005	2004
	£'000	£'000
Current service cost	44	50
Past service cost	-	6
Gain / (loss) on settlements / curtailments	2	-
Total operating charge	46	56

Analysis of the amount credited to other finance income:

	2005	2004
	£'000	£'000
Expected return on pension scheme assets	30	25
Interest on pension scheme liabilities	(26)	(22)
Net return	4	3

Health and Care Services (UK) Limited
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20 Pension scheme (continued)

Analysis of amount recognised in statement of total recognised gains and losses:

	2005	2004	2003	2002
	£'000	£'000	£'000	£'000
Actual return less expected return on pension scheme assets	37	7	7	(37)
Percentage of scheme assets	6.4%	1.6%	2.0%	(14.9)%
Experience gains and losses arising on scheme liabilities	(52)	34	32	(3)
Percentage of present value of scheme liabilities	(7.7)%	7.8%	8.8%	(1.0)%
Changes in assumptions underlying the present value of the scheme liabilities	(109)	(19)	(25)	(63)
Percentage of present value of scheme liabilities	(16.1)%	(4.4)%	(6.9)%	(20.9)%
Actuarial gain recognised in the statement of total recognised gains and losses	(124)	22	14	(103)
Percentage of the present value of scheme liabilities	7.0%	5.0%	3.9%	(36.8)%

Movement in deficit during the year:

	2005	2004
	£'000	£'000
Surplus (Deficit) at 1 January	12	(9)
Movement in the year:		
Current service cost	(46)	(58)
Contributions	53	60
Past service costs	-	(6)
Other finance income	4	3
Actuarial gain/(loss)	(124)	22
Surplus (Deficit) at 31 December	(101)	12

Health and Care Services (UK) Limited
Notes to the financial statements
for the year ended 31 December 2005 (continued)

21 Contingent liabilities

There is a fixed charge over the assets of the Company and a cross guarantee in respect of the external loan undertaken by Craegmoor Funding (No. 2) Limited amounting to £8,080,000 (2004 restated: £8,080,000).

The prior year contingent liability figure has been restated as described in note 2.

22 Immediate and ultimate parent companies

The directors regard Craegmoor Holdings Limited, a company registered in England and Wales, as the immediate parent company of Health and Care Services (UK) Limited and Craegmoor Limited, a company registered in England and Wales, as the ultimate parent company in the United Kingdom. The parent companies of the largest and smallest groups in which Health and Care Services (UK) Limited is consolidated are Craegmoor Limited and Craegmoor Investments Limited respectively. Copies of Craegmoor Limited's consolidated financial statements may be obtained from its registered office, Craegmoor House, Perdiswell Park, Worcester, WR3 7NW.