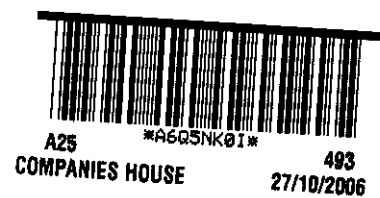


Avalon Nursing Homes Limited

**Directors' report and financial
statements**

Registered number 2653123

31 December 2005



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Company information

Directors	Michael Parsons David Duncan Jon Hather
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	2653123

Directors' report

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 is the ownership and management of nursing and care homes.

Business review

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

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

The company's customers are either privately funded or are wholly or mainly funded by the public sector. During the year the company has put significant effort into negotiating fees with local authorities and other public sector purchasing agencies.

In order to complement our UK employment we also recruit nurses and senior carers from overseas.

Dividends

The directors do not recommend the payment of a dividend (2004: *£nil*).

Future prospects

The directors expect the general level of activity in the healthcare sector to increase and believe that the company is well positioned to take advantage of opportunities for additional growth.

Plans are also in place to develop both higher acuity services, which will derive higher revenue streams, and to add beds through extensions to existing homes where market conditions are beneficial.

Directors and directors' interests

The directors who held office during the year were as follows:

D Duncan

M Parsons

J Hather (appointed 23 February 2005; resigned 10 October 2006)

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company.

The directors' interests in the shares of the ultimate parent company, Grove Limited, are detailed in the directors' report of that company.

Market value

Due to recent market conditions, the directors are of the opinion that the market value of land and buildings exceeds the book value of those assets at 31 December 2005. The company does not have a policy of revaluation and therefore the amounts by which land and buildings exceed book value have not been quantified.

Directors' report *(continued)*

Auditors

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

By order of the board



M Parsons
Director

Suite 201
The Chambers
Chelsea Harbour
London
SW10 0XF

4 October 2006

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

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

In preparing these financial statements, the directors are required to:

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

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

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.



KPMG LLP

Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom

Independent auditors' report to the members of Avalon Nursing Homes Limited

We have audited the financial statements of Avalon Nursing Homes Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet 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

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK 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).

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 UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

4 October 2006

Profit and loss account
for the year ended 31 December 2005

	<i>Note</i>	2005 £000	2004 £000
Turnover	<i>1</i>	5,967	5,487
Cost of services		(4,210)	(3,609)
Gross profit		1,757	1,878
Administrative expenses		(3)	(553)
Operating profit		1,754	1,325
Interest payable and similar charges	<i>4</i>	(2)	-
Profit on ordinary activities before taxation	<i>2</i>	1,752	1,325
Tax on profit on ordinary activities	<i>5</i>	(440)	(404)
Profit retained for the financial period		1,312	921

A reconciliation of movements in shareholders funds is given in note 13.

There were no recognised gains or losses in either the current or preceding financial period other than those shown above.

There were no acquisitions or discontinued activities in either period.

Balance sheet
at 31 December 2005

	Notes	2005 £000	2004 £000
Fixed assets			
Tangible assets	6	6,725	6,550
Current assets			
Stocks	7	27	27
Debtors	8	3,648	256
Cash at bank and in hand		-	51
		<u>3,675</u>	<u>334</u>
Creditors: amounts falling due within one year	9	<u>(4,887)</u>	<u>(992)</u>
Net current liabilities		<u>(1,212)</u>	<u>(658)</u>
Total assets less current liabilities		<u>5,513</u>	<u>5,892</u>
Creditors: amounts falling due after more than one year	10	(27)	(1,700)
Provisions for liabilities	11	(200)	(218)
Net assets		<u>5,286</u>	<u>3,974</u>
Capital and reserves			
Called up share capital	14	100	100
Share premium account	12	20	20
Profit and loss account	12	5,166	3,854
Equity shareholders' funds	13	<u>5,286</u>	<u>3,974</u>

These financial statements were approved by the board of directors on 4 October 2006 and were signed on its behalf by:



D Duncan
 Director

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.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. FRS 21 'events after the balance sheet date' has had no material effect as there have been no events after the balance sheet date in the current or preceding years that fall under the scope of this FRS.

Basis of preparation

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

The company is exempt from the requirement of FRS 1 (revised 1996) to prepare a cash flow statement as it is ultimately a wholly owned subsidiary undertaking of Barchester Healthcare 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 Barchester Healthcare Limited the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Barchester Healthcare Limited, within which this company is included, can be obtained from the address given in note 18.

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	-	50 years
Fixtures and 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 these assets and the group's practice to maintain these assets in a continual state of sound repair and to make improvements thereto from time to time.

Turnover

Turnover relates to income received from residents of the company's nursing and care homes and arises entirely in the United Kingdom. Turnover is recognised on an accruals basis as earned.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit 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.

Notes (continued)

1 Accounting policies (continued)

Leases

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

Post-retirement benefits

The company pays amounts directly to a number of employees for contribution into their own pension funds. The amount charged to the profit and loss account represents the contributions payable to the employees in respect of the accounting period.

2 Profit on ordinary activities before taxation

	2005 £000	2004 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration	-	5
Depreciation and other amounts written off tangible fixed assets	288	140
Hire of plant and machinery – rentals payable under operating leases	-	16
Hire of other assets – operating leases	-	6
	<hr/>	<hr/>

The remuneration of the auditors in respect of services provided to the company in the current year was borne by another group company.

3 Staff numbers and costs

The average monthly number of employees, including executive directors, during the year was as follows:

	2005 No	2004 No
Administration	11	8
Nursing staff	217	214
	<hr/>	<hr/>
	228	222
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2005 £000	2004 £000
Wages and salaries	2,738	2,577
Social security costs	152	182
Other pension costs	1	2
	<hr/>	<hr/>
	2,891	2,761
	<hr/>	<hr/>

The directors received no emoluments for services to the company during the year (2004: £nil). The directors received remuneration for services to Grove Limited of which Avalon Nursing Homes Limited is a subsidiary undertaking, however the proportion attributable to their services to Avalon Nursing Homes Limited is not separately identifiable.

Notes (continued)

4 Interest payable and similar charges

	2005 £000	2004 £000
Bank charges	2	-

5 Taxation

	2005 £000	2004 £000
UK corporation tax		
Current tax on income for the year	452	356
Adjustments in respect of prior periods	6	1
Total current tax charge	458	357
Deferred tax (see note 11)		
Origination/reversal of timing differences	7	48
Adjustments in respect of prior periods	(25)	(1)
	440	404

Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2004: lower) than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained below.

	2005 £000	2004 £000
Current tax reconciliation		
Profit on ordinary activities before tax	1,752	1,325
Current tax at 30% (2004: 30 %)	526	398
Effects of:		
Expenses not deductible for tax purposes (primarily depreciation on non-qualifying assets)	-	6
Capital allowances in period in excess of depreciation	(7)	(48)
Adjustments in respect of prior periods	6	1
Transfer pricing adjustments	(67)	-
Total current tax charge (see above)	458	357

Notes (continued)

6 Tangible fixed assets

	Freehold land and buildings	Assets in course of construction	Fixtures and fittings	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2005	6,177	-	1,407	33	7,617
Additions	32	11	420	-	463
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	6,209	11	1,827	33	8,080
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 January 2005	301	-	733	33	1,067
Charge for period	28	-	260	-	288
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	329	-	993	33	1,355
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 December 2005	5,880	11	834	-	6,725
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	5,876	-	674	-	6,550
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

On 1 January 2005, the directors revised their estimates of residual values for buildings. This resulted in the depreciation charge for the year increasing by £13,000 in comparison to the previous basis.

7 Stocks

	2005 £000	2004 £000
Consumables	27	27
	<hr/>	<hr/>

8 Debtors

	2005 £000	2004 £000
Trade debtors	254	36
Amounts due from group undertakings	3,350	-
Corporation tax recoverable	-	179
Other debtors	12	-
Prepayments	32	41
	<hr/>	<hr/>
	3,648	256
	<hr/>	<hr/>

Notes (continued)

9 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Bank overdrafts	3,685	624
Trade creditors	88	48
Group relief payable	361	-
Corporation tax	274	-
Other taxation and social security	72	67
Other creditors	4	-
Accruals and deferred income	403	253
	<u>4,887</u>	<u>992</u>

10 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Amounts due to group undertakings	<u>27</u>	<u>1,700</u>

The amounts owed to group undertakings fall due after more than five years and are interest free.

11 Provisions for liabilities

	Deferred taxation £000
At beginning of the year	218
Charged to the profit and loss account	(18)
At end of the year	<u>200</u>

	2005 £000	2004 £000
Difference between accumulated depreciation and amortisation and capital allowances	<u>200</u>	<u>218</u>
Deferred tax provision	<u>200</u>	<u>218</u>

12 Share premium and reserves

	Share premium account £000	Profit and loss account £000	Total £000
At beginning of the year	20	3,854	3,874
Retained profit for the year	-	1,312	1,312
At end of the year	<u>20</u>	<u>5,166</u>	<u>5,186</u>

Notes (continued)

13 Reconciliation of movements in equity shareholders' funds

	2005 £000	2004 £000
Opening equity shareholders' funds	3,974	3,053
Retained profit for the year	1,312	921
Closing equity shareholders' funds	5,286	3,974

14 Called up share capital

	2005 £	2004 £
<i>Authorised</i>		
100,000 ordinary shares of £1 each	100,000	100,000
230 deferred ordinary shares of £1 each	230	230
	100,230	100,230
<i>Allotted, issued and fully paid</i>		
100,000 ordinary shares of £1 each	100,000	100,000
230 deferred ordinary shares of £1 each	230	230
	100,230	100,230

The deferred ordinary shares have the right to one vote per share. They do not, however, have the right to receive a dividend.

On return of assets on liquidation, holders of ordinary shares will be entitled first to receive a threshold sum. From the surplus after the threshold sum has been paid, the next £100,000 will be paid to holders of deferred ordinary shares. Any remaining surplus after the above has been paid will be split with 80% being payable to ordinary shareholders and 20% to deferred ordinary shareholders.

15 Pension costs

The pension costs charge in the period amounting to £1,000 (2004: £2,000) represents contributions payable by the company to personal pension policies of certain employees.

16 Contingent liabilities

During 2004 a parent company, Barchester Healthcare Limited, entered into a bank loan agreement which is guaranteed by a number of group companies including Avalon Nursing Homes Limited. Under the terms of the agreement, Avalon Nursing Homes Limited also executed a debenture, providing security in the form of fixed and floating charges over all of its properties, assets and undertakings.

Notes (continued)

17 Commitments

Annual commitments under non cancellable operating leases are as follows:

	2005		2004	
	Plant £000	Other	Plant £000	Other
Operating leases which expire: In second to fifth years inclusive	-	-	14	5

18 Ultimate parent company and parent undertaking of larger group of which the company is a member

Avalon Nursing Homes Limited is a wholly owned subsidiary undertaking of Avalon (Guernsey) Limited, a company incorporated in Guernsey.

Avalon (Guernsey) Limited is a wholly owned subsidiary undertaking of Barchester Healthcare Homes Limited, a company incorporated in Great Britain and registered in England and Wales.

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 Healthcare Limited. The largest group in which the results of the company are consolidated is that headed by Grove Limited. The financial statements of Barchester Healthcare Limited are available to the public from the following address:

Suite 201
 The Chambers
 Chelsea Harbour
 London
 SW10 0XF