Grant Thornton

Financial statements Chancellor Children's Care Limited

For the Year Ended 31 December 2007

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COMPANIES HOUSE

Company No. 5161328

Company information

Company registration number	5161328
Registered office	Cawston Park Aylsham Road Cawston Norwich Norfolk NR10 4JD
Directors	L Reardon-Denton J P Greenhalgh
Secretary	J P Greenhalgh
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditor Kingfisher House 1 Gilders Way St James Place Norwich Norfolk NR3 1UB

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 2007.

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 satisfactory 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.

Directors

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

L Reardon-Denton	(Appointed 6 November 2007)
R McKenzie	(Appointed 6 November 2007, resigned 31 December 2008)
D J Wilson	(Resigned 6 November 2007)
A W Breeze	(Resigned 6 November 2007)

J P Greenhalgh was appointed a director on 4 February 2009.

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.

Directors' responsibilities (continued)

In so far as each of 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 company provisions

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

ON BEHALF OF THE BOARD

J P Greenhalgh

J P Greenhalgh
Director

19 February 2009

Grant Thornton

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 2007 which comprise the principal accounting policies, profit and loss account, balance sheet, statement of total recognised gains and losses and notes 1 to 21. 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.

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

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 2007 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.

Emphasis of matter - going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the accounting policies concerning the company's ability to continue as a going concern. Facility renewal negotiations are currently ongoing with the bankers of the group of which this company is a part. The company has received an indicative but non-binding letter from those bankers stating that on the basis of prepared forecasts it is their non-binding intention to extend the facilities until at least 28 February 2010. As such there is no certainty that the facilities will be renewed.

These conditions indicate the existence of an uncertainty which may cast doubt about the company's ability to continue as a going concern, The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
NORWICH

19 February 2009

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.

Going concern assumption

The directors have prepared forecasts to 28 February 2010 which indicate that the group headed by Cawston Park Holdings Limited (formerly Chancellor Care Holdings Limited) will trade positively in the foreseeable future before goodwill amortisation and accruing interest charges. Nevertheless the preparation of the financial statements on the going concern basis is reliant on the ongoing support of the group's primary creditors, Lloyds TSB Development Capital ('LDC') and the group's bankers.

LDC have confirmed that they will not seek repayment of any liabilities or accrued charges in the period to 28 February 2010 should that mean that the group will not be able to meet its liabilities as they fall due within that period.

The directors have received an indicative but non-binding letter from the group's bankers stating that on the basis of the prepared forecasts they see no reason why the current facilities should not be extended until at least 28 February 2010 and it is their non-binding intention to extend the facilities until at least that date. The directors have also been asked to consider proposals from the group's bankers to extend facilities on terms to be agreed until 2014. Facility renewal negotiations are currently ongoing.

The prepared forecasts indicate that the group will remain within the current banking facility levels in the period to 28 February 2010 based on budgeted occupancy levels which the directors believe reflect predicted market changes. Therefore the directors feel that the group can continue to trade within those facilities. Whilst the current position remains that the directors do not have a formal signed facility letter, this is not unusual whilst there are ongoing negotiations for longer term funding.

The directors have also assumed that no liabilities will arise with regard to those matters detailed in note 15.

Accordingly the directors have concluded that it is appropriate for the financial statements to be prepared 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. Revenue from the sale of goods is recognised on despatch. Revenue from services provided is recognised when the company has performed its obligations and in exchange obtained the right to consideration.

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% straight line with effect from 1 January 2007
Fixtures & Fittings	-	20% reducing balance
Motor Vehicles	-	25% reducing balance
Equipment	-	20% reducing balance

Following a revaluation of freehold property at 31 December 2006, with effect from 1 January 2007, the freehold buildings have been depreciated in compliance with the mandatory requirements. Previously the directors had departed from the mandatory 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.

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

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.

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	2007 £	2006 £
Turnover	1	**1,213,003**	1,161,978
Cost of sales		**(555,450)**	(510,815)
Gross profit		**657,553**	651,163
Other operating charges	2	**(124,954)**	(109,486)
Operating profit	3	**532,599**	541,677
Interest receivable	5	**21,280**	7,653
Interest payable and similar charges	6	**(7,234)**	(18,411)
Profit on ordinary activities before taxation		**546,645**	530,919
Tax on profit on ordinary activities	7	**(156,685)**	(161,012)
Profit for the financial year	19	**389,960**	369,907

All of the activities of the company are classed as continuing. There is no material difference between the results shown above and those determined on the historical cost basis.

Balance sheet

	Note	2007 £	2006 £
Fixed assets			
Intangible assets	8	**9,954**	25,533
Tangible assets	9	**576,574**	572,824
		586,528	598,357
Current assets			
Debtors due within one year	10	**64,885**	134,857
Debtors due after one year	10	**440,721**	150,000
Cash at bank		**189,094**	173,343
		694,700	458,200
Creditors: amounts falling due within one year	11	**(49,362)**	(216,240)
Net current assets		**645,338**	241,960
Total assets less current liabilities		**1,231,866**	840,317
Creditors: amounts falling due after more than one year	12	**(64,300)**	(64,300)
		1,167,566	776,017
Provisions for liabilities			
Deferred taxation	13	**(4,919)**	(3,330)
Net assets		**1,162,647**	772,687
Capital and reserves			
Called-up equity share capital	17	**81,424**	81,424
Revaluation reserve	18	**125,615**	127,770
Profit and loss account	19	**955,608**	563,493
Shareholder's funds	20	**1,162,647**	772,687

These financial statements were approved by the directors and authorised for issue on 19 February 2009
and are signed on their behalf by:

J P Greenhalgh

J P Greenhalgh
Director

Other primary statements

Statement of total recognised gains and losses

	2007	2006
	£	£
Profit for the financial year	**389,960**	369,907
Unrealised profit on revaluation of certain fixed assets	–	127,770
Total gains and losses recognised for the year	**389,960**	497,677

Notes to the financial statements

1 Turnover

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

	2007	2006
	£	£
United Kingdom	**1,213,003**	1,161,978

2 Other operating charges

	2007	2006
	£	£
Administrative expenses	**124,954**	109,486

3 Operating profit

Operating profit is stated after charging:

	2007	2006
	£	£
Directors' emoluments	–	–
Amortisation	**15,579**	15,579
Depreciation of owned fixed assets	**14,492**	5,543
Auditor's remuneration:		
Audit fees	**3,650**	5,000

4 Directors and employees

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

	2007 No	2006 No
Maintenance staff	2	2
Child support staff	24	21
Administrative staff	2	2
Management staff	2	1
	30	26

The aggregate payroll costs of the above were:

	2007 £	2006 £
Wages and salaries	504,231	456,865
Social security costs	44,625	41,436
	548,856	498,301

5 Interest receivable

	2007 £	2006 £
Interest receivable from group undertakings	21,280	7,653

6 Interest payable and similar charges

	2007 £	2006 £
Finance charges on shares classified as financial liabilities	5,787	5,787
Other charges payable	1,447	12,624
	7,234	18,411

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2007 £	2006 £
Current tax:		
UK Corporation tax based on the results for the year at 30% (2006: 30%)	-	149,000
Over provision in prior year	(12,698)	-
	(12,698)	149,000
Group relief payable	167,794	11,683
Total current tax (note 7(b))	155,096	160,683
Deferred tax:		
Origination and reversal of timing differences (note 13)	1,589	329
Tax on profit on ordinary activities	156,685	161,012

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2006: higher) than the standard rate of corporation tax in the UK of 30% (2006: 30%).

	2007 £	2006 £
Profit on ordinary activities before taxation	546,645	530,919
Profit on ordinary activities multiplied by rate of tax	163,994	159,276
Expenses not deductible for tax purposes	3,691	1,736
Capital allowances for year lower than/(in excess of) depreciation	109	(329)
Adjustment to tax charge in respect of previous year	(12,698)	-
Total current tax (note 7(a))	155,096	160,683

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on revaluing freehold land and buildings to their market value. It is anticipated that a tax liability, at 30%, of approximately £24,000 (2006: £30,000) would be payable.

8 Intangible fixed assets

	Goodwill £
Cost	
At 1 January 2007 and 31 December 2007	62,315
Amortisation	
At 1 January 2007	36,782
Charge for the year	15,579
At 31 December 2007	52,361
Net book value	
At 31 December 2007	**9,954**
At 31 December 2006	25,533

9 Tangible fixed assets

	Freehold Property £	Fixtures & Fittings £	Motor Vehicles £	Equipment £	Total £
Cost or valuation					
At 1 January 2007	550,000	31,271	2,000	1,682	584,953
Additions	–	18,242	–	–	18,242
At 31 December 2007	550,000	49,513	2,000	1,682	603,195
Depreciation					
At 1 January 2007	–	10,715	981	433	12,129
Charge for the year	9,000	4,927	312	253	14,492
At 31 December 2007	9,000	15,642	1,293	686	26,621
Net book value					
At 31 December 2007	**541,000**	**33,871**	**707**	**996**	**576,574**
At 31 December 2006	550,000	20,556	1,019	1,249	572,824

Freehold property was given an indicative value of £550,000 on 1 November 2006 by a firm of Chartered Surveyors. The directors based their valuation at 31 December 2006 on this information and do not consider that there has been a change in the market value of the property between 31 December 2006 and 31 December 2007.

The non-depreciable land has been valued by the directors at £100,000 (2006: £100,000).

The historical net book value of the revalued assets is £415,385 (2006: £422,230). Included within this amount is non-depreciable land of £80,000 (2006: £80,000).

10 Debtors

	2007	2006
	£	£
Trade debtors	**60,460**	134,234
Amounts owed by group undertakings	**440,721**	150,000
Other debtors	**4,058**	255
Prepayments and accrued income	**367**	368
	505,606	284,857

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

	2007	2006
	£	£
Amounts owed by group undertakings	**440,721**	150,000

11 Creditors: amounts falling due within one year

	2007	2006
	£	£
Trade creditors	**10,316**	1,867
Amounts owed to group undertakings	**–**	24,969
Corporation tax	**19,000**	149,000
Other taxation and social security	**10,738**	11,867
Other creditors	**363**	1,657
Accruals and deferred income	**8,945**	26,880
	49,362	216,240

12 Creditors: amounts falling due after more than one year

	2007	2006
	£	£
Shares classed as financial liabilities:		
Preference shares of £1 each (note 17)	**64,300**	64,300

13 Deferred taxation

The movement in the deferred taxation provision during the year was:

	2007	2006
	£	£
Provision brought forward	**3,330**	3,001
Profit and loss account movement arising during the year	**1,589**	329
Provision carried forward	**4,919**	3,330

13 Deferred taxation (continued)

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

	2007	2006
	£	£
Excess of taxation allowances over depreciation on fixed assets	**4,919**	3,330

14 Leasing commitments

At 31 December 2007 the company had annual commitments under non-cancellable operating leases as set out below.

	Plant and equipment	
	2007	2006
	£	£
Operating leases which expire:		
Within 2 to 5 years	**2,542**	1,325

15 Contingent liabilities

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

The contingent liability at the year end in respect of this guarantee amounted to £11,358,240 (2006: £11,752,770). The following has been given as security in respect of this guarantee:

- a mortgage over the freehold property owned by the company.
- a fixed and floating charge over all current and future assets of the company.

The company has also provided an unlimited guarantee, in which it guarantees the repayment by Cawston Park Holdings Limited (formerly Chancellor Care Holdings Limited) of all amounts of principle and interest payable in respect of loans provided by Lloyds TSB Development Capital Limited. The contingent liability amounted to £11,227,184 at 31 December 2007 (2006: £10,767,443).

16 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.

17 Share capital

Authorised share capital:

	2007	2006
	£	£
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

17 Share capital (continued)

Allotted, called up and fully paid:

	2007 No	2007 £	2006 No	2006 £
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

	2007 £	2006 £
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

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.

18 Revaluation reserve

	2007 £	2006 £
Balance brought forward	**127,770**	–
Revaluation of fixed assets	**–**	127,770
Transfer to the profit and loss account	**(2,155)**	–
Balance carried forward	**125,615**	127,770

19 Profit and loss account

	2007 £	2006 £
Balance brought forward	**563,493**	193,586
Profit for the financial year	**389,960**	369,907
Transfer from revaluation reserve	**2,155**	–
Balance carried forward	**955,608**	563,493

20 Reconciliation of movements in shareholder's funds

	2007	2006
	£	£
Profit for the financial year	**389,960**	369,907
Revaluation of fixed assets	**–**	127,770
Net addition to shareholder's funds	**389,960**	497,677
Opening shareholder's funds	**772,687**	275,010
Closing shareholder's funds	**1,162,647**	772,687

21 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 Cawston Park Holdings Limited (formerly Chancellor Care Holdings Limited) as it holds 100% of the share capital of the parent company. Copies of the financial statements can be obtained from The Secretary, Cawston Park, Aylsham Road, Cawston, Norfolk, NR10 4JD.