

CASTLE HOMES LIMITED
FINANCIAL STATEMENTS
31ST DECEMBER 2002

Company Registration Number 2910603



KPMG LLP
Chartered Accountants & Registered Auditor
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

CASTLE HOMES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

| | |
|-------------------------------|---|
| The board of directors | J G Mackenzie T R Leigh FCA D R Savage D J Ayers C Dalton S W Richmond |
| Company secretary | T R Leigh FCA |
| Registered office | The Manor House Squires Hill Rothwell Northamptonshire NN14 6BQ |
| Auditors | KPMG LLP Chartered Accountants & Registered Auditor 1 Forest Gate Brighton Road Crawley West Sussex RH11 9PT |
| Bankers | Barclays Bank plc PO 16294 1-2 Trinity Way Chingford London E4 8US |
| Solicitors | Wilson Browne 60 Gold Street Northampton NN1 1RS |

CASTLE HOMES LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31ST DECEMBER 2002

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31st December 2002.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company is engaged in the provision of accommodation for young individuals requiring special care and attention.

RESULTS AND DIVIDENDS

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements.

The directors do not recommend the payment of a dividend for the year (2001 £nil).

DIRECTORS

The directors who served the company during the year were as follows:

J G Mackenzie
T R Leigh FCA
D R Savage
D J Ayers
C Dalton
S W Richmond

The company is a wholly owned subsidiary of Castlecare Holdings Plc and the interests of the directors, who are also directors of the parent company, are disclosed on the financial statements of that company.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the year and of the profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

select suitable accounting policies as described on pages 7 to 8, 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;

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 the 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.

AUDITORS

KPMG were re-appointed as auditors at the last annual general meeting. Since that date KPMG have transferred their business to a limited liability partnership, KPMG LLP. KPMG resigned as auditors and KPMG LLP were subsequently appointed on 18 September 2002. In accordance with Section 385 of the Companies Act 1985, a resolution for the appointment of KPMG LLP will be proposed at the forthcoming Annual General Meeting.

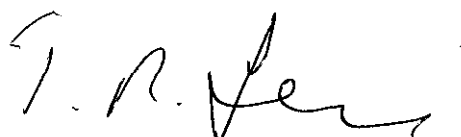
CASTLE HOMES LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31ST DECEMBER 2002

Registered office:
The Manor House
Squires Hill
Rothwell
Northamptonshire
NN14 6BQ

Signed by order of the directors

A handwritten signature in black ink, appearing to read 'T. R. Leigh', is written over the printed name.

T R LEIGH FCA
Company Secretary

Approved by the directors on 28 October 2003

CASTLE HOMES LIMITED**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS****YEAR ENDED 31ST DECEMBER 2002**

We have audited the financial statements on pages 5 to 13.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs as at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

KPMG LLP
Chartered Accountants
& Registered Auditor

28 October 2003

CASTLE HOMES LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31ST DECEMBER 2002

| | Note | 2002 £ | 2001 £ |
|---|------|-------------|-------------|
| TURNOVER | 2 | 4,492,850 | 3,520,594 |
| Cost of sales | | (3,844,737) | (2,805,778) |
| GROSS PROFIT | | 648,113 | 714,816 |
| Administrative expenses | | (968,534) | (644,486) |
| OPERATING (LOSS)/PROFIT | 3 | (320,421) | 70,330 |
| Interest payable and similar charges | 6 | (142) | — |
| (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | (320,563) | 70,330 |
| Tax on (loss)/profit on ordinary activities | 7 | 7,925 | (11,542) |
| RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR | | (312,638) | 58,788 |
| Balance brought forward | | 318,807 | 260,019 |
| Balance carried forward | | 6,169 | 318,807 |

The company has no recognised gains or losses other than the results for the year as set out above.

All of the activities of the company are classed as continuing.

CASTLE HOMES LIMITED

BALANCE SHEET

31ST DECEMBER 2002

| | Note | 2002 £ | 2001 £ |
|--|------|------------------|------------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 104,711 | 42,305 |
| CURRENT ASSETS | | | |
| Debtors | 9 | 870,784 | 528,263 |
| Cash at bank and in hand | | 199,925 | 180,975 |
| | | <u>1,070,709</u> | <u>709,238</u> |
| CREDITORS: Amounts falling due within one year | 10 | <u>(381,062)</u> | <u>(331,576)</u> |
| NET CURRENT ASSETS | | <u>689,647</u> | <u>377,662</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>794,358</u> | <u>419,967</u> |
| CREDITORS: Amounts falling due after more than one year | 11 | (758,072) | (73,160) |
| PROVISIONS FOR LIABILITIES AND CHARGES | | | |
| Deferred taxation | 12 | (5,117) | (3,000) |
| | | <u>31,169</u> | <u>343,807</u> |
| CAPITAL AND RESERVES | | | |
| Called-up equity share capital | 15 | 25,000 | 25,000 |
| Profit and Loss Account | | 6,169 | 318,807 |
| SHAREHOLDERS' FUNDS | 16 | <u>31,169</u> | <u>343,807</u> |

These financial statements were approved by the directors on the 28 October 2003 and are signed on their behalf by:


J. MACKENZIE

CASTLE HOMES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31ST DECEMBER 2002****1. ACCOUNTING POLICIES****Basis of accounting**

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. The company has adopted FRS 18 'Accounting policies' and FRS 19 'Deferred taxation' in these financial statements. It was not necessary to restate comparative figures.

As the company is a wholly owned subsidiary of Castlecare Holdings Plc, the company has taken advantage of the exemption contained in Financial Reporting Standard No.8 and has not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard No.1 to prepare a cash flow statement as the ultimate parent company, Castlecare Holdings Plc, a company incorporated in England and Wales, prepares consolidated financial statements which are publicly available.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

| | |
|--------------------|------------------------------|
| Leasehold property | - over the term of the lease |
| Equipment | - 15% on net book value |

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the Profit and Loss Account.

Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date except for timing differences arising on revaluations of fixed assets which are not intended to be sold and gains on disposals of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences. Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

CASTLE HOMES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31ST DECEMBER 2002****2. TURNOVER**

The turnover and (loss)/profit before tax are attributable to the one principal activity of the company, and all arose in the United Kingdom.

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:

| | 2002 | 2001 |
|------------------------|--------------|--------------|
| | £ | £ |
| Depreciation | 8,652 | 5,694 |
| Auditors' remuneration | | |
| - as auditors | 7,500 | 6,500 |
| Operating lease costs: | | |
| Land and buildings | 161,585 | 146,839 |
| Plant and equipment | <u>2,764</u> | <u>4,197</u> |

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year were:

| | 2002 | 2001 |
|------------------|-------------|------------|
| | No. | No. |
| Management staff | 17 | 15 |
| Other staff | 124 | 88 |
| | <u>141</u> | <u>103</u> |

The aggregate payroll costs of the above were:

| | 2002 | 2001 |
|-----------------------|------------------|------------------|
| | £ | £ |
| Wages and salaries | 2,414,439 | 1,736,059 |
| Social security costs | 207,936 | 125,677 |
| Other pension costs | 42,410 | 18,740 |
| | <u>2,664,785</u> | <u>1,880,476</u> |

CASTLE HOMES LIMITED
MANAGEMENT INFORMATION
YEAR ENDED 31ST DECEMBER 2002

5. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

| | 2002 | 2001 |
|--|---------------|---------------|
| | £ | £ |
| Emoluments receivable | 56,337 | 45,143 |
| Value of company pension contributions to money purchase schemes | 1,900 | 1,692 |
| | <u>58,237</u> | <u>46,835</u> |

The number of directors who are accruing benefits under company pension schemes was as follows:

| | 2002 | 2001 |
|------------------------|-------------|-------------|
| | No. | No. |
| Money purchase schemes | <u>1</u> | <u>1</u> |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2002 | 2001 |
|--------------------|-------------|-------------|
| | £ | £ |
| On bank overdrafts | 106 | — |
| Other interest | 36 | — |
| | <u>142</u> | <u>—</u> |

CASTLE HOMES LIMITED**MANAGEMENT INFORMATION****YEAR ENDED 31ST DECEMBER 2002****7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES****(a) Taxation**

| | 2002 £ | 2001 £ |
|---|-------------------------|-------------------------|
| Current tax: | | |
| In respect of the year: | | |
| UK Corporation tax based on the results for the year at 19.25% (2001 - 20%) | (12,803) | 13,000 |
| Under/(over) provision in prior year | 2,761 | (4,458) |
| Total current tax | <u>(10,042)</u> | <u>8,542</u> |
| Deferred tax: | | |
| Increase in deferred tax provision (note 12) | | |
| Capital allowances | 2,117 | 3,000 |
| Tax on (loss)/profit on ordinary activities | <u>(7,925)</u> | <u>11,542</u> |

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is higher (2001: lower) than the standard rate of corporation tax in the UK of 19.25% (2001 - 20%).

| | 2002 £ | 2001 £ |
|--|-------------------------|-------------------------|
| (Loss)/profit on ordinary activities before taxation | <u>(320,563)</u> | <u>70,330</u> |
| (Loss)/profit on ordinary activities by rate of taxation | (61,708) | 14,066 |
| Excess of taxation allowances over depreciation | (1,650) | (1,702) |
| Expenses not deductible for taxation purposes | 365 | 636 |
| Group relief for no payment | 39,579 | — |
| Under/(over) provision in prior years | 2,761 | (4,458) |
| Change in tax rates | (481) | — |
| Taxation losses carried forward | 11,092 | — |
| Total current tax (note 7(a)) | <u>(10,042)</u> | <u>8,542</u> |

CASTLE HOMES LIMITED
MANAGEMENT INFORMATION
YEAR ENDED 31ST DECEMBER 2002

8. TANGIBLE FIXED ASSETS

| | Leasehold Property £ | Equipment £ | Total £ |
|------------------------------|-------------------------------------|------------------------|--------------------|
| COST | | | |
| At 1st January 2002 | — | 47,999 | 47,999 |
| Additions | 26,858 | 44,200 | 71,058 |
| At 31st December 2002 | <u>26,858</u> | <u>92,199</u> | <u>119,057</u> |
| DEPRECIATION | | | |
| At 1st January 2002 | — | 5,694 | 5,694 |
| Charge for the year | 750 | 7,902 | 8,652 |
| At 31st December 2002 | <u>750</u> | <u>13,596</u> | <u>14,346</u> |
| NET BOOK VALUE | | | |
| At 31st December 2002 | <u>26,108</u> | <u>78,603</u> | <u>104,711</u> |
| At 31st December 2001 | <u>—</u> | <u>42,305</u> | <u>42,305</u> |

9. DEBTORS

| | 2002 £ | 2001 £ |
|------------------------------------|-------------------|-------------------|
| Trade debtors | 707,581 | 411,932 |
| Amounts owed by group undertakings | 142,009 | 99,826 |
| Corporation tax repayable | 12,803 | — |
| Other debtors and prepayments | 8,391 | 16,505 |
| | <u>870,784</u> | <u>528,263</u> |

The debtors above include the following amounts falling due after more than one year:

| | 2002 £ | 2001 £ |
|------------------------------------|-------------------|-------------------|
| Amounts owed by group undertakings | <u>142,009</u> | <u>99,826</u> |

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2002 £ | 2001 £ |
|------------------------------|-------------------|-------------------|
| Trade creditors | 93,529 | 51,985 |
| Corporation tax | — | 13,000 |
| PAYE and social security | 66,067 | 49,166 |
| VAT | 205,766 | 162,050 |
| Accruals and deferred income | 15,700 | 55,375 |
| | <u>381,062</u> | <u>331,576</u> |

CASTLE HOMES LIMITED
MANAGEMENT INFORMATION
YEAR ENDED 31ST DECEMBER 2002

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2002 | 2001 |
|------------------------------------|----------------|---------------|
| | £ | £ |
| Amounts owed to group undertakings | <u>758,072</u> | <u>73,160</u> |

12. DEFERRED TAXATION

| | 2002 | 2001 |
|--|--------------|--------------|
| | £ | £ |
| The movement in the deferred taxation provision during the year was: | | |
| Provision brought forward | 3,000 | - |
| Profit and Loss Account movement arising during the year | <u>2,117</u> | <u>3,000</u> |
| Provision carried forward | <u>5,117</u> | <u>3,000</u> |

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

| | 2002 | 2001 |
|---|-----------------|-----------------|
| | Provided | Provided |
| | £ | £ |
| Excess of taxation allowances over depreciation on fixed assets | <u>5,117</u> | <u>3,000</u> |
| | <u>5,117</u> | <u>3,000</u> |

13. CONTINGENT LIABILITIES

The company is party to a cross guarantee to secure the bank loans and overdrafts of certain group companies. As at 31 December 2002 total bank loans and overdrafts subject to this guarantee were £1,849,283.

14. COMMITMENTS UNDER OPERATING LEASES

At 31st December 2002 the company had annual commitments under non-cancellable operating leases as set out below.

| | Land & Buildings | |
|--------------------------------|-----------------------------|----------------|
| | 2002 | 2001 |
| | £ | £ |
| Operating leases which expire: | | |
| Within 1 year | 35,804 | 24,058 |
| Within 2 to 5 years | <u>70,560</u> | <u>104,160</u> |
| | <u>106,364</u> | <u>128,218</u> |

CASTLE HOMES LIMITED
MANAGEMENT INFORMATION
YEAR ENDED 31ST DECEMBER 2002

15. SHARE CAPITAL

Authorised share capital:

| | 2002 £ | 2001 £ |
|-----------------------------------|------------------|---------------|
| 25,000 Ordinary shares of £1 each | <u>25,000</u> | <u>25,000</u> |

Allotted, called up and fully paid:

| | 2002 £ | 2001 £ |
|-----------------------------------|------------------|---------------|
| 25,000 Ordinary shares of £1 each | <u>25,000</u> | <u>25,000</u> |

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2002 £ | 2001 £ |
|--------------------------------------|------------------|----------------|
| (Loss)/profit for the financial year | (312,638) | 58,788 |
| Opening shareholders' equity funds | <u>343,807</u> | <u>285,019</u> |
| Closing shareholders' equity funds | <u>31,169</u> | <u>343,807</u> |

17. ULTIMATE PARENT COMPANY

The largest group of which the results of the company are consolidated is that headed by Castlecare Holdings Plc, a company incorporated in England and Wales. The consolidated financial statements of this company are available to the public and may be obtained from The Manor House, Squires Hill, Rothwell, Northamptonshire, NN14 6BQ. No other consolidated financial statements include the results of the company.

18. ULTIMATE CONTROLLING PARTY

The company is controlled by J G Mackenzie by virtue of his shareholding in the parent company.