

Speciality Care Limited

Annual report

for the year ended 31 December 2006

Registered number 2787609

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Speciality Care Limited

Annual report for the year ended 31 December 2006

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Speciality Care Limited

Directors and advisors

Executive directors

Ted Smith
Denise Keating
Charles Cameron

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

Barlow Lyde & Gilbert
Beaufort House
15 St Botolph Street
London
EC3A 7NJ

Pinsent Masons
3 Colmore Circus
Birmingham
B4 6BH

Registered office

Craegmoor House
Perdiswell Park
Worcester
WR3 7NW

Speciality Care Limited

Directors' report for the year ended 31 December 2006

The Directors present their report and the financial statements for the year ended 31 December 2006

Principal activities

The Company has not traded during the year ended 31 December 2006, but did sell an investment

Review of business

The Company sold an investment during 2006. As a result a profit and loss account is included in this year's accounts

Results and dividends

The profit and loss account shows a loss after tax for the year of £2,000 (2005: £Nil). The Directors do not recommend the payment of a dividend for the year ended 31 December 2006 (2005: £Nil).

Future developments

The principal activities of the Company are not expected to change in the foreseeable future.

Directors

The following directors have held office the whole year unless otherwise stated:

Ted Smith		
Margaret Hill	Resigned 7 April 2006	
Mary Preston	Resigned 20 April 2006	
Denise Keating	Appointed 6 March 2006	
Julian Spurling	Appointed 6 March 2006	Resigned 27 November 2006
David Fothergill	Appointed 20 April 2006	Resigned 30 June 2006
Charles Cameron	Appointed 15 March 2006	

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 risk

The Craegmoor 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 £334,410,000 of debt, in the form of loan notes, is repayable over 17 years.

Interest rate and cash flow risk

The Craegmoor Group has entered into interest rate swaps to ensure certainty over future interest cashflows. As a consequence, 95% of the Group's borrowings are at fixed rates of interest.

Speciality Care Limited
Directors' report for the
year ended 31 December 2006 (continued)

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 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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.

Statement of disclosure of information to auditors

Each of the persons who are directors at the date that this report is approved confirm that

- so far as the director is 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 in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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



Charles Cameron
Director

23 July 2007

Independent auditors' report to the members of Speciality Care Limited

We have audited the financial statements of Speciality Care Limited for the year ended 31 December 2006 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.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 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 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 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Independent auditors' report to the members of Speciality Care Limited (continued)

Emphasis of Matter - Going concern

In forming our opinion on the financial statements, we have considered the adequacy of the disclosures made in Note 1 to the financial statements (*Going Concern*) concerning the Directors' consideration of the ability of the Group to meet its future covenants under current financing arrangements, and the associated impact on the Company. The financial statements of the Company have been prepared on a going concern basis, the validity of which depends on the Group complying with its covenants or, should they be breached, the pursuit of alternative strategies which would result in the Group remaining a going concern. This condition indicates the existence of an uncertainty for the Company relating to going concern. The financial statements do not include any adjustments that would result from a failure to meet the covenant requirements. Our opinion is not qualified in this respect.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
6 August 2007

Speciality Care Limited

Profit and loss account for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Loss on disposal of investments		(2)	-
Loss on ordinary activities before taxation		(2)	-
Tax credit on loss on ordinary activities		-	-
Loss for the financial year		(2)	-

All activities relate to continuing operations

There are no recognised gains and losses other than those shown above and therefore no separate statement of such has been presented

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

Speciality Care Limited

Balance sheet as at 31 December 2006

		2006	2005
	Note	£'000	£'000
Fixed assets			
Investments	5	3,558	3,560
Current assets			
Debtors due after more than one year	6	5,187	5,187
		5,187	5,187
Creditors amounts falling due within one year	7	(8,489)	(8,489)
Net current liabilities		(3,302)	(3,302)
Total assets less current liabilities		256	258
Creditors amounts falling due after more than one year	8	(7,500)	(7,500)
Net liabilities		(7,244)	(7,242)
Capital and reserves			
Called up share capital	9	182	182
Share premium account	10	1,186	1,186
Profit and loss account	10	(8,656)	(8,654)
Capital redemption reserve	10	44	44
Total shareholders' deficit	11	(7,244)	(7,242)

The financial statements on pages 6 to 12 were approved by the Board of Directors on 23 July 2007 and signed on its behalf by



Charles Cameron
Director

Speciality Care Limited

Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom which have been consistently applied

Going concern

The Company is reliant upon the ongoing support of the Craegmoor Limited Group in order to continue as a going concern, and the Group is subject to certain covenants as part of its current financing arrangements

Whilst trading and cash flow of the Group has improved significantly since last year it is during 2007 that the Group's covenants return to the higher levels set at the time of the securitisation in 2003. Following due review of current trading and the outlook, the Directors are of the view that the headroom on the Group's covenants is limited at certain times and the ability to meet this is dependent on achieving forecast trading results. Those forecasts are inherently uncertain. In the unlikely event that a covenant was to be breached then a number of courses of action would be available to the securitisation bondholders including *in extremis* enforcement of security and debt repayment provisions.

The accounts have been prepared on a going concern basis as the Directors believe that the Craegmoor Limited Group will either achieve compliance with its covenants or alternative strategies could be pursued, which would result in the Company remaining a going concern.

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.

Investments

The carrying value of fixed asset investments is based on cost less provisions for impairment where necessary in accordance with FRS 11.

Consolidation

The Company has taken advantage of the exemption under section 228(1) 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, which is incorporated in the United Kingdom. In accordance with section 228(1), the Company will deliver to the registrar, copies of these group accounts.

2 Directors' emoluments

The Directors received no remuneration for their services to the Company during the year ended 31 December 2006 (2005: £Nil).

3 Employees

The Company has no employees other than the Directors.

4 Auditors' remuneration

The audit fee for the Company for the year ended 31 December 2006 of £1,000 (2005: £Nil) was borne by a fellow subsidiary.

Speciality Care Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

5 Fixed asset investments

	Other investments £'000	Shares in subsidiary undertakings £'000	Total £'000
Shares			
At 1 January 2006	2	6,758	6,760
Disposal	(2)	-	(2)
At 31 December 2006	-	6,758	6,758
Provision for impairment in value			
At 1 January 2006 and 31 December 2006	-	(3,200)	(3,200)
Net book value			
At 31 December 2006	-	3,558	3,558
At 1 January 2006	2	3,558	3,560

The Company's interests in subsidiary undertakings are as follows

Name of undertaking	Principal activity	Class and percentage of shares held
Speciality Care (EMI) plc	Provision of nursing and residential home facilities	10p ordinary shares – 100% 10p convertible preference shares – 100%
Innova Healthcare Limited	Non trading	£1 ordinary shares – 100%
Irvine Care Limited	Provision of nursing home facilities	£1 ordinary shares – 100%
Speciality Care (Cedar Grove) Limited	Non trading	£1 ordinary shares – 100%
Speciality Care (Addison Court) Limited	Provision of nursing home facilities	£1 ordinary shares – 100%
Speciality Care (Medicare) Limited	Non trading	£1 ordinary shares – 100%
Speciality Care (Rest Homes) Limited	Provision of nursing home facilities	£1 ordinary shares – 100%
Speciality Care (Reit Homes) Limited	Provision of nursing home facilities	£1 ordinary shares – 100%
Speciality Care (UK Lease Homes) Limited	Provision of nursing home facilities	£1 ordinary shares – 100%
Speciality Equestrian Centre Limited	Provision of an education and recreational equestrian centre	£1 ordinary shares – 100%
Speciality Courses Offering Purposeful Education Limited #	Provision of residential care and specialist education for persons with a mental handicap	£1 ordinary shares – 100%

100% indirect holding, as directly owned by Speciality Care (Medicare) Limited

All subsidiaries are registered in England and Wales

Speciality Equestrian Centre Limited is a not for profit organisation and consequently cannot distribute its reserves

Speciality Care Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

6 Debtors

	2006	2005
	£'000	£'000
Amounts falling due after more than one year.		
Amounts owed by group undertakings	5,187	5,187

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

7 Creditors: amounts falling due within year

	2006	2005
	£'000	£'000
Amounts owed to group undertakings	8,489	8,489

Amounts owed to group undertakings are interest free and repayable on demand

8 Creditors: amounts falling due after more than one year

	2006	2005
	£'000	£'000
7,500,000 (2005 7,500,000) cumulative preference convertible preference shares of £1 each	7,500	7,500

The cumulative redeemable convertible preference shares were redeemable by the Company on or before 1 July 2000 or as soon thereafter as the Company shall be able to comply with the provisions of the 1985 Companies Act affecting the redemption of redeemable shares. However, the Company has been unable to redeem the shares due to not having sufficient distributable reserves.

The cumulative redeemable convertible preference shares were convertible into fully paid ordinary shares on the basis of one ordinary share for every £13.20 nominal value of convertible shares so converted. The right to convert ceased to be exercisable on 1 July 2000.

The cumulative redeemable convertible preference shares are entitled to a 6% dividend per annum with effect from 7 August 1995, although the right to receive these dividends has been waived by the shareholders of these shares.

The holders of the cumulative redeemable preference shares have confirmed that it is their intention not to take steps to require the Company to redeem such shares, if as a result, the Company would be unable to pay its debts as they fall due or if it did not have sufficient distributable reserves to do so.

The voting and dividends rights and rights in the event of the Company being wound up, attaching to each class of share are complex and vary depending upon future events. These are explained fully in the Articles of Association of the Company, which can be obtained from Companies House.

Speciality Care Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

9 Called up share capital

	2006 £'000	2005 £'000
Authorised		
3,058,782 (2005 3,058,782) Ordinary shares of 10p each	306	306
441,218 (2005 441,218) Deferred shares of 10p each	44	44
	350	350
Allotted, called up and fully paid		
1,818,183 (2004 1,818,183) Ordinary shares of 10p each – equity	182	182
	182	182

10 Reserves

	Capital redemption reserve £'000	Share premium account £'000	Profit and loss account £'000
At 1 January 2006	44	1,186	(8,654)
Loss for financial year	-	-	(2)
At 31 December 2006	44	1,186	(8,656)

11 Shareholders' deficit

	2006 £'000	2005 £'000
Loss for financial year	(2)	-
Net increase in shareholders' deficit	(2)	-
Opening shareholders' deficit	(7,242)	(7,242)
Closing shareholders' deficit	(7,244)	(7,242)

12 Post balance sheet events

Subsequent to the year-end the UK Corporation Tax rates were changed from 30% to 28%. These changes have not yet been substantially enacted through the Provisional Collection of Taxes Act and hence not reflected in the deferred tax assets or liabilities as at 31 December 2006.

13 Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at 31 December 2006 (2005 £Nil).

14 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.

Speciality Care Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

15 Capital commitments and contingent liabilities

The company had no capital commitments or contingent liabilities at 31 December 2006 (2005 £Nil)

16 Immediate and ultimate parent companies

The Directors regard Craegmoor Group Limited, a company registered in England and Wales, as the immediate parent company of Speciality Care Limited, and Craegmoor Limited, a company registered in England and Wales, as the ultimate parent company in the United Kingdom. Craegmoor Limited is the parent company of the largest and smallest group in which Craegmoor Limited is consolidated. Copies of Craegmoor Limited's consolidated financial statements may be obtained from its registered office, Craegmoor House, Perdiswell Park, Worcester, WR3 7NW.