Chancellor Children's Care Limited
Financial statements
For the year ended 31 December 2006

Grant Thornton

FRIDAY

AU9B0XM7

A43 29/02/2008 482

COMPANIES HOUSE

Company No. 5161328

Index to the financial statements

Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2006

Principal activity and business review

The principal activity of the company during the year was health and social care for children

Overall, the directors are satisfied with the results for the year and feel the company is in a strong financial position at the year end

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

Results and dividends

The profit for the financial year amounted to £369,907 The directors have not recommended a dividend on the ordinary shares

Financial risk management objectives and policies

The company's principal financial instruments comprise cash and intercompany loans The company therefore does not have significant exposure to financial risks

Directors

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

D J Wilson
A W Breeze

L Reardon-Denton was appointed as a director on 6 November 2007
R McKenzie was appointed as a director on 6 November 2007
D J Wilson resigned as a director on 6 November 2007
A W Breeze resigned as a director on 6 November 2007

Directors' responsibilities

The directors are responsible for preparing the Report of the Directors 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 Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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,
- 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 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

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Directors' and officers' indemnity insurance

The company maintains liability insurance for its directors and officers, with a cover limit for each claim or series of claims against them in that capacity The directors have also been granted a qualifying third party indemnity provision under section 309 (A) - (B) of the Companies Act 1985 Neither the company's indemnity nor insurance provides cover in the event that a director is proved to have acted fraudulently or dishonestly

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985

Small companies provisions

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985

BY ORDER OF THE BOARD

R McKenzie 14 February 2008
Secretary

Report of the independent auditor to the member of Chancellor Children's Care Limited

We have audited the financial statements of Chancellor Children's Care Limited for the year ended 31 December 2006 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the statement of total recognised gains and losses and notes 1 to 22 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's member 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 member 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 member, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and 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)

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 Report of the Directors 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 Report of the Directors 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 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

Grant Thornton

Report of the independent auditor to the member of Chancellor Children's Care Limited (continued)

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 profit 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 Report of the Directors is consistent with the financial statements

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
NORWICH

15 February 2008

Principal accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and under the historical cost convention modified to include the revaluation of certain fixed assets

The directors have prepared forecasts to 31 December 2009 which indicate that the group headed by Chancellor Care Holdings Limited will trade profitably before goodwill amortisation in the foreseeable future Nevertheless the ability of the group to meet its liabilities as they fall due for the twelve months from the signing of these financial statements is subject to the following

- Lloyds TSB Development Capital continuing to agree that they will not demand payment of their accrued charges within the next twelve months,
- the Group's bankers not withdrawing their loan facilities in the period to 31 January 2009,
- should those loan facilities be withdrawn at that date, the directors having successfully negotiated alternative funding,
- no liabilities arise with regard to those matters detailed in note 16

The directors are already discussing funding options for the period subsequent to 31 January 2009 and given the forecast profitability before goodwill amortisation of the group the directors consider it appropriate to prepare the financial statements on the going concern basis

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small

Turnover

Turnover shown in the profit and loss account represents the amount of goods and services provided exclusive of Value Added Tax Turnover is recognised when the service has been provided

Amortisation

Amortisation 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

Goodwill	-	25% straight line

Fixed assets

All fixed assets are initially recorded at cost Freehold property is shown at valuation

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

Land	-	not depreciated
Freehold Buildings	-	2% per annum not depreciated due to high maintenance (see below)
Fixtures & Fittings	-	20% reducing balance
Motor Vehicles	-	25% reducing balance
Equipment	-	20% reducing balance

Principal accounting policies

Depreciation (continued)

Previously the directors had departed from the requirements of charging depreciation on the buildings on the grounds that any depreciation charged would be immaterial as the buildings are maintained to a high standard Following a revaluation at 31 December 2006, the property will now be depreciated in compliance with the requirements of financial reporting standards

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets will be transferred annually from the revaluation reserve to the profit and loss account

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account Finance costs are calculated so as to produce a constant rate of return on the outstanding liability

Principal accounting policies

Financial instruments (continued)

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited direct to equity

Profit and loss account

	Note	2006 £	2005 £
Turnover	1	**1,161,978**	979,789
Cost of sales		**(510,815)**	(523,280)
Gross profit		**651,163**	456,509
Other operating charges	2	**(109,486)**	(131,653)
Operating profit	3	**541,677**	324,856
Interest receivable	5	**7,653**	–
Interest payable and similar charges	6	**(18,411)**	(37,617)
Profit on ordinary activities before taxation		**530,919**	287,239
Tax on profit on ordinary activities	7	**(161,012)**	(81,108)
Profit for the financial year	21	**369,907**	206,131

All of the activities of the company are classed as continuing

The accompanying accounting policies and notes form part of these financial statements.

Balance sheet

	Note	2006 £	2005 £
Fixed assets			
Intangible assets	8	**25,533**	41,112
Tangible assets	9	**572,824**	438,297
		598,357	479,409
Current assets			
Stocks	10	**–**	500
Debtors	11	**284,857**	29
Cash at bank		**173,343**	456,027
		458,200	456,556
Creditors: amounts falling due within one year	12	**(216,240)**	(69,869)
Net current assets		**241,960**	386,687
Total assets less current liabilities		**840,317**	866,096
Creditors: amounts falling due after more than one year	13	**(64,300)**	(588,085)
Provisions for liabilities			
Deferred taxation	14	**(3,330)**	(3,001)
		772,687	275,010
Capital and reserves			
Called-up equity share capital	18	**81,424**	81,424
Revaluation reserve	19	**127,770**	–
Profit and loss account	20	**563,493**	193,586
Shareholder's funds	21	**772,687**	275,010

These financial statements were approved by the directors on 14th Feb 2008 and are signed on their behalf by

R McKenzie
Director

The accompanying accounting policies and notes form part of these financial statements

Other primary statements

Statement of total recognised gains and losses

	2006 £	2005 £
Profit for the financial year	**369,907**	206,131
Unrealised profit on revaluation of certain fixed assets	**127,770**	–
Total gains and losses recognised for the year	**497,677**	206,131

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company
An analysis of turnover is given below

	2006	2005
	£	£
United Kingdom	**1,161,978**	979,789

2 Other operating charges

	2006	2005
	£	£
Administrative expenses	**109,486**	131,653

3 Operating profit

Operating profit is stated after charging

	2006	2005
	£	£
Directors' emoluments	–	–
Amortisation	**15,579**	15,578
Depreciation of owned fixed assets	**5,543**	4,979
Auditor's remuneration		
Audit fees	**5,000**	4,780

4 Directors and employees

The average number of staff employed by the company during the financial year amounted to

	2006	2005
	No	No
Maintenance staff	**2**	2
Child support staff	**21**	22
Administrative staff	**2**	2
Management staff	**1**	2
	26	28

4 Directors and employees (continued)

The aggregate payroll costs were

	2006	2005
	£	£
Wages and salaries	**456,865**	457,608
Social security costs	**41,436**	42,680
	498,301	500,288

5 Interest receivable

	2006	2005
	£	£
Interest from group undertakings	**7,653**	–

6 Interest payable and similar charges

	2006	2005
	£	£
Interest payable on bank borrowing	–	13,469
Other similar charges payable	**18,411**	24,148
	18,411	37,617

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2006	2005
	£	£
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2005 - 19%)	**149,000**	19,000
Group relief payable	**11,683**	57,484
Total current tax	**160,683**	76,484
Deferred tax		
Origination and reversal of timing differences	**329**	4,624
Tax on profit on ordinary activities	**161,012**	81,108

7 Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 - 19%)

	2006	2005
	£	£
Profit on ordinary activities before taxation	**530,919**	287,239
Profit on ordinary activities multiplied by rate of tax	**159,276**	54,575
Expenses not deductible for tax purposes	**1,736**	2,199
Capital allowances for period in excess of depreciation	**(329)**	(346)
Utilisation of tax losses	-	(4,079)
Tax rate adjustment	-	24,135
Total current tax (note 7(a))	**160,683**	76,484

8 Intangible fixed assets

	Goodwill
	£
Cost	
At 1 January 2006 and 31 December 2006	62,315
Amortisation	
At 1 January 2006	21,203
Charge for the year	15,579
At 31 December 2006	36,782
Net book value	
At 31 December 2006	**25,533**
At 31 December 2005	41,112

9 Tangible fixed assets

	Freehold Property	Fixtures & Fittings	Motor Vehicles	Equipment	Total
	£	£	£	£	£
Cost or valuation					
At 1 January 2006	411,735	29,855	2,000	1,293	444,883
Additions	10,495	1,416	–	389	12,300
Revaluation	127,770	–	–	–	127,770
At 31 December 2006	550,000	31,271	2,000	1,682	584,953
Depreciation					
At 1 January 2006	–	5,773	641	172	6,586
Charge for the year	–	4,942	340	261	5,543
At 31 December 2006	–	10,715	981	433	12,129
Net book value					
At 31 December 2006	**550,000**	**20,556**	**1,019**	**1,249**	**572,824**
At 31 December 2005	411,735	24,082	1,359	1,121	438,297

Freehold property was given an indicative value of £550,000 on 1 November 2006 by a firm of Chartered Surveyors The directors have based their valuation at 31 December 2006 on this information

The historical net book value of the revalued assets is £422,230 (2005 £411,735)

The non depreciable land has been valued by the directors at £100,000 (2005 £80,000)

10 Stocks

	2006	2005
	£	£
Raw materials	–	500

11 Debtors

	2006	2005
	£	£
Trade debtors	**134,234**	–
Amounts owed by group undertakings	**150,000**	–
Other debtors	**255**	29
Prepayments and accrued income	**368**	–
	284,857	29

The amount owed by group undertakings is receivable in more than one year

12 Creditors: amounts falling due within one year

	2006	2005
	£	£
Trade creditors	**1,867**	7,815
Amounts owed to group undertakings	**24,969**	3,245
Corporation tax	**149,000**	19,000
Other taxation and social security	**11,867**	12,090
Other creditors	**1,657**	14,081
Accruals and deferred income	**26,880**	13,638
	216,240	69,869

13 Creditors: amounts falling due after more than one year

	2006	2005
	£	£
Amounts owed to group undertakings	–	523,785
Shares classed as financial liabilities	**64,300**	64,300
	64,300	588,085
Shares classed as financial liabilities		
Preference shares of £1 each	**64,300**	64,300

14 Deferred taxation

The movement in the deferred taxation provision during the year was

	2006	2005
	£	£
Provision brought forward	**3,001**	(1,623)
Profit and loss account movement arising during the year	**329**	4,624
Provision carried forward	**3,330**	3,001

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

	2006	2005
	£	£
Excess of taxation allowances over depreciation on fixed assets	**3,330**	3,001

15 Leasing commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	Assets other than land & buildings	
	2006	2005
	£	£
Operating leases which expire		
Within 2 to 5 years	**1,325**	1,325

16 Contingent liabilities

The company has provided a cross guarantee to National Westminster Bank Plc in respect of all amounts due by Chancellor Care Holdings Limited and Chancellor Care Limited

The contingent liability at the year end in respect of this guarantee amounted to £11,752,770 (2005 £12,090,688)

17 Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8 on the grounds that consolidated financial statements are prepared by the ultimate parent undertaking

18 Share capital

Authorised share capital

	2006	2005
	£	£
85,700 Ordinary shares of £1 each	**85,700**	85,700
64,300 Preference shares of £1 each	**64,300**	64,300
	150,000	150,000

Allotted, called up and fully paid

	2006		2005	
	No	**£**	No	£
Ordinary shares of £1 each	**81,424**	**81,424**	81,424	81,424
Preference shares of £1 each	**64,300**	**64,300**	64,300	64,300
	145,724	**145,724**	145,724	145,724

	2006	2005
Amounts presented in equity	**£**	£
Ordinary shares of £1 each	**81,424**	81,424
Amounts presented in liabilities		
Preference shares of £1 each	**64,300**	64,300

18 Share capital (continued)

Under the terms of the company's Article of Association, the redeemable preference shares are redeemable at their nominal value on or before 31 December 2014 but, subject to the requirements of company law that the company has sufficient distributable reserves for this purpose

The redeemable preference shares carry no further right of participation in the profits of the company other than a cumulative preference dividend of 9% per annum

In the event of winding up the company, any assets remaining after payment of all liabilities and costs will be used first to pay in arrears of preference dividends, then to repay called preference share capital and finally any balance will be distributed amongst the holders of ordinary shares

19 Revaluation reserve

	2006	2005
	£	£
Revaluation of fixed assets	**127,770**	–
Balance carried forward	**127,770**	–

20 Profit and loss account

	2006	2005
	£	£
Balance brought forward	**193,586**	(12,545)
Profit for the financial year	**369,907**	206,131
Balance carried forward	**563,493**	193,586

21 Reconciliation of movements in shareholder's funds

	2006	2005
	£	£
Profit for the financial year	**369,907**	206,131
Other net recognised gains and losses	**127,770**	–
Net addition to shareholder's funds	**497,677**	206,131
Opening shareholder's funds	**275,010**	68,879
Closing shareholder's funds	**772,687**	275,010

22 Ultimate parent company

The company is a wholly owned subsidiary of Chancellor Care Limited a company incorporated in England and Wales

The ultimate parent company for which consolidated financial statements have been drawn up is Chancellor Care Holdings Limited as it holds 100% of the share capital of the parent company Copies of the accounts can be obtained from The Secretary, Cawston Park, Aylsham Road, Cawston, Norfolk, NR10 4JD