

Craegmoor No. 2 Limited

Annual report

for the period ended 31 December 2001

Registered number: 4229516



Craegmoor No. 2 Limited

Annual report for the period ended 31 December 2001

Contents

Directors and advisors	1
Directors' report	2-4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8-15

Craegmoor No. 2 Limited

Directors and advisors

Executive Directors

M A Stratford (appointed 27 July 2001)
F Richardson (appointed 27 July 2001)
Huntsmoor Nominees Limited (appointed 6 June 2001, resigned 27 July 2001)
Huntsmoor Limited (appointed 6 June 2001, resigned 27 July 2001)

Secretary

M A Stratford (appointed 27 July 2001)
TJG Secretaries Limited (appointed 6 June 2001, resigned 27 July 2001)

Auditors

PricewaterhouseCoopers
Temple Court
35 Bull Street
Birmingham
B4 6JT

Solicitors

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

Registered Office

"Hillcairnie"
St. Andrew's Road
Droitwich
Worcestershire
WR9 8DJ

Bankers

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

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

Craegmoor No. 2 Limited

Directors' report for the period ended 31 December 2001

The directors present their report and the audited financial statements for the period ended 31 December 2001.

Incorporation, change of name and principal activity

The company was incorporated as Law 2303 Limited on 6 June 2001. On 10 July 2001 the Company changed its name to Craegmoor No. 2 Limited.

The principal activity of the company is the raising of finance to support the ongoing activities of its intermediate parent company, Craegmoor Limited and its fellow subsidiaries.

Review of business

On 27 July 2001, the Company acquired 93% of the ordinary share capital and 100% of the Preference share capital of Craegmoor Group Limited. In addition the Company acquired 100% of the ordinary share capital of Friarsfield Limited. Friarsfield Limited owned the remaining 7% of the ordinary share capital of Craegmoor Group Limited.

In order to fund the transaction the Company issued unsecured floating rate loan notes with a nominal value of £3,440,504, due to be repaid in the year 2005. Further unsecured 6.75% loan notes were issued with a nominal value of £76,785,425, due to be repaid in 2013. In addition secured floating rate loan notes were issued with a nominal value of £21,559,496, due to be repaid in 2013.

The Directors have received confirmation that Craegmoor Limited will continue to provide ongoing financial support for at least the next twelve months from the date of this report.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend. The loss for the period of £3,187,000 will be transferred to reserves.

Directors

The directors of the company at 31 December 2001 are listed on page 1.

Directors' interests

The directors of the company had no interest in the ordinary shares of the company at 31 December 2001. M A Stratford and F Richardson are directors of the immediate and ultimate parent company, Craegmoor Limited, and their share interests are shown in the directors' report of that company.

Craegmoor No. 2 Limited

Directors' report for the period ended 31 December 2001 (continued)

Statement of directors' responsibilities

At the end of each financial year the Directors are required by the Companies Act 1985 to prepare accounts which 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 the accounts for the period ended 31 December 2001, appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been consistently used and UK applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. In addition, the Directors are responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Company are properly safeguarded and to ensure that reasonable steps are taken to prevent or detect fraud and other irregularities.

The auditors' responsibilities in relation to the accounts are set out in their report on page 5.

Financial instruments

The company's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and other items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the company's operations.

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below:

Interest rate risk

The Company has sought to minimise its exposure to an upward change in interest rates by using fixed interest rate instruments. At the period end 77% of the Company's borrowings were at fixed rates.

Craegmoor No. 2 Limited

Directors' report for the period ended 31 December 2001 (continued)

Liquidity risk

The company funds its operations through a combination of equity and borrowing facilities, including bank and capital markets borrowings and leasing.

Bank borrowings are principally in the form of committed facilities that are utilised to support the funding of the growth of the business through acquisitions and development activity.

Capital market borrowings comprise £500,000 Series A unsecured floating rate loan notes; £2,940,504 Series B unsecured floating rate loan notes; £76,784,425 unsecured fixed rate loan notes and £21,559,496 secured floating rate loan notes. These borrowings were principally used to finance the operations of Craegmoor Limited and its subsidiaries.

At the period end 97% of the company's borrowings were due to mature in more than five years.

Auditors

A board resolution to appoint PricewaterhouseCoopers as auditors of the company until the first annual general meeting, was passed on 10 December 2001.

A resolution to reappoint PricewaterhouseCoopers will be proposed at the annual general meeting.

By order of the board



M A Stratford
Company secretary
21 August 2002

Auditors' report to the members of Craegmoor No. 2 Limited

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority 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 United Kingdom 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 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 at 31 December 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
21 August 2002

Craegmoor No. 2 Limited

Profit and loss account for the 7 months ended 31 December 2001

	Notes	2001 £'000
Administrative expenses		(9)
Operating loss		(9)
Net interest payable	3	(4,541)
Profit on ordinary activities before taxation	2	(4,550)
Taxation	4	1,363
Loss for the period	13	(3,187)

The above relates to continuing operations.

There is no difference between the result for the period as shown in the profit and loss account above and its historical cost equivalent.

The company has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented.

Craegmoor No 2 Limited

Balance sheet as at 31 December 2001

	Notes	2001 £'000
Fixed assets		
Investments	5	99,247
Current assets		
Debtors	6	2,696
Cash at bank and in hand		-
		101,943
Creditors - amounts falling due within one year	7	(294)
Total assets less current liabilities		101,649
Creditors - amounts falling due in more than one year	8	(101,685)
Net Liabilities		(36)
Capital and reserves		
Called up share capital	11	316
Share premium account	12	2,835
Profit and loss account	13	(3,187)
Total equity shareholders' funds	14	(36)

The financial statements on pages 6 to 15 were approved by the Board on 21 August 2002 and were signed on its behalf by:



M A Stratford
(Director)

Craegmoor No 2 Limited

Notes to the financial statements for the period ended 31 December 2001

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention, in accordance with applicable Accounting Standards in the UK. A summary of the more important accounting policies, which have been consistently applied, is set out below.

Deferred taxation

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

Issue costs

The bank arrangement fees and similar charges associated with the loan note issue are written off to the profit and loss account at a constant rate on the carrying value over the term of the instrument.

Financial instruments

The company's accounting policy for derivatives is only to recognise in the company profit and loss account gains and losses on interest rate hedges as they crystallise.

Cash flow statement

The company is a wholly owned subsidiary of Craegmoor Limited and its cashflows are included in the consolidated 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.

2 Profit on ordinary activities before taxation

The company had no employees during the period other than the directors. No remuneration was paid to the directors in respect of their services to the company.

The audit fee in respect of the company for the period has been paid by the intermediate parent company.

Craegmoor No. 2 Limited

Notes to the financial statements for the period ended 31 December 2001 (continued)

3 Net interest payable

	2001
	£'000
Interest payable:	
Interest payable on loan notes	(3,922)
Amortisation of loan notes issue costs	(657)
	(4,579)
Interest receivable:	
Bank interest receivable	38
	38
Net interest payable	(4,541)

4 Taxation

	2001
	£'000
United Kingdom corporation tax at 30% - current	1,363

5 Fixed asset investments

	2001
	£'000
Cost	
Additions	99,247
At 31 December 2001	99,247

On 27 July 2001, the Company acquired the 93% of the share capital of Craegmoor Group Limited. The remaining 7% was acquired through the direct acquisition of the entire share capital of Friarsfield Limited.

Craegmoor No. 2 Limited

Notes to the financial statements for the period ended 31 December 2001 (continued)

5 Fixed asset investments (continued)

Interests in group undertakings

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held
Craegmoor Group Limited	England & Wales	Ordinary £1 shares	93%
Friarsfield Limited	Isle of Man	Ordinary £1 shares	100%

6 Debtors

	2001
	£'000
Amounts falling due within one year:	
Amounts due from group companies	2,696

7 Creditors: amounts falling due within one year

	2001
	£'000
Accruals and deferred income	294

8 Creditors: amounts falling due in more than one year

	2001
	£'000
Loan notes held by external parties	101,251
Loan notes held by group companies	434
	101,685

Craegmoor No. 2 Limited

Notes to the financial statements for the period ended 31 December 2001 (continued)

8 Creditors: amounts falling due in more than one year (continued)

Loan notes

	£'000
Series A unsecured floating rate 2005 Loan Notes	493
Series B unsecured floating rate 2005 Loan Notes	2,905
2013 Unsecured fixed rate Loan Notes	78,090
2013 Secured floating note Loan Notes	20,197
	101,685

Series A and Series B unsecured floating rate 2005 loan notes

On 27 July 2001, the Company entered into new financing arrangements in order to fund the purchase of Craegmoor Group Limited and its subsidiaries. It issued floating rate loan notes with an aggregate nominal value of £3,440,504, comprising £500,000 Series A Loan Notes and £2,940,504 Series B Loan Notes, due to be repaid in 2005. The loan notes are unsecured and bear interest at a rate equal to LIBOR.

The liabilities disclosed are net of the costs incurred in association with the issue of the loan notes. These issue costs totalled £50,049, of which £7,931 have been amortised through the profit and loss account.

2013 unsecured fixed rate loan notes

In addition, further unsecured Loan Notes were issued on 27 July 2001 with a nominal value of £76,785,425 and are due to be repaid in 2013. All the loan notes bear interest at a fixed rate of 6.75%. Interest which accrues on the principal amount from 27 July 2001 to 28 September 2005, will be capitalised and added to the principal amount of the loan notes on which interest shall accrue. During the period this amounted to £2,244,959. The first payment is to be made on 28 March 2006 in respect of the period from 29 September 2005.

The liabilities disclosed are net of the costs incurred in association with the issue of the loan notes. These issue costs totalled £1,117,000, of which £177,011 have been amortised through the profit and loss account.

2013 secured floating rate loan notes

In addition to the above loan notes, further loan notes with a nominal value of £21,559,496 were issued on 27 July 2001. These are secured, floating rate loan notes due to be repaid in 2013. The notes bear interest at a rate equal to the aggregate of LIBOR, a 12% margin and a formulaic calculation of an additional cost rate which reflects the cost to the Noteholder of compliance with all mandatory reserve asset, liquidity, cash margin, fee or other requirements of the Bank of England and the Financial Services Authority. During 2001, the additional cost rate equated to approximately 0.01%. The interest element relating to the margin is settled through the issuance of additional loan notes, with a nominal value equal to the amount of cash interest due.

Craegmoor No. 2 Limited

Notes to the financial statements for the period ended 31 December 2001 (continued)

8 Creditors: amounts falling due in more than one year (continued)

These additional notes have the same maturity date, interest rate and the subject to the same terms and conditions as the 2013 secured floating rate loan notes. During the period this amounted to £1,144,097.

As part of the terms and conditions of the 2013 secured floating rate Loan Notes, the Noteholders have been granted a right to subscribe for further share capital in Craegmoor Limited.

The 2013 secured, floating rate loan notes are secured by fixed and floating charges over the property, undertakings and assets of the charging companies being the following related companies: Craegmoor Healthcare Company Limited, Parkcare Homes Limited, London Parkcare Limited, Ty-Craig Nursing Home Limited, Southbank Private Nursing Home Limited, Yorkshire Parkcare Limited, Yorkshire Care Homes Limited, Boughton Manor Nursing Home Limited, Southern Counties Care Limited, Ferguson Care Limited, Comfort Services Limited, Health & Care Services (UK) Limited, Health & Care Services (Yorks) Limited, Health & Care Services (Humbs.) Limited, Health & Care Services (NW) Limited, Concept Care Limited, Speciality Care (Rehab) Limited, Speciality Healthcare Limited, Speciality Care (Rest Care) Limited, Speciality Care (Learning Disabilities) Limited, Speciality Care (Care Homes) Limited, Alphabet Children's Services Limited, Alphabet Children's (Fostering) Limited, Conquest Care Homes (Soham) Limited, Conquest Care Homes (March) Limited, Conquest Care Homes (Norfolk) Limited, Conquest Care Homes (Peterborough) Limited, Challenge Care Limited, La Pierre Care Homes Limited, Grovedraft Limited and Parkcare Homes (No. 2) Limited.

The liabilities disclosed are net of the costs incurred in association with the issue of the loan notes. These issue costs totalled £2,978,752, of which £472,043 have been amortised through the profit and loss account.

9 Analysis of financial liabilities

The disclosures made in notes 8 and 9 should be read in conjunction with the discussion of the company's objectives, policies and strategies with regard to financial instruments on page 3 of the Directors' report. Short term debtors and creditors arising directly from the company's operations are excluded from the following disclosures.

The interest rate profile of the company's financial liabilities at 31 December 2001 was:

	Total	Floating rate	Fixed rate financial
	£'000	£'000	£'000
Sterling			
- financial liabilities	101,685	23,595	78,090

The interest rate applicable to the floating rate financial liabilities is determined with reference to LIBOR. For more details see note 7.

Craegmoor No. 2 Limited

Notes to the financial statements for the period ended 31 December 2001 (continued)

9 Analysis of financial liabilities (continued)

	Fixed rate borrowings	
	Weighted average	Weighted average
	%	Years
Sterling		
- financial liabilities	6.75	11.75

The maturity profile of the company's borrowings at 31 December 2001 was as follows:

Bank loans, overdrafts and other borrowings repayable as follows:	2001
	£'000
In one year or less	-
Between one and two years	-
Between two and five years	3,440
Over five years	101,734
	105,174
Less: Unamortised issue costs	(3,489)
	101,685

At 31 December 2001 the company had no undrawn committed borrowing facilities.

10 Financial instruments

Financial assets

	Intergroup debts
	2001
	£'000
Sterling	1,383

The intergroup debt is non-interest bearing.

Craegmoor No. 2 Limited

Notes to the financial statements for the period ended 31 December 2001 (continued)

10 Financial instruments (continued)

Currency exposures

As at 31 December 2001 the company had no currency exposures.

Fair values of financial assets and liabilities

The comparison of fair and book values of all the company's financial assets and liabilities at 31 December 2001 is set out below:

	2001	
	Book value	Fair value
	£'000	£'000
Financial instruments held or issued to finance the company's		
Intergroup debt	1,383	1,383
Long term borrowings	(101,685)	(101,685)
	(100,302)	(100,302)

The following methods and assumptions were used in estimating the fair values for financial instruments:

- Bank and cash balances approximate to their short maturities.
- Long term borrowings: Bonds – quoted closing market value.
- Interest rate instruments – discounted cash flow analysis based on interest rates derived from market yield curves.

11 Called up share capital

	£'000
Authorised:	
600,000 Ordinary shares of £1 each	600
3,400,000 A Ordinary shares of 10pence each	340
	940
Called up, allotted and issued on incorporation	
422 Ordinary shares of £1 each issued at par	1
3,150,176 A Ordinary shares of 10pence each	315
	316

Craegmoor No. 2 Limited

Notes to the financial statements for the period ended 31 December 2001 (continued)

12 Share premium account

	£'000
Premium arising on issue of A Ordinary shares	2,835

13 Reserves

	£'000
Loss for the period	(3,187)
At 31 December 2001	(3,187)

14 Reconciliation of movement in shareholders' funds

	£'000
New share capital issued and subscribed	3,151
Loss for the period	(3,187)
Net decrease in shareholders' funds	(36)
Opening shareholders' funds	-
Closing shareholders' funds	(36)

15 Parent undertakings

The directors regard Craegmoor Limited, a company registered in England and Wales, as the immediate parent company of Craegmoor No 2 Limited. Copies of Craegmoor Limited's consolidated financial statements may be obtained from Craegmoor Group Limited at its registered office, "Hillcairnie", St Andrew's Road, Droitwich, Worcester WR9 8DJ.

At 31 December 2001, Legal & General Group Plc owned 62.85% of the issued share capital of Craegmoor Limited via an intermediate subsidiary and a limited partnership. Legal & General Group Plc has excluded Craegmoor Limited from consolidation in its 2001 report and accounts because the limited partnership agreement imposes severe long term restrictions over its ability to exercise control.

Subsequent to the period end Legal & General Group Plc's holding in the issued share capital of Craegmoor Limited has been reduced to 47.22%.