Registered no: 3257061

Speciality Care (Rest Care) Limited

Annual Report

for the period ended 31 December 1998

Speciality Care (Rest Care) Limited

Report for the period ended 31 December 1998

Directors and advisers

Executive directors

M A Stratford
G Blackoe

Registered auditors

PricewaterhouseCoopers
Temple Court
35 Bull Street
Birmingham
B4 6JT

Solicitors

Simon Bishop & Partners
"Hillcairnie"
St Andrew's Road
Droitwich
Worcestershire
WR9 8DJ

Secretary and registered office

S J Bishop
"Hillcairnie"
St Andrew's Road
Droitwich
Worcestershire
WR9 8DJ

Bankers

National Westminster Bank plc
Cheltenham & Gloucester
Business Centre
68-70 Suffolk Road
Cheltenham
Gloucestershire
GL50 2ED

Directors' report for the period ended 31 December 1998

The directors present their report and the audited financial statements for the period ended 31 December 1998.

Principal activity

The principal activity of the company continues to be the operation of a nursing home.

Parent company

The company is a wholly owned subsidiary of Speciality Care Limited, itself a wholly owned subsidiary of Craegmoor Healthcare Company Limited. The company changed its year end to 31 December in line with Craegmoor Healthcare Company Limited.

Review of business

Both the level of business and the year end financial position were within expectations and the directors have plans in place to return the company to profitability.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend for the period ended 31 December 1998 (8 months ended 28 February 1998: Nil). The loss for the period of £249,559 (8 months ended 28 February 1998: profit of £20,370) is to be deducted from reserves.

Directors

The directors of the company during the period ended 31 December 1998 are listed on page 1.

Directors' interests

M.A. Stratford is also a director of the parent company, Craegmoor Healthcare Company Limited, and his share interest is shown in the directors' report of that company. No other director had any interest in the share capital of Speciality Care (Rest Care) Limited or Craegmoor Healthcare Company Limited.

Directors' report for the period ended 31 December 1998 (continued)

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 1998. The directors also confirm that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Changes in fixed assets

The movement in fixed assets during the period are set out in note 8 to the financial statements. The directors consider there to be no significant difference between the market value of the company's freehold land and buildings and their book value.

Year 2000

Many computer systems express dates using only the last two digits to indicate the year. Such systems require testing and may require modification to ensure that they produce valid data in the year 2000 and beyond.

The company's principal computer applications software is year 2000 ready. Other programs that may require testing and possibly replacing will be upgraded during the course of 1999.

The directors are aware that the risks related to the year 2000 issue are not only internal but that disruption may be caused by the failure of its customers and suppliers systems. There is therefore a risk associated with failure of other parties to remedy their own year 2000 issues.

The company commenced auditing its systems including equipment which may have embedded computer chips during the period. The company has designated a number of employees to this project which report to the group's executive committee which has ultimate responsibility for this exercise.

Directors' report
for the period ended 31 December 1998 (continued)

Year 2000 (continued)

The total cost to complete upgrades and modifications to the company's systems and hardware is not considered material and since the company only uses packaged software it does not anticipate significant charges to the profit and loss account during 1999. Any replacement computer hardware will be capitalised and amortised in line with the company's standard depreciation policy.

Introduction of the Euro

The company neither imports goods and services nor exports good and services to the Euro zone.

The company has confirmed that software upgrades are available for its packaged accounting system to cater for the Euro which can be installed if confirmation of entry is announced.

New computer hardware purchased from 1 January 1999 will be validated to ensure that it is Euro compliant and that the appropriate currency symbol is available.

Upon announcement that the country is to enter the Euro system, the company will form an appropriate project team to deal with this matter.

Auditors

KPMG did not seek reappointment as auditors and the directors appointed PricewaterhouseCoopers to fill the casual vacancy. A resolution to reappoint PricewaterhouseCoopers will be proposed at the annual general meeting.

By order of the board

S.J. Bishop

S J Bishop
Company secretary
14 May 1999

Report of the auditors to the members of Speciality Care (Rest Care) Limited

We have audited the financial statements on pages 6 to 15, which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices board and 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. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of 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 at 31 December 1998 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
14 May 1999

Profit and loss account
for the period ended 31 December 1998

	Notes	10 months ended 31 December 1998 £	8 months ended 28 February 1998 £
Turnover - continuing operations	2	**244,927**	206,517
Cost of sales		**(167,720)**	(131,364)
Exceptional cost of sales - impairment of tangible fixed assets	8	**(250,000)**	-
Total cost of sales - continuing operations		**(417,720)**	(131,364)
Gross (loss)/profit - continuing operations		**(172,793)**	75,153
Administrative expenses - continuing operations		**(46,837)**	(48,674)
Operating (loss) / profit - continuing operations		**(219,630)**	26,479
Interest payable and similar charges	5	**(26,959)**	-
(Loss) / profit on ordinary activities before taxation	6	**(246,589)**	26,479
Tax on (loss) / profit on ordinary activities	7	**(2,970)**	(6,109)
(Loss) / profit for the financial period	14	**(249,559)**	20,370

The company has no recognised gains or losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented.

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

Balance sheet at 31 December 1998

	Notes	31 December 1998	28 February 1998
		£	£
Fixed assets			
Tangible assets	8	**588,527**	852,087
Current assets			
Stocks	9	**1,469**	1,469
Debtors	10	**14,855**	14,127
Cash at bank and in hand		**15,574**	77,151
		31,898	92,747
Creditors: amounts falling due within one year	11	**(811,636)**	(886,486)
Net current liabilities		**(779,738)**	(793,739)
Net (liabilities) / assets		**(191,211)**	58,348
Capital and reserves			
Called up share capital	13	**2**	2
Profit and loss account	14	**(191,213)**	58,346
Equity shareholders' funds	15	**(191,211)**	58,348

The financial statements on pages 6 to 15 were approved by the board of directors on 14 May 1999 and were signed on its behalf by:

M.A. Stratford

M A Stratford
Director

Notes to the financial statements for the period ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, except as stated, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Land and buildings may be stated at valuations made by directors based, in part, on valuations made by independent professionally qualified valuers on an existing use open market basis, equipped as an operational entity and having regard to trading potential. Land and buildings are revalued by professionally qualified valuers every five years and in the intervening years these valuations are updated by the directors with the assistance of independent professional advice as required.

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 FRS11, 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 is use is determined by reference to the expected future cash flows of the nursing home, discounted at a risk adjusted weighted cost of capital.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets less their estimated residual values, on the following basis:

Freehold land	nil
Freehold buildings	2% straight line method
Furniture, fittings and equipment	15% reducing balance method

The company changed the rate of depreciation for furniture and fittings from 15-33.3% straight line to 15% reducing balance and has changed the rate of depreciation on freehold buildings from nil to 2% straight line. In the directors' opinion these revised rates of depreciation, being consistent with those applied by Craegmoor Healthcare Company Limited and its other subsidiaries, more accurately reflect the usage and remaining lives of these assets. The effect of the change in rate for furniture and fittings on the reported loss for the period is considered to be immaterial. The change in rate for freehold buildings results in an additional charge of £12,000.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the term of the leases.

Notes to the financial statements for the period ended 31 December 1998 (continued)

1 Principal accounting policies (continued)

Stocks

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

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallise.

Cash flow statement

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

2 Turnover

Turnover consists entirely of fee income, excluding VAT, earned in the United Kingdom during the period.

3 Directors' emoluments

Directors' emoluments for the period ended 31 December 1998 were £Nil (8 months ended 28 February1998: £Nil).

Notes to the financial statements for the period ended 31 December 1998 (continued)

4 Employee information

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

	10 months ended 31 December 1998	8 months ended 28 February 1998
	Number	Number
Nursing, ancillary and administrative staff	25	31
	£	£
Staff costs (for the above persons)		
Wages and salaries	144,552	112,062
Social security costs	7,605	6,129
	152,157	118,191

5 Interest payable and similar charges

	10 months ended 31 December 1998	8 months ended 28 February 1998
	£	£
Bank interest on overdrafts repayable on demand	26,959	-

Notes to the financial statements for the period ended 31 December 1998 (continued)

6 (Loss)/profit on ordinary activities before taxation

	10 months ended 31 December 1998	8 months ended 28 February 1998
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Depreciation of owned tangible fixed assets	**19,043**	15,826
Hire of other assets - rentals payable under operating leases	**3,354**	2,133
Auditor's remuneration for:		
Audit	**3,050**	-
Other services	**-**	-

In the previous period auditors' remuneration was discharged by the immediate parent company.

7 Tax on (loss)/profit on ordinary activities

	10 months ended 31 December 1998	8 months ended 28 February 1998
United Kingdom corporation tax at 31% (8 months ended 28 February 1998: 31%):		
Current	**3,200**	9,823
Adjustment in respect of prior years	**(230)**	(3,714)
	2,970	6,109

Notes to the financial statements for the period ended 31 December 1998 (continued)

8 Tangible fixed assets

	Freehold land and buildings	Furniture, fittings and equipment	Total
	£	£	£
Cost			
At 1 March 1998	991,469	153,829	1,145,298
Additions	1,527	3,956	5,483
At 31 December 1998	**992,996**	**157,785**	**1,150,781**
Depreciation			
At 1 March 1998	186,513	106,698	293,211
Charge for period	12,000	7,043	19,043
Impairment in carrying value (see below)	250,000	-	250,000
At 31 December 1998	**448,513**	**113,741**	**562,254**
Net book value			
At 31 December 1998	**544,483**	**44,044**	**588,527**
At 28 February 1998	804,956	47,131	852,087

In accordance with FRS11, the carrying value of the land and buildings was reassessed by the directors during the period based on value in use and as a result of changes in market conditions an impairment in the carrying value of £250,000 has been recognised. It is the opinion of the directors that this more accurately reflects the value of the land and buildings. The pre-tax discount rate applied to inflation adjusted cash flows in the review of value in use was 13.6%.

Notes to the financial statements for the period ended 31 December 1998 (continued)

9 Stocks

	31 December 1998	28 February 1998
	£	£
Consumables	1,469	1,469

10 Debtors

	31 December 1998	28 February 1998
	£	£
Amounts falling due within one year		
Trade debtors	12,020	10,842
Group relief	230	-
Other debtors	-	10
Prepayments and accrued income	2,605	3,275
	14,855	14,127

11 Creditors: amount falling due within one year

	31 December 1998	28 February 1998
	£	£
Trade creditors	2,557	2,674
Amounts due to fellow subsidiaries	758,989	832,328
Other creditors	28,022	34,113
Corporation tax	3,200	-
Accruals and deferred income	18,868	17,371
	811,636	886,486

Notes to the financial statements for the period ended 31 December 1998 (continued)

12 Provisions for liabilities and charges

Deferred taxation provided in the financial statements and the amount unprovided of the total potential liability, are as follows:

	Amount provided		Amount unprovided	
	31 December 1998	28 February 1998	**31 December 1998**	28 February 1998
	£	£	**£**	£
Tax effect of timing differences because of:				
Excess capital allowances over depreciation	**-**	-	**(4,355)**	(3,000)

13 Called up share capital

	31 December 1998	28 February 1998
	£	£
Authorised		
1000 Ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid		
2 Ordinary shares of £1 each	**2**	2

14 Profit and loss account

	£
At 1 March 1998	58,346
Loss for the financial period	(249,559)
At 31 December 1998	**(191,213)**

Notes to the financial statements for the period ended 31 December 1998 (continued)

15 Reconciliation of movements in shareholders' funds

	31 December 1998	28 February 1998
	£	£
(Loss) / profit for the financial period	(249,559)	20,370
Opening shareholders' funds	58,348	37,978
Closing shareholders' funds	**(191,211)**	58,348

16 Capital commitments

There were no capital commitments at 31 December 1998 (8 months ended 28 February 1998: £Nil).

17 Contingent liability

There is a fixed and floating charge over the property, undertaking and assets of the company in respect of a loan from Craegmoor Finance PLC to Parkcare Homes Limited under the Parkcare/Issuer Loan Agreement dated 20 December 1997. Craegmoor Finance PLC and Parkcare Homes Limited are fellow subsidiaries of the company.

18 Related party transactions

The company has taken advantage of the exemption granted under Paragraph 3(c) of FRS8 and not disclosed any transactions with other group companies.

19 Immediate and ultimate parent companies

The directors regard Speciality Care Limited, a company registered in England and Wales, as the immediate parent company of Speciality Care (Rest Care) Limited and regard Craegmoor Healthcare Company Limited, a company registered in England and Wales, as the immediate parent company of Speciality Care Limited. Copies of Craegmoor Healthcare Company Limited's consolidated financial statements may be obtained from the Secretary, "Hillcairnie," St Andrew's Road, Droitwich, Worcester WR9 8DJ. The directors regard Warburg Pincus LP, a limited partnership incorporated in the United States of America, as the ultimate parent company. Copies of the ultimate parent company's financial statements are not available to the public.