

BUPA CARE HOMES (CFG) PLC

(Registered No. 1969735)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007



BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS for the year ended 31 December 2007

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

1 Review of the business and principal activities

Principal activities

Bupa Care Homes (CFG) plc (the "Company") is a Company domiciled in England and Wales. The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group")

The principal activities of the Group are the owning and operating of nursing and residential homes for the elderly in the United Kingdom

Results and dividends

The surplus for the year, after taxation, amounted to £55,204,000 (2006 - £40,821,000). The Group has net assets of £478,972,000 (2006 - £459,175,000) and generated £73,299,000 (2006 - £78,085,000) of cash from operating activities

An interim dividend of 77.7p per ordinary shares amounting to £126,000,000 was paid during the year (2006 - £nil). No final dividend is proposed for the year (2006 - £nil)

Key performance indicators

We have made significant progress on the Group's overriding objectives and key elements to the strategy for growth. The Board monitors progress on the overall strategy and the individual strategic elements by reference to the key performance indicators below

	2007	2006	Analysis
Revenue (£'000)	494,106	471,542	Revenue has increased in the year due to the annual fee increase for each resident
Operating surplus (£'000)	71,164	63,503	Operating profit has increased in the year due to growth in fee income and tight control of operating costs
Occupancy percentage (%)	91.9%	91.5%	The strategy is to maximise and maintain occupancy. Occupancy percentage has increased and is in line with expectations
Available beds	17,339	17,355	The strategy is to grow the number of available beds whilst providing an enhanced environment for our residents

Definitions and method of calculation

Occupancy percentage is defined as the total occupied beds divided by total available beds for the year

Available beds are the number of beds available for occupation at the end of the year

Business environment

The Group offers a wide variety of services within the care homes. In addition to elderly nursing care the Group provides specialist care to residents in such groups as dementia sufferers, young people with physical or learning disabilities and people with conditions such as Parkinson's and Huntington's diseases

The UK care home market provides approximately 468,000 beds of which 71% are owned by private, for-profit operators. Public purchasers (local authorities and the NHS) account for 68% of residents

There has been a continual decline in bed numbers over a number of years but more recently the Government has responded to this trend by seeking to address the under-funding issues that were causing low returns for operators. This has resulted in a slow down in the reduction in bed numbers and improving returns for operators. Currently the Government's social care policy is focused on providing independence and choice for older people and is designed to encourage alternatives to care homes. Government policy with respect to employment legislation also has a significant impact on the sector and initiatives such as the national minimum wage and holiday entitlement have resulted in cost pressures in the sector

BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS for the year ended 31 December 2007

1. Review of the business and principal activities (continued)

Business environment (continued)

The care home market has been consolidating rapidly in recent years as providers seek economies of scale. The Group is one of the four major care home operators. However, most of the marketplace remains fragmented with many small operators.

Development

Organic profit growth has been achieved through a combination of obtaining satisfactory fee increases, maintaining high occupancy and effectively managing costs, particularly the costs of agency staff. As a result the Group has made good financial progress during the year.

One new home has been opened during the year and work has commenced at another site during the year. During the year the programme of extensions progressed in line with plan. It is anticipated that there will be development at several further sites during 2008.

The Group has also invested in improving service quality as shown in its 'Personal Best' programme which encourages staff to provide high quality service that is personally tailored to each resident.

Strategy

The Group will continue to deliver high quality and cost effective nursing care for the high dependency segment of the market. Our strategy is to harness consumer demand and improve negotiations with funders by positioning the homes as the preferred choice in the locality wherever possible.

The strategic objectives are as follows:

Increase profitability of the underlying care home portfolio

There will be continued focus on income growth by optimising the mix of residents in each home to reflect local demand and negotiating commercially acceptable fee increases from public purchasers. There will be continued improvement in cost efficiency in the areas that can be controlled. Specific strategies include controlling the use of agency staff, adopting energy saving technology and obtaining efficiencies in the supply chain.

Grow capacity in the care home market in the UK

It is intended that development of further new sites will be continued and acquisitions will be considered where suitable.

Develop services to focus on the individual

There are a number of initiatives that are planned that are focused on individuality of care for the residents including improved care management, enhanced nutrition and varied activities.

Future outlook

The long term growth in the older population and rising affluence continue to offer opportunities for investment in the sector. Current projections show a significant increase in the number of people over the age of 85. This will lead to an increase in the demand for high dependency care.

There is now significant pressure on funding in both the NHS and local authorities following recent increases in public funding. Consequently, we anticipate that in the short term there will be pressure on both the number of placements by commissioners and annual fee increases. The self pay market is an important part of the sector and, with an increasingly wealthy elderly population, the demand will continue to grow requiring quality facilities and services to meet increasing expectations. There are a number of cost pressures facing the Group including additional holiday entitlement for staff, increasing national minimum wage and growing utility costs. The Group will continue to negotiate for the best prices and seek to mitigate the cost wherever possible.

BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS for the year ended 31 December 2007

1. Review of the business and principal activities (continued)

Principal risks and uncertainties

The Group's risk management process

The Group is committed to applying best practice in risk management, and has a well established process for identifying business risks, evaluating controls, and establishing and executing action plans. The management team undertakes an annual risk assessment in conjunction with the production of the annual three-year strategic plan. This exercise identifies those risks that could affect the achievement of its business objectives. Management evaluates the probability and likely impact of each potential risk. For each of the risks identified, management notes the controls in place either to prevent the risk from occurring or to mitigate the effects should the risk materialise, in order to identify the residual exposure that the risk represents. The residual exposure to the risk is graded on a sliding scale. Management formulates action plans to improve controls for those risks graded as significant. Risk assessments and action plans are formally reviewed on a quarterly basis and updated to include new risks and actions taken to strengthen controls and changes to the risk profile. The Management teams also provide formal assurance through quarterly Business Review Meetings that there are adequate processes in place to identify and manage the significant risks facing the business. The outcome of the process is reviewed by the Audit Committee of the ultimate parent undertaking, The British United Provident Association Limited (Bupa), and reported to the Bupa Board.

Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates and foreign exchange rates. The focus of the Group's long-term financial strategy is included in Bupa's financial strategy which is to facilitate growth without undue balance sheet risk. The Investment Committee is responsible for the management of the Group's cash and short-term borrowings. Under the guidance of the Committee the role of the Bupa Treasury Department is to manage the Group's liquidity position and short-term borrowings, together with the risks arising on interest rates and foreign currencies and to protect the security of the Group's financial assets.

Where Bupa has moved away from straight money market investments and invested in absolute return assets (which include bonds, currencies and hedge funds), Bupa uses a value at risk (VaR) analysis to quantify risk, taking account of asset volatility and correlation between asset classes.

Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations. The Group's credit risk is managed by Bupa which manages its credit risk exposures under the guidance of the Investment Committee. Investment exposure with external counterparties is managed by ensuring there is a sufficient spread of investments and that all counterparties are rated at least AA- by key rating agencies (unless specifically approved by the Investment Committee).

Liquidity risk

Liquidity risk is the risk that the Group will not have available funds to meet its liabilities. The Group enjoys a strong liquidity position and adheres to strict liquidity management policies as set by the Investment Committee as well as adhering to certain liquidity parameters, as defined by the FSA for our regulated entities.

Liquidity is managed by currency and considering the segregation of accounts required for regulatory purposes. Short-term operational working capital requirements are met by cash in hand and committed bank facilities. Liquidity risk for the long-term insurance business is managed by matching assets to liabilities and by maintaining a portion of the long-term investment portfolio in liquid short-term deposits.

Care Homes profitability

The profitability of the Care Homes business is dependent on achieving an adequate funding stream from local authorities, which fund the fees of approximately 70% of residents. Staffing costs constitute a large element of Care Homes cost base. Consequently any increase in staffing costs, including an increase in the UK national minimum wage level, which could not be recovered by increased charges to local authorities or privately funded residents, would have an impact on profitability.

BUPA CARE HOMES (CFG) PLC

REPORT OF THE DIRECTORS for the year ended 31 December 2007

1. Review of the business and principal activities (continued)

Principal risks and uncertainties (continued)

Leadership

As the Group changes and grows, it needs to make sure it has the right people to move forward. It is essential that the Group has managers with the right skills to help it expand and develop new delivery models and products. The Group has a rigorous succession planning process which is designed to identify potential gaps and weaknesses in our management skills base as well as planning individual development. The directors view the development and training of the Group's people, and the recruitment of experienced individuals from outside the Group, as central to the organisation's future success. The Group has sound selection, evaluation and reward processes to recruit, recognise and motivate above-average performers.

Management of change

The Group is undertaking a number of change programmes. The Care Homes businesses are growing rapidly, partly by acquiring and integrating other businesses. The Group mitigates the risk inherent in change by having stringent change management procedures. Major project expenditure on new developments is approved by the directors following a rigorous assessment of plans. Professional programme management resources are deployed where necessary. Bupa's Internal Audit function reviews the impact of major changes on Bupa's operational controls. Progress on key projects is reviewed by the Audit Committee or Board of Bupa as appropriate.

Acquisitions

The Group makes acquisitions where it considers this will add to our range of offerings, our geographical spread thereby increasing the number of customers and enhancing the value of the business in the long term, and providing valued services to customers. Any major acquisition involves risk until the acquired business is successfully integrated. The Group controls acquisition risk by focusing on product and service areas that are consistent with, or adjacent to, its existing offerings, and deploys a defined acquisition methodology and expert staff. Integration programmes are regularly reviewed by senior management.

Pandemic

As the Group is a major care services provider, a pandemic such as avian flu could have a significant effect. A pandemic could present the Group with major operational difficulties in maintaining an adequate staffing profile and protecting residents, in addition to disrupting normal business activities across the organisation. The Group has extensive plans in place in the event of an epidemic such as avian influenza and would make every effort to minimise its impact.

2. Conversion to International Financial Reporting Standards

The consolidated accounts have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The Company is not required to report under IFRS as adopted by the EU and therefore the Company's financial statements are prepared in accordance with applicable UK Generally Accepted Accounting Principles (UK GAAP). The Company financial statements are presented on pages 41 to 50.

3. Directors and directors' interests

Details of the present directors and any other person who served as a director during the year are set out below.

N T Beazley

J P Davies

M Ellerby

B D J Kent (resigned 1 November 2007)

N R Taylor

F D Gregory (appointed 1 November 2007)

BUPA CARE HOMES (CFG) PLC

**REPORT OF THE DIRECTORS
for the year ended 31 December 2007**

4. Companies (Audit, Investigations and Community Enterprise) Act 2004

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the directors, to the extent permitted by law and the Company's articles of association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as directors of the Company or any of its subsidiaries

5. Political and charitable donations

The Group made no political or charitable donations in the year (2006 - £nil)

6. Corporate governance

The Company was a wholly owned subsidiary of Bupa during the year. A statement on Bupa corporate governance policies and the report of the remuneration committee are included in Bupa's annual report and accounts

7. Employees and remuneration

Details of the number of persons employed and gross remuneration are contained in note 5 to the financial statements

Every effort is made by the directors and management to inform, consult and encourage the full involvement of staff on matters concerning them as employees and affecting the Group's performance

The Group continues to pursue its stated policy of giving every consideration to the employment of disabled persons. Employees who are registered disabled persons are, to the greatest possible extent, treated on the same basis as all other employees and given every opportunity to develop their full working potential within the Group, through training, career development and promotion. Where employees have become disabled whilst in the service of the Group, every effort is made to rehabilitate them in their former occupation or some suitable alternative

8. Policy for paying creditors

The Group's policy is to settle terms of payments with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of their terms of payment and to abide by the terms of payment. Trade creditors of the Group at 31 December 2007 were equivalent to 26 (2006 - 26) days purchases, based on the average daily amount invoiced by suppliers during the year

9. Disclosure of information to auditors

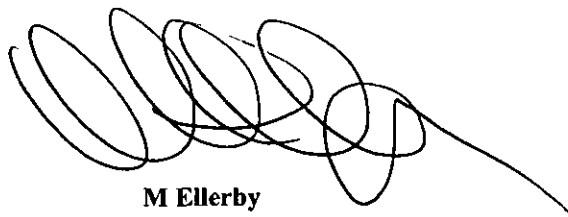
The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

10. Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the 2007 Annual General Meeting

Registered Office
Bridge House
Outwood Lane
Horsforth
Leeds
LS18 4UP

By Order of the Board



**M Ellerby
Director**

9 May 2008

BUPA CARE HOMES (CFG) PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company and of the profit or loss of the parent company for that period

In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent 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 parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report that comply with that law and those regulations

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions



KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUPA CARE HOMES (CFG) PLC

We have audited the Group and parent Company financial statements (the "financial statements") of Bupa Care Homes (CFG) plc for the year ended 31 December 2007 which comprise the Group income statement, the parent Company profit and loss account, the Group and parent Company balance sheets, the Group and parent Company cash flow statements, the Group statement of recognised income and expenses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent Company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report 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 other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

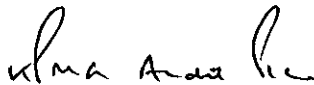
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUPA CARE HOMES (CFG) PLC
(continued)

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2007 and of its surplus for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



KPMG Audit Plc
Chartered Accountants
Registered Auditor

9 May 2008

BUPA CARE HOMES (CFG) PLC**CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2007**

	Note	2007 £'000	2006 £'000
Revenue	3	<u>494,106</u>	<u>471,542</u>
Operating expenses before exceptional items		(424,032)	(408,039)
Exceptional items - gain on curtailments/settlements	22	<u>1,090</u>	<u>-</u>
Operating expenses		<u>(422,942)</u>	<u>(408,039)</u>
Profit from operations	6	71,164	63,503
Provisions for liabilities in participating interests	8	831	(4,692)
Financial income	9	31,963	20,272
Financial expenses	10	<u>(36,836)</u>	<u>(23,320)</u>
Surplus before taxation expense		67,122	55,763
Taxation expense	11	<u>(11,918)</u>	<u>(14,942)</u>
Surplus for the year attributable to equity holders of the parent Company		<u>55,204</u>	<u>40,821</u>

The operating profit is all derived from continuing operations

There were no material differences between reported profit and losses and historical profit and losses on ordinary activities before and after taxation

The accounting policies and notes on pages 13 to 40 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Intangible assets	13	8,221	8,223
Property, plant and equipment	14	624,869	482,968
Other investments	15	23,155	23,155
Deferred tax assets	23	834	1,899
Other receivables	17	417,638	409,637
		<u>1,074,717</u>	<u>925,882</u>
Current assets			
Inventories	18	139	152
Trade and other receivables	19	181,076	279,200
Cash and cash equivalents	20	7,462	22,677
		<u>188,677</u>	<u>302,029</u>
Total assets		<u>1,263,394</u>	<u>1,227,911</u>
Non-current liabilities			
11 8% debenture stock	21	(50,000)	(50,000)
Amounts owed to Bupa Group undertakings		(241,617)	(130,973)
Post employment benefits liability	22	(1,427)	(3,912)
Deferred tax liabilities	23	(61,944)	(39,779)
Provisions for liabilities and charges	24	(40,993)	(41,877)
Preference shares	25	(70,000)	(70,000)
		<u>(465,981)</u>	<u>(336,541)</u>
Current liabilities			
Trade and other payables	27	(312,082)	(430,684)
Current tax liabilities		(6,359)	(1,511)
		<u>(318,441)</u>	<u>(432,195)</u>
Total liabilities		<u>(784,422)</u>	<u>(768,736)</u>
Net assets		<u>478,972</u>	<u>459,175</u>
Equity			
Share capital	28	40,553	40,553
Share premium	29	114,141	114,141
Merger reserve	29	16,963	16,963
Capital redemption reserve	29	2,110	2,110
Revaluation reserve	29	215,503	125,870
Income and expenditure reserve	29	89,702	159,538
Total equity attributable to the holders of the parent Company		<u>478,972</u>	<u>459,175</u>

These financial statements were approved by the Board of Directors on 9 May 2008 and were signed on its behalf

N R Taylor
Director



The accounting policies and notes on pages 13 to 40 form part of these financial statements

BUPA CARE HOMES (CFG) PLC**CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2007**

	Note	2007 £'000	2006 £'000
Net cash generated from operating activities	30	<u>73,299</u>	<u>78,085</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(31,877)	(15,812)
Purchase of separately acquired intangible assets		(380)	(391)
Interest received		<u>216</u>	<u>362</u>
Net cash used in investing activities		<u>(32,041)</u>	<u>(15,841)</u>
Cash flows from financing activities			
Loans to fellow Group undertakings		131,805	(198,830)
Loans from fellow Group undertakings		(62,278)	142,377
Dividends paid		<u>(126,000)</u>	<u>-</u>
Net cash utilised in financing activities		<u>(56,473)</u>	<u>(56,453)</u>
Net (decrease)/increase in cash and cash equivalents		(15,215)	5,791
Cash and cash equivalents at beginning of year		<u>16,816</u>	<u>11,025</u>
Cash and cash equivalents at end of year	30	<u>1,601</u>	<u>16,816</u>

The accounting policies and notes on pages 13 to 40 form part of these financial statements

BUPA CARE HOMES (CFG) PLC**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 31 December 2007**

	2007 £'000	2006 £'000
Actuarial gain on pension schemes	1,331	257
Unrealised gain on revaluation of properties	119,937	-
Taxation charge on income and expenses recognised directly in equity	<u>(30,675)</u>	<u>(76)</u>
Net income recognised directly in equity	90,593	181
Surplus for the financial year	55,204	40,821
Total recognised income and expense for the year attributable to equity holders	<u>145,797</u>	<u>41,002</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. STATEMENT OF ACCOUNTING POLICIES

a) General information

Bupa Care Homes (CFG) plc (the "Company") is a Company domiciled in England and Wales. The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiary companies (together referred to as the "Group")

The Group's consolidated financial statements are prepared under International Financial Reporting Standards as adopted by the EU, adopted IFRS ('IFRS'). The appropriate provisions of the Companies Act have also been complied with.

The financial statements were approved by the Directors on 9 May 2008. The Board of Directors has reviewed and approved the Group's accounting policies, a summary of the more significant of which are set out below and have been applied consistently. For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the parent company.

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Companies Act 1985, IFRS as adopted by the EU and its interpretations.

c) Basis of preparation

The financial statements are prepared under the historical cost convention, as modified by the revaluation of property, financial assets at fair value through profit or loss, available for sale financial assets and on a going concern basis.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain accounting estimates. It also requires management to exercise its judgement in applying the Group's accounting policies. The estimates and assumptions are based on historical experience and other related variables, updated to reflect current trading performance. The estimates and assumptions are reviewed on an ongoing basis and are considered to be prudent and appropriate but actual results may differ from these estimates. Judgements made by management in applying the Group's accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent periods are described in v) below.

The Group has applied International Financial Reporting Standard number 7 "Financial instruments: Disclosure" (IFRS 7) and revised International Accounting Standard 1 (revised 2006) (IAS 1) for the first time in preparing its financial statements for the year ended 31 December 2007. The impact on the Group accounts relates solely to disclosures in respect of financial instruments and the Group's objectives, policies and processes for financial risk and capital management.

Revised standard International Accounting Standard 1 (revised 2008) replaces International Accounting Standard 1 (revised 2005) and is effective for financial periods beginning on or after 1 January 2009. This standard will require the Group to introduce a statement of comprehensive income which will incorporate the income statement and a statement of other comprehensive income (previously named the statement of recognised income and expenses). This standard also introduces the statement of financial position (previously named the balance sheet). The effect on the Group accounts will relate to the presentation of the primary statements and disclosures in the corresponding notes.

International Accounting Standard 23 (amended 2007) (IAS23) supersedes IAS 23 (revised 1993) and is effective for financial periods beginning on or after 1 January 2009, making it mandatory to capitalise borrowing costs that are directly attributable to a qualifying asset as defined by IAS 23. Implementation of IAS 23 (amended 2007) would result in a reduction to Bupa's reported finance costs and hence an increase in surplus before taxation expense, which would be partially offset by a higher depreciation charge. Over a period of time the cumulative increase in the annual depreciation charge would eventually fully offset the cumulative annual increase in surplus as a result of a reduction in finance costs. It is not anticipated that the adoption of this standard will have a material impact on the Group financial statements in the period of initial application.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

c) Basis of preparation (continued)

International Financial Reporting Standard number 8 "Operating Segments" (IFRS8) is applicable for financial periods beginning on or after 1 January 2009 and requires comparative data to be restated. The standard requires the Group to report information about its operating segments based on the components of the entity that management uses to make operating decisions. The information to be disclosed comprises factors used to identify the Group's reportable segments, the types of products and services from which each segment derives its revenues, the segment surplus, including revenues and expenses, and segment assets. This will affect the categorisation of the Group's results in the segmental information note and so details of the impact of adoption are not given here.

d) Subsidiary companies

Subsidiary companies are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiary companies are included in the consolidated financial statements using the purchase method, from the date that control commences until the date that control ceases. Intra group balances and any gains, losses, income and expenses arising from intra group transactions are eliminated in preparing the consolidated financial statements.

Investments in subsidiary companies are carried at cost in the Company's accounts. Where appropriate, dividends received from pre-acquisition profits of subsidiaries are treated as a recovery of the investment and are recognised as a reduction of the cost.

e) Revenue

Revenue represents income receivable from health and care provision services rendered and goods supplied.

Revenue is stated net of value added tax and other sales taxes, net of rebates and discounts and after eliminating sales within the Group. Income is recognised in the accounting period in which the Group obtains the right to consideration in exchange for its performance and by reference to the stage of completion of a transaction.

f) Financial income and expenses

Financial expenses include interest payable on borrowings.

Financial income comprises interest receivable on funds invested.

Interest income and expenses are recognised in the income statement as they accrue.

g) Taxation

Income tax on the surplus or deficit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised, goodwill not deductible for tax purposes, the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting surplus nor taxable profit or loss. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

g) Taxation (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable surpluses will be available against which the asset can be utilised

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and when the Group can settle its current tax assets and liabilities on a net basis

h) Segmental reporting

A segment is a distinguishable component of the Group that is engaged in providing services that are subject to risks and rewards that are different from those of other segments. The primary segments have been determined by reference to the Group's management approach and therefore reflect business activities. The secondary reporting format is the geographical split of operations. An explanation of the segments is included in note 4

i) Current/non-current classification

Assets and liabilities are classified as current if they are expected to be realised within twelve months from the balance sheet date, the primary purpose of the asset or liability is to be traded or, for loans and receivables, where they have a maturity of less than twelve months from the balance sheet date. All other assets and liabilities are classed as non-current

j) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired subsidiary company or associated company at the date of acquisition. Where goodwill can only be determined on a provisional basis for a financial year, adjustments may be made to this balance for up to twelve months from the date of acquisition

Goodwill on acquisitions of subsidiary companies is capitalised and presented as part of intangible assets in the consolidated balance sheet. Goodwill is stated at cost less accumulated impairment losses. Impairment reviews are performed annually or more frequently if there is an indication that the carrying value may be impaired. Impairment reviews are performed at the level of relevant cash-generating unit (CGU)

Any excess of the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities over cost that arises on an acquisition is recognised immediately in the income statement

Goodwill arising on acquisitions before the date of transition to IFRS as adopted by the EU and capitalised in the balance sheet has been retained at the amount recorded previously under UK GAAP, subject to impairment testing. Goodwill previously written off to reserves under UK GAAP (on acquisitions prior to 31 December 1997) remains eliminated against reserves and is not included in calculating any subsequent gain or loss on disposal

Other intangible assets

Intangible assets, other than goodwill, that are acquired separately are stated at cost less accumulated amortisation and impairment. Amortisation is charged to the income statement on a straight line basis as follows

Computer software	3 to 5 years
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Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement to reduce the carrying amount to recoverable amount

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

k) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation and impairment losses. Valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date. Valuations of care homes are on an existing use value basis. Valuations of office buildings are on an open market value basis. All other plant and equipment is stated at historic cost less subsequent depreciation.

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in the income statement to the extent it reverses a previous decrease of the same asset recognised in the income statement and the balance recognised in the revaluation reserve. Decreases in the carrying amount are recognised in reserves where they reverse previous increases of the same asset, all other decreases are recognised in the income statement.

Depreciation

Freehold land and assets under construction are not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amount less their residual values over their estimated useful lives, as follows:

- Freehold buildings 50 years
- Leasehold buildings shorter of useful life and terms of the lease
- Fixtures, fittings and equipment 3 to 50 years

The assets' residual values and useful lives are reviewed, where significant, at each balance sheet date and adjusted if appropriate.

Impairment reviews are undertaken where there are indications that the carrying value may not be recoverable. An impairment loss on assets carried at cost is recognised in the income statement to reduce the carrying value to the recoverable amount. An impairment loss on assets carried at revalued amount is recognised in the revaluation reserve, except where an asset is revalued below historical cost, in which case the deficit is recognised in the income statement.

l) Leased assets

Leasehold land where no option to obtain title exists is treated as an operating lease.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets obtained under finance leases, with the exception of leasehold land where no right to obtain title exists, are capitalised within property, plant and equipment at fair value at acquisition or, if lower, at the present value of the minimum lease payments and depreciated over their useful economic lives, or the lease term, whichever is shorter. Obligations relating to finance leases, net of finance charges in respect of future periods, are included within other interest bearing liabilities due within or after one year as appropriate. The interest element of the obligation is allocated over the lease term to reflect a constant rate of interest on the outstanding obligation.

Payments made under operating leases are capitalised as appropriate within trade and other receivables and are recognised in the income statement on a straight line basis over the term of the lease.

m) Trade and other receivables

Trade and other receivables are carried at cost less impairment losses.

n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the average method, and includes costs incurred in acquiring the inventories and in bringing them to their current location and condition.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

o) Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups are classified as held for sale where their carrying amount will be recovered principally through a sale transaction rather than continuing use, where sale is highly probable and where the asset or disposal group is available for immediate sale in its present condition

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

Non-current assets and disposal groups held for sale are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses are included in the income statement.

p) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, call deposits and other highly liquid investments with original maturities of three months or less which are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

q) Interest bearing liabilities

Interest bearing borrowings are recognised initially at proceeds receivable less attributable transaction costs. Subsequent to initial recognition, where borrowings are not hedged or are subject to cashflow hedges, they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. The amortised cost of borrowings with a fair value hedge is amended by the fair value of the risk being hedged.

r) Provisions for liabilities and charges

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

s) Trade and other payables

Trade and other payables are carried at amortised cost.

t) Employee post employment benefits

The Group operates defined contribution and defined benefit pension schemes.

Defined contribution pension schemes

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit post employment schemes

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each scheme and represents the present value of the defined benefit obligation less, for funded schemes, the fair value of scheme assets. The discount rate used is the yield at the balance sheet date on high quality corporate bonds denominated in the currency in which the benefits will be paid.

The charge to the income statement for defined benefit schemes represents the following: current service cost calculated on the projected unit credit method, interest cost on scheme liabilities, less the expected return on scheme assets and gains and losses on curtailments. All actuarial gains and losses are recognised in full in the Statement of Recognised Income and Expense in the period in which they occur.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

u) Financial assets

The Group has classified its financial assets into the following categories at fair value through profit and loss, available for sale and loans and receivables. Management determines the classification at initial recognition. Assets are classified as current if they are expected to be realised within twelve months from the balance sheet date or, for loans and receivables, where they have a maturity of less than twelve months from balance sheet date.

All financial assets are initially recognised at fair value, which includes financial costs for financial assets not classified at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets at fair value through the profit and loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

The assets are carried at fair value, with gains and losses arising from changes in this value recognised in the income statement in the period in which they arise. The fair values of quoted investments in active markets are based on current bid prices. The fair value of unlisted securities, and quoted investments for which there is no active market, are established using valuation techniques. These may include reference to other instruments that are substantially the same and discounted cash flow analysis. Where the fair value of unquoted equity instruments cannot be reliably measured, the assets are carried at cost.

Purchases and sales of financial assets at fair value through the profit or loss are recognised on the trade date. The trade date is the date on which the Group commits to purchase or sell the asset.

Derivatives are held at fair value through the profit or loss unless they are designated as hedges.

Available for sale

Available for sale financial assets are those intended to be held for an indefinite period of time which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices.

Available for sale financial assets are carried at fair value with the exception of assets whose fair value cannot be reliably determined, which are carried at cost. Fair values are determined in the same manner as for assets at fair value through profit or loss. Changes in fair value are recognised in equity whilst an asset is held and are subsequently transferred to the income statement upon sale of the asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a borrower or customer with no intention of trading the receivable. Loans are recognised when cash is advanced to the borrowers.

Loans and receivables are carried at amortised cost calculated using the effective interest method, less impairment losses.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

u) Financial assets (continued)

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative impact on the estimated future cash flows of that asset.

An impairment loss in respect of a financial investment measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate at the date the investment was made.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

v) Accounting estimates and judgements

The preparation of accounts requires the use of certain accounting estimates and judgements as described in the accounting policies. Significant sources of estimation and uncertainty are described below.

- Pension assumptions. Note 22 details the estimation techniques involved in calculating the Group's pension liability.
- Goodwill impairment. Note 13 contains information about the assumptions and estimates used to calculate the impairment of goodwill.
- Property valuations. The Group's properties are valued with regard to their trading potential. Valuations are performed by independent external valuers who incorporate assumptions. The principal assumptions relate to quantifying a fair, maintainable level of trade and profitability, levels of competition and assumed ability to renew existing licences, consents, certificates or permits.
- Provisions. Provisions for onerous leases are subject to an element of uncertainty as they include assumptions in respect of future operating costs and the Group's ability to sublet.
- Income taxes. The Group is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amount that was initially recorded, the difference is recognised in the period in which such determination is made.

The areas of judgement made in the process of applying the Group's accounting policies to categorise how transactions are displayed and that have the most significant effect on the amounts recognised in the financial statements are:

- determining the nature of intangible assets arising on business combinations and period of amortisation, and
- determining whether a substantial transfer of risks and rewards has occurred in relation to leased assets.

2. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking of the Company is Grupo Bupa Sanitas S L (formerly Bupa Iberia S L), a Company registered in Spain.

The ultimate parent undertaking of the Company is Bupa, a Company registered in England and Wales in whose accounts these financial statements are consolidated. The smallest group in which these accounts are consolidated is that headed by Bupa Finance Plc, a Company registered in England and Wales. Copies of the accounts of Bupa and Bupa Finance Plc can be obtained from The Registrar of Companies, Cardiff, CF14 3UZ.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

3. REVENUE

An analysis of the Group revenue is as follows

	2007	2006
	£'000	£'000
Fee income	494,106	471,542
Financial income	<u>31,963</u>	<u>20,272</u>
	<u>526,069</u>	<u>491,814</u>

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into two operating divisions – health care and property development. The principal activities are as follows

- Health care – ownership and operation of nursing and residential homes for the elderly
- Property development – construction of purpose built care homes for other Group undertakings

Segment information about these businesses is presented below

2007	Health care	Property development	Total	
	£'000	£'000	£'000	
Revenue				
External sales	494,106	-	494,106	
Inter segment sales	<u>-</u>	<u>-</u>	<u>-</u>	
	<u>494,106</u>	<u>-</u>	<u>494,106</u>	
Operating surplus				
Segment result	<u>71,164</u>	<u>-</u>	71,164	
Provisions for liabilities in participating interests			831	
Financial income			31,963	
Financial expenses			<u>(36,836)</u>	
Surplus before taxation expense			67,122	
Taxation expense			<u>(11,918)</u>	
Surplus after tax			<u>55,204</u>	
Other information				
2007	Health care	Property development	Elimination	Total
	£'000	£'000	£'000	£'000
Assets acquired ^a	<u>39,934</u>	<u>-</u>	<u>-</u>	<u>39,934</u>
Depreciation	<u>18,692</u>	<u>-</u>	<u>-</u>	<u>18,692</u>
Balance Sheet				
Segment assets	<u>1,263,394</u>	<u>3,002</u>	<u>(3,002)</u>	<u>1,263,394</u>
Segment liabilities	<u>(784,422)</u>	<u>(888)</u>	<u>888</u>	<u>(784,422)</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

2006	Health care £'000	Discontinued leasing £'000	Property development £'000	Elimination £'000	Total £'000
Revenue					
External sales	471,542	-	-	-	471,542
Inter segment sales	-	1,421	4,172	(5,593)	-
	<u>471,542</u>	<u>1,421</u>	<u>4,172</u>	<u>(5,593)</u>	<u>471,542</u>
Operating surplus					
Segment result	<u>63,503</u>	<u>885</u>	<u>430</u>	<u>(1,315)</u>	63,503
Provisions for liabilities in participating interests					(4,692)
Financial income					20,272
Financial expenses					<u>(23,320)</u>
Surplus before taxation expense					55,763
Taxation expense					<u>(14,942)</u>
Surplus after tax					<u>40,821</u>
Other information					
2006	Health care £'000	Discontinued leasing £'000	Property development £'000	Elimination £'000	Total £'000
Assets acquired ^a	<u>19,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,909</u>
Depreciation	<u>18,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,670</u>
Balance Sheet					
Segment assets	<u>1,120,027</u>	<u>101,022</u>	<u>8,226</u>	<u>(1,364)</u>	<u>1,227,911</u>
Segment liabilities	<u>(669,199)</u>	<u>(93,244)</u>	<u>(7,288)</u>	<u>995</u>	<u>(768,736)</u>

^a Assets acquired comprise the cost of property, plant and equipment and intangible assets that were bought during the year and are to be used during more than one year

Geographical segments

The Group's operations are located in the United Kingdom

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

5. STAFF COSTS AND DIRECTORS' REMUNERATION

(a) Employees

The average number of persons employed by the Group during the year (including directors), analysed by category, was as follows

	Number of employees	
	2007	2006
Health care	16,362	16,498
Other	401	400
	<u>16,763</u>	<u>16,898</u>

The aggregate payroll costs of these persons were as follows

	2007	2006
	£'000	£'000
Wages and salaries	261,431	249,291
Social security costs	21,740	19,136
Other pension costs	1,026	2,698
	<u>284,197</u>	<u>271,125</u>

(b) Directors' remuneration

Emoluments	2007	2006
	£'000	£'000

Aggregate emoluments	<u>992</u>	<u>864</u>
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Company contributions paid to money purchase pension schemes	<u>-</u>	<u>-</u>
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Long Term Incentive Plan	2007	2006
	£'000	£'000

Amounts payable	<u>486</u>	<u>-</u>
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Pensions	2007	2006
	Number	Number

Members of money purchase pension schemes	<u>-</u>	<u>-</u>
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Members of defined benefit pension schemes	<u>2</u>	<u>2</u>
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Amounts in respect of highest paid director	2007	2006
	£'000	£'000

Emoluments	<u>1,046</u>	<u>645</u>
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Company contributions paid to money purchase pension schemes	<u>-</u>	<u>-</u>
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Accrued pension at year-end	<u>65</u>	<u>49</u>
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Amounts payable in respect of the Long Term Incentive Plan (LTIP) are earned during a two-year plan period, with 60% of the total fund value paid in April of year three and 40% paid in April of year five

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

6. OPERATING SURPLUS

	2007	2006
	£'000	£'000
Operating surplus has been arrived after charging/(crediting):		
Depreciation of property, plant and equipment	18,310	17,479
Amortisation of other intangible assets	382	752
Impairment losses	-	439
Reversal of past impairment losses of property, plant and equipment	726	-
Staff costs	284,225	270,139
Contributions to defined contributions retirement benefit scheme	(28)	986
Inventories recognised as expense	1,198	745
Operating lease rentals		
Plant and equipment	704	704
Land and buildings	<u>34,153</u>	<u>34,153</u>

The 2007 contributions to defined benefit scheme includes the net curtailments/settlements of £1,090,000 (2006 - £nil)

7. AUDITORS REMUNERATION

	2007	2006
	£'000	£'000
Fees for the audit of the Company	2	2
Fees for the audit of subsidiary undertakings	<u>130</u>	<u>130</u>

Fees for the audit of the Company and subsidiary undertakings represent the amount receivable by the Group's auditors. The amount may not be borne by the Group.

Fees paid to the Group's auditors, KPMG Audit Plc, and its associates for services other than the statutory audit of the Group are not disclosed in these accounts since the consolidated accounts of Bupa, the ultimate parent undertaking, are required to disclose non-audit fees on a consolidated basis.

8. PROVISIONS FOR LIABILITIES IN PARTICIPATING INTERESTS

	2007	2006
	£'000	£'000
Provision for liabilities in The Care Homes Partnership	<u>(831)</u>	<u>4,692</u>

9. FINANCIAL INCOME

	2007	2006
	£'000	£'000
Bank deposits	216	362
Loans to Group undertakings	31,747	18,218
Termination of lease arrangement	<u>-</u>	<u>1,692</u>
	<u>31,963</u>	<u>20,272</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

10. FINANCIAL EXPENSES

	2007	2006
	£'000	£'000
Bank loans and overdrafts	71	55
Finance leases	-	775
Debenture stock	5,900	5,900
Loans from Group undertakings	26,490	12,215
Preference dividend	4,375	4,375
	<u>36,836</u>	<u>23,320</u>

11 TAXATION EXPENSE

(i) Recognised in the income statement

	2007	2006
	£'000	£'000
Current taxation expense		
UK taxation on income for the year	21,639	20,293
Adjustments in respect of prior periods	(2,276)	(820)
	<u>19,363</u>	<u>19,473</u>
Deferred taxation expense		
Origination and reversal of temporary differences	(7,214)	(4,468)
Adjustments in respect of prior periods	247	(63)
Changes in tax rate	(478)	-
	<u>(7,445)</u>	<u>(4,531)</u>
Total deferred taxation	<u>(7,445)</u>	<u>(4,531)</u>
Taxation expense	<u>11,918</u>	<u>14,942</u>

(ii) Reconciliation of effective tax rate

	2007	2006
	£'000	£'000
Surplus before taxation expense	<u>67,122</u>	<u>55,763</u>
Taxation at the domestic UK corporation tax rate of 30% (2006 – 30%)	20,137	16,729
Effects of		
Non deductible expenses	2,644	4,702
Transfer pricing adjustment	163	(598)
Accelerated capital allowances	(844)	(688)
Deferred tax on short term and other timing differences	(461)	148
Adjustments to tax charge in respect of prior period	(2,276)	(820)
Adjustments in respect of current deferred taxation	(7,214)	(4,468)
Adjustments in respect of deferred taxation of prior periods	247	(63)
Changes in tax rate	(478)	-
Taxation expense on continuing activities at the effective rate of 17.8% (2006 – 26.8%)	<u>11,918</u>	<u>14,942</u>

(iii) Current and deferred taxation recognised directly in equity

	2007	2006
	£'000	£'000
Deferred taxation charge in respect of		
Revaluation of property	(30,304)	-
Actuarial gain on pension schemes	(371)	(76)
	<u>(30,675)</u>	<u>(76)</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

12 DIVIDENDS

	2007 £'000	2006 £'000
Equity – ordinary		
Interim paid 77 7p per ordinary share (2006 - £nil)	<u>126,000</u>	<u>-</u>

No final dividend is proposed for the year

13. INTANGIBLE ASSETS

	Goodwill £'000	Software £'000	Total £'000
2007			
Cost			
At 1 January 2007	18,223	4,091	22,314
Additions	<u>-</u>	<u>380</u>	<u>380</u>
At 31 December 2007	<u>18,223</u>	<u>4,471</u>	<u>22,694</u>
Amortisation and impairment losses			
At 1 January 2007	10,899	3,192	14,091
Amortisation for the year	<u>-</u>	<u>382</u>	<u>382</u>
At 31 December 2007	<u>10,899</u>	<u>3,574</u>	<u>14,473</u>
Net Book Value			
At 31 December 2007	<u>7,324</u>	<u>897</u>	<u>8,221</u>
At 31 December 2006	<u>7,324</u>	<u>899</u>	<u>8,223</u>
2006			
Cost			
At 1 January 2006	18,223	3,700	21,923
Additions	<u>-</u>	<u>391</u>	<u>391</u>
At 31 December 2006	<u>18,223</u>	<u>4,091</u>	<u>22,314</u>
Amortisation and impairment losses			
At 1 January 2006	10,899	2,440	13,339
Amortisation for the year	<u>-</u>	<u>752</u>	<u>752</u>
At 31 December 2006	<u>10,899</u>	<u>3,192</u>	<u>14,091</u>
Net Book Value			
At 31 December 2006	<u>7,324</u>	<u>899</u>	<u>8,223</u>
At 31 December 2005	<u>7,324</u>	<u>1,260</u>	<u>8,584</u>

Goodwill arising on acquisition before the date of transition to IFRS as adopted by the EU and capitalised on the balance sheet has been retained at the amount recorded previously under UK GAAP

BUPA CARE HOMES (CFG) PLC

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007**

13. INTANGIBLE ASSETS (CONTINUED)

Goodwill impairment

Goodwill is tested at least annually for impairment in accordance with International Accounting Standard No 36 "Impairment of Assets" (IAS36) and International Accounting Standard No 38 "Intangible Assets" (IAS38) The impairment tests at 31 December 2007 using value in use resulted in no charge to goodwill impairment expense within the income statement In determining whether a goodwill impairment charge is required, the carrying value of goodwill is compared to the recoverable amount of CGUs, which is determined based on value in use calculations These calculations use cash flow projections based on financial budgets approved by management covering the next three year period In all cases, the growth rate is a conservative estimate which does not exceed the long-term average growth rate of the industry in which the CGUs operate The discount rates used are pre-tax and reflect the specific risks relating to the industry segments The rates are calculated with reference to the Group's weighted average cost of capital and are benchmarked against data available for listed groups in similar industries Any reasonable possible change in the key assumptions on which recoverable amounts are based would not cause the carrying amount of CGUs to exceed its recoverable amount

14. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings £'000	Fixtures, fittings & equipment £'000	Total £'000
2007			
Cost or valuation			
At 1 January 2007	434,879	167,813	602,692
Additions	21,007	18,547	39,554
Disposals	-	(170)	(170)
Revaluations	106,963	-	106,963
	<u>562,849</u>	<u>186,190</u>	<u>749,039</u>
At 31 December 2007			
Depreciation			
At 1 January 2007	9,905	109,819	119,724
Charge for the year	6,736	11,574	18,310
Disposals	-	(164)	(164)
Adjustments on revaluations	(13,700)	-	(13,700)
	<u>2,941</u>	<u>121,229</u>	<u>124,170</u>
At 31 December 2007			
Net Book Value			
At 31 December 2007	<u>559,908</u>	<u>64,961</u>	<u>624,869</u>
At 31 December 2006	<u>424,974</u>	<u>57,994</u>	<u>482,968</u>
Leased assets included above:			
Net Book Value			
At 31 December 2007	<u>56,482</u>	<u>-</u>	<u>56,482</u>
At 31 December 2006	<u>37,369</u>	<u>-</u>	<u>37,369</u>

Certain of the Group's freehold land and buildings were independently valued by Knight Frank, Chartered Surveyors in accordance with the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors The valuations were effective from 31 December 2007 The principal assumptions inherent in such valuations are described in note 1 These valuations were incorporated into the balance sheet at 31 December 2007

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land & buildings £'000	Fixtures, fittings & equipment £'000	Assets in the course of construction £000	Total £'000
2006				
Cost or valuation				
At 1 January 2006	424,069	155,596	3,509	583,174
Reclassifications	3,741	-	(3,741)	-
Additions	7,069	12,217	232	19,518
At 31 December 2006	434,879	167,813	-	602,692
Depreciation				
At 1 January 2006	3,148	98,658	-	101,806
Charge for the year	6,318	11,161	-	17,479
Impairment losses	439	-	-	439
At 31 December 2006	9,905	109,819	-	119,724
Net Book Value				
At 31 December 2006	424,974	57,994	-	482,968
At 31 December 2005	420,921	56,938	3,509	481,368

Analysis of cost or valuation of land and buildings:

	2007 Land & buildings £'000	2006 Land & buildings £'000
At open market value	560,263	411,412
At cost	-	23,467
Aggregate depreciation thereon	(2,941)	(9,905)
	557,322	424,974
Historical cost of revalued assets	262,362	241,345
Aggregate depreciation based on historical cost	(45,277)	(40,450)
Historical cost net book value	217,085	200,895

15. OTHER INVESTMENTS

	£'000
At 1 January 2007 and 31 December 2007	23,155

The Group acquired 11% of the shares of ANS 2003 Plc in September 2005 for a consideration of £23,155,000 from fellow Group undertakings. The Directors performed a fair value calculation of the investment at 31 December 2007 and in their opinion the fair value of the investment is not significantly different to the book value.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

16. SUBSIDIARY COMPANIES

A list of the significant investments, including the name, country of incorporation and proportion of ownership interest is given in note 40 to the Company's financial statements

17. OTHER NON-CURRENT RECEIVABLES

Other non-current receivables comprise

	2007 £'000	2006 £'000
Amounts owed by Group undertakings	417,099	408,638
Advance operating property rental payments	<u>539</u>	<u>999</u>
	<u>417,638</u>	<u>409,637</u>

The amounts owed by Group undertakings include loans issued on 18 February 2000 to Bupa Investments Limited. The loans are repayable in 2030 and bear interest at 6.4% per annum.

18. INVENTORIES

	2007 £'000	2006 £'000
Finished goods	<u>139</u>	<u>152</u>

19. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise

	2007 £'000	2006 £'000
Trade receivables	30,276	21,345
Amounts owed by Group undertakings	136,036	244,558
Other receivables	1,593	1,130
Prepayments and accrued income	12,715	11,711
Advance operating rental payments	<u>456</u>	<u>456</u>
	<u>181,076</u>	<u>279,200</u>

The average credit period taken on sales of goods and services provided is 21 days (2006 – 15). No interest is charged on receivables. An allowance has been made for estimated irrecoverable amounts from sale of goods and services rendered amounting to £2,924,000 (2006 - £2,599,000). This allowance has been determined by reference to past default experience. The Directors consider that the amount of trade and other receivables approximates their fair value.

Prepayments and accrued income includes payments to Group undertakings for future services.

Credit Risk

The Group's principal financial assets are bank balances, cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

19. TRADE AND OTHER RECEIVABLES (CONTINUED)

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter parties and customers

20 CASH AND CASH EQUIVALENTS

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value

21 11.8% DEBENTURE STOCK

	2007 £'000	2006 £'000
11.8% debenture stock	<u>50,000</u>	<u>50,000</u>

The 11.8% debenture stock is repayable at par in 2014. The stock is secured by a fixed charge over certain of the Group's assets, on a first floating charge over the businesses attached thereto and a general floating charge over the remainder of the assets of the Company and Bupa Care Homes (CFHCare) Limited. The assets pledged as security include £92,497,000 (2006 - £75,672,000) of property, plant and equipment. The fair value of the 11.8% debenture stock at 31 December 2007 was £65,059,000 (2006 - £66,332,000)

22 POST EMPLOYMENT BENEFITS LIABILITY

The assets and liabilities in respect of defined benefit pension schemes are as follows

	2007 £'000	2006 £'000
Present value of funded obligations	10,250	15,060
Fair value of scheme assets	<u>(8,823)</u>	<u>(11,148)</u>
Net recognised liabilities	<u>1,427</u>	<u>3,912</u>

The Group operates several funded defined benefit and defined contribution pension schemes for the benefit of employees and Directors. The defined benefit schemes provide benefits based on final pensionable salary. Contributions by Group companies to such schemes are made in accordance with the recommendations of independent scheme actuaries of the individual schemes. Complete disclosure of each separate pension scheme's details is not practicable within this report. The key factors relating to the Group funded pension arrangements are discussed below

The key principal defined benefit schemes in the United Kingdom are as follows

- The Care First Bedfordshire Limited Defined Benefit Scheme
- The Group operates a defined benefit pension scheme, Care First Bedfordshire Limited Defined Benefit Scheme, for certain employees who transferred from Bedfordshire County Council and who were previously members of the relevant Local Government Superannuation Scheme (LGSS). The scheme has been established to provide benefits identical to those offered by the LGSS. Under this scheme, contributions by employees and the Group are administered by JLT Benefits Solutions Limited who are also responsible for investments management and the provision of actuarial advice. The scheme was established on 4 November 1996 and eligible staff joined the scheme with effect from the 14 July 1998. The scheme is funded to cover future pension liabilities, allowing for future earnings and pension increases. On the basis of a detailed valuation undertaken every three years and a periodic interim review, an independent actuary recommends the rates of contribution. A full actuarial valuation was carried out at 1 July 2006 and updated to 31 December 2007 by a qualified actuary independent of the scheme's sponsoring employer

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

22. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

- The Powys County Council Pension Fund

The Group participates in the Local Government Pension Scheme, a defined benefit scheme based on final pensionable salary. The latest independent actuarial valuation of the Powys County Council Pension Fund took place on 31 March 2007.

In the absence of a reliable independent actuarial valuation which is co-terminus with the Group's year end the directors have used the 31 March 2007 valuation to determine the deficit to be recognised on the balance sheet as at 31 December 2007. The directors believe that the deficit recognised is a prudent provision for the future pension liability in the context of the above.

The 2006 Group's share of assets and liabilities was higher as they included the portion of the liabilities arising from past service lives of members prior to their employment with the Group. The Directors did not have a reliable basis to calculate the amount to be excluded and accordingly the Group recognised the whole of the deficit recommended by the independent actuary as at 31 March 2006. The Group reached an agreement in principle with the Council during 2007 and accordingly the 2007 assets and liabilities have been provisionally calculated to exclude the portion of the liabilities arising from past service lives of members prior to their employment with the Group.

- The Bupa Pension Scheme

Bupa operates defined benefit and defined contribution pension schemes for the benefit of staff. The Bupa Pension Scheme, is a defined benefit pension scheme which provides benefits based on final pensionable salary, with charges made to the profit and loss account comprising the current service cost calculated on the projected unit method, interest cost on plan liabilities, less the expected return on plan assets and gains and losses on curtailments.

This scheme was closed to new entrants from 1 October 2002. Under this scheme, contributions by employees are administered by trustees in funds independent of the Group. The scheme is funded to cover future pension liabilities allowing for future earnings and pension increases. Detailed triennial valuations and periodic interim reviews are undertaken by an independent actuary. The last detailed triennial valuation of The Bupa Pension Scheme was carried out as at 1 July 2005. The attained age method was used in the 2005 triennial valuation. On the basis of this valuation the independent actuary recommends the rate of contributions. The Bupa Pension Scheme was valued as at 31 December 2007 under the requirements of International Accounting Standard No 19 Employee Benefits as the Group prepares its consolidated financial statements under International Financial Reporting Standards. This valuation showed a surplus before deferred tax of £59.7 million (2006 - deficit of £68.9 million) with assets of £778.3 million (2006 - £653.0 million) and liabilities of £718.6 million (2006 - £721.9 million). It is not possible to identify the Group's share of this deficit on a consistent and reliable basis, therefore, as permitted by IAS19, the pension contributions paid by the Group relating to this scheme are charged to the profit and loss account.

Details of the latest valuations of the scheme and main assumptions are included in the annual report and accounts of the ultimate holding Company, Bupa. During the year employer contributions have been paid to The Bupa Pension Scheme at the rate of 26.34% of pensionable salary. The Group has a salary sacrifice arrangement, PeopleChoice Pensions, whereby the employer's contribution rate takes account of pension contributions paid as part of this arrangement. There is a corresponding reduction in wages and salaries as a result.

From 1 October 2002 new employees were eligible to join The Bupa Retirement Savings Plan, a defined contribution scheme. The pension cost to the Group in respect of this scheme equals the employer's contributions payable in the period.

The total pension cost included in the profit and loss account amounted to £294,000 (2006 - £895,000).

The full disclosure requirements under IAS 19 are disclosed in the Annual Report and Accounts of Bupa.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

22. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

(i) Actuarial assumptions

The assumptions used to value the post employment schemes are set by the schemes' actuaries. The major financial assumptions used when valuing the obligations of the post employment benefit schemes under IAS19 are as follows

The Care First Bedfordshire Limited Defined Benefit Scheme

	2007	2006	2005
Rate of increase in salaries	4.7%	4.4%	4.1%
Rate of increase in pensions in payment where LPI applies	3.4%	3.1%	2.8%
Discount rate	5.7%	5.2%	4.9%
Inflation assumption	3.4%	3.1%	2.8%
Loading for mortality improvements	0.0%	5.0%	5.0%
Mortality table	Medium cohort	PA92 c2020	PA92 c2020

The Powys County Council Pension Fund

	2007	2006	2005
Inflation	3.2%	3.0%	2.9%
Rate of general long-term increase in salaries	4.7%	4.5%	4.4%
Rate of increase to pensions in payment	3.2%	3.0%	2.9%
Rate of increase to deferred pensions	3.2%	3.0%	2.9%
Discount rate	5.3%	4.9%	5.3%

The assumptions used by the actuary are chosen from a range of possible assumptions which, due to the timescale covered, may not necessarily be borne out in practice

(ii) Present value of schemes' obligations

The movement in the present value of the schemes' obligations is

	2007 £'000	2006 £'000
At beginning of year	15,060	13,299
Current service cost	752	764
Gain on curtailments/settlements	(1,090)	-
Interest on obligations	778	690
Contributions by employees	150	177
Actuarial gains	(4,878)	(72)
Changes in assumptions underlying the present value of scheme liabilities	(177)	630
Benefits paid	(345)	(428)
	<u>10,250</u>	<u>15,060</u>

The gain on curtailments/settlements has been credited to the profit and loss account for the year as an exceptional item

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

22. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

(iii) Fair value of schemes' assets

The movement in the fair value of the funded schemes' assets is

	2007 £'000	2006 £'000
At beginning of year	11,148	9,451
Expected return on scheme assets	762	637
Actuarial (losses)/gains	(3,724)	815
Contributions by employer	832	496
Contributions by employees	150	177
Benefits paid	(345)	(428)
	<u>8,823</u>	<u>11,148</u>

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised were

The Care First Bedfordshire Limited Defined Benefit Scheme

	Long-term rate of return 2007	Value 2007 £000	Long-term rate of return 2006	Value 2006 £000
Equities	8.50%	4,605	8.0%	4,086
Bonds and Gilts	5.50%	677	5.0%	566
Other (property, cash, etc)	5.50%	631	5.0%	356
		<u>5,913</u>		<u>5,008</u>

The Powys County Council Pension Fund

	Long-term rate of return 2007	Value 2007 £000	Long-term rate of return 2006	Value 2006 £000
Equities	7.7%	138,070	7.3%	133,610
Property	6.7%	13,730	6.3%	12,230
Government bonds	4.7%	62,650	4.3%	64,970
Corporate bonds	5.3%	63,810	4.9%	50,110
Other	5.6%	13,270	4.6%	2,810
Total		<u>291,530</u>		<u>263,730</u>
Group's share		<u>2,910</u>		<u>6,140</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

22. POST EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

(iv) Amount recognised in the consolidated income statement

The amounts (credited)/charged to operating expenses for the year are

	2007	2006
	£'000	£'000
Current service cost	752	764
Gain on curtailments/settlements	(1,090)	-
Expected return on pension scheme assets	(762)	(637)
Interest on pension scheme liabilities	778	690
	<u>(322)</u>	<u>817</u>

(v) Amount recognised directly in equity

The amounts (charged)/credited directly to equity are

	2007	2006
	£'000	£'000
Actual return less expected return on pension scheme assets	(3,724)	815
Experience gains and losses arising on the scheme liabilities	4,878	72
Changes in assumptions underlying the present value of scheme liabilities	177	(630)
	<u>1,331</u>	<u>257</u>

The cumulative amounts of actuarial loss recognised directly in equity are £8,000 (2006 - £1,339,000)

(vi) History of experience gains and losses

	2007	2006	2005	2004
	£'000	£'000	£'000	£'000
Present value of schemes obligations	(10,250)	(15,060)	(13,299)	(11,791)
Fair value of schemes assets	8,823	11,148	9,451	8,425
Net deficit	<u>(1,427)</u>	<u>(3,912)</u>	<u>(3,848)</u>	<u>(3,366)</u>
Experience gains and losses arising on				
Scheme obligations	4,878	72	-	(115)
Scheme assets	(3,724)	815	499	245
Total amounts recognised directly in equity	<u>1,331</u>	<u>257</u>	<u>(237)</u>	<u>(1,359)</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

23. DEFERRED TAX LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Accelerated capital allowances	-	-	9,106	8,811	9,106	8,811
Post employment liability	(400)	(1,174)	-	-	(400)	(1,174)
Revaluation of properties to fair value	-	-	52,838	30,968	52,838	30,968
Other	(434)	(725)	-	-	(434)	(725)
Net deferred tax (assets)/liabilities	(834)	(1,899)	61,944	39,779	61,110	37,880

Deferred tax assets relating to the carry forward of pension provisions, employee benefits, other provisions, unused tax losses and other deferred tax assets are recognised to the extent that it is probable that future taxable surpluses will be available against which the deferred tax assets can be utilised

The 2007 Finance Act announced a change in corporation tax from 30% to 28% the impact of this change has been reflected in the deferred tax balances carried forward. The impact of adjustment to the change in tax rate has been disclosed in note 11(i)

Unrecognised deferred tax assets

At 31 December 2007, the Group had no unrecognised deferred tax assets (2006 - £nil)

Movement in net deferred tax liabilities

	At beginning of year £'000	Recognised in income statement £'000	Recognised in equity £'000	At end of year £'000
2007				
Accelerated capital allowances	8,811	295	-	9,106
Post employment liability	(1,174)	403	371	(400)
Revaluation of land and buildings to fair value	30,968	(8,434)	30,304	52,838
Other	(725)	291	-	(434)
	<u>37,880</u>	<u>(7,445)</u>	<u>30,675</u>	<u>61,110</u>
2006				
Accelerated capital allowances	8,188	623	-	8,811
Post employment liability	(1,154)	(96)	76	(1,174)
Revaluation of land and buildings to fair value	35,976	(5,008)	-	30,968
Other	(675)	(50)	-	(725)
	<u>42,335</u>	<u>(4,531)</u>	<u>76</u>	<u>37,880</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

24 PROVISIONS FOR LIABILITIES AND CHARGES

	Onerous lease £'000	Participating interest £'000	Total £'000
2007			
At 1 January 2007	380	41,497	41,877
Utilised in the year	<u>(53)</u>	<u>(831)</u>	<u>(884)</u>
At 31 December 2007	<u>327</u>	<u>40,666</u>	<u>40,993</u>
	Onerous lease £'000	Participating interest £'000	Total £'000
2006			
At 1 January 2006	402	36,805	37,207
Utilised in the year	(22)	-	(22)
Provided in the year	<u>-</u>	<u>4,692</u>	<u>4,692</u>
At 31 December 2006	<u>380</u>	<u>41,497</u>	<u>41,877</u>

The Group has a participating interest in a joint venture with The Care Homes Partnership. The provision represents the Group's share of the partnership's liabilities as at 31 December 2007. The onerous lease relates to an unoccupied property in Woking, Surrey.

25. PREFERENCE SHARES

The non-equity preference shares represent the entire cumulative redeemable preference shares in Bupa Care Homes (CFHCare) Limited.

Bupa Care Homes (CFHCare) Limited issued the cumulative redeemable preference shares at par value on 24 February 1998, carrying an initial dividend rate of 5.25% increasing to a maximum rate of 6.25%. On a return of capital on a winding-up or otherwise, the holders of the preference shares shall be entitled, in priority to any payment to the holders of any other class of shares, to the repayment of a sum equal to the nominal paid up capital. The holders of the preference shares shall have the right to receive notice of and attend, but not to speak or vote at, a General Meeting of Bupa Care Homes (CFHCare) Limited.

26. BANK OVERDRAFT AND LOANS

The actions taken to manage the principal risks inherent in the Group's financing activities are disclosed in the accounts of Bupa Finance Plc, an intermediate parent Company.

27. TRADE AND OTHER PAYABLES

Trade and other payables due within one year comprise

	2007 £'000	2006 £'000
Trade payables	5,106	4,279
Amounts owed to Group undertakings	227,595	359,514
Other taxation and social security	5,805	5,844
Other payables	3,232	2,634
Accruals and deferred income	68,834	56,903
Non equity dividend	<u>1,510</u>	<u>1,510</u>
	<u>312,082</u>	<u>430,684</u>

Trade payables comprise amounts outstanding for trade purchases. The average credit period taken for trade purchases is 26 days (2006 – 26). There is no material difference between the carrying amount of trade payables and their fair value.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

28. SHARE CAPITAL

	2007	2006
	£'000	£'000
Authorised		
Equity interests		
220,000,000 ordinary shares of 25 pence each	<u>55,000</u>	<u>55,000</u>
	2007	2006
	£'000	£'000
Allotted, called up and fully paid		
Equity interests		
162,213,958 ordinary shares of 25 pence each	<u>40,553</u>	<u>40,553</u>

29. EQUITY

	Share premium account £'000	Merger reserve £'000	Capital redemption reserve fund £'000	Revaluation reserve £'000	Income and expenditure reserve £'000
2007					
At 1 January 2007	114,141	16,963	2,110	125,870	159,538
Surplus for the financial year	-	-	-	-	55,204
Dividends paid	-	-	-	-	(126,000)
Actuarial gain on pension schemes	-	-	-	-	1,331
Taxation charge on income and expenses recognised directly in equity	-	-	-	-	(371)
Unrealised surplus for the year	-	-	-	119,937	-
Deferred tax liability arising on revaluation of land and buildings	-	-	-	(30,304)	-
At 31 December 2007	<u>114,141</u>	<u>16,963</u>	<u>2,110</u>	<u>215,503</u>	<u>89,702</u>
2006					
At 1 January 2006	114,141	16,963	2,110	125,870	118,536
Retained surplus for the financial year	-	-	-	-	40,821
Actuarial gain on pension schemes	-	-	-	-	257
Taxation charge on income and expenses recognised directly in equity	-	-	-	-	(76)
At 31 December 2006	<u>114,141</u>	<u>16,963</u>	<u>2,110</u>	<u>125,870</u>	<u>159,538</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2007	2006
	£'000	£'000
Surplus before taxation expense	67,122	55,763
Adjustments for		
Depreciation of property, plant and equipment	18,310	17,479
Impairment losses	-	439
Gain on sale of property, plant and equipment	6	-
Reversal of past impairment losses	(726)	-
Amortisation and impairment of intangible assets	382	752
Provisions for liabilities in participating interests	(831)	4,692
Financial income	(31,963)	(20,272)
Financial expenses	36,836	23,320
Movement in onerous lease provision	(53)	(22)
Movement in post employment benefits liability	(1,154)	321
	<hr/>	<hr/>
Operating cash flows before movement in working capital	87,929	82,472
(Increase)/Decrease in working capital		
Inventories	13	(35)
Trade receivables	(8,931)	(5,821)
Other receivables	(463)	216
Prepayments and accrued income	(1,004)	(889)
Trade payables	827	2,220
Other tax and social security	(39)	1,573
Accruals and deferred income	4,255	10,129
Other payables	598	(1,910)
Advance operating lease rental	460	460
	<hr/>	<hr/>
Cash generated from operations	83,645	88,415
Interest paid	(10,346)	(10,330)
	<hr/>	<hr/>
Net cash from operating activities	73,299	78,085

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts

	2007	2006
	£'000	£'000
Cash on hand and balances with bank	7,462	22,677
Restricted access deposits	(5,861)	(5,861)
	<hr/>	<hr/>
	1,601	16,816

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

A charge is held over cash of £5,861,000 (2006 - £5,861,000) as security over future operating rental payments due to Bupa LeaseCo (Guernsey) Limited

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

31. COMMITMENTS

Capital commitments	2007 £'000	2006 £'000
Contracted	-	7,000

Operating leases

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

	2007 £'000	2006 £'000
Minimum lease payment under operating leases recognised in income for less than one year		
Plant and equipment	847	704
Land and building	34,276	34,153
	<u>35,123</u>	<u>34,857</u>

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	2007 £'000	2006 £'000
Within one year	33,324	33,324
In the second to fifth year inclusive	133,295	133,295
After five years	737,909	771,233
	<u>904,528</u>	<u>937,852</u>

32. CONTINGENT LIABILITIES

The Group has given a guarantee and other undertakings, as part of the Group banking arrangements, in respect of the overdraft of certain other Group undertakings. Under a group arrangement the Group is jointly and severally liable for Value Added Tax due by certain other group companies.

The Group has disposed of leasehold interests in a number of close care properties in which it continues to hold a reversionary interest. In so doing, it granted the right to certain purchasers to require the Group to repurchase properties at any time in the future at a price equal to 90% of the purchase price paid of the properties concerned. These are not considered to be financing transactions, and no asset or liability is included on the balance sheet. The outstanding repurchase commitments granted by the Group in this respect amounted to £637,000 (2006 - £637,000).

The obligations of the Group under the operating leases which have been granted to the Group by Bupa LeaseCo (Guernsey) Limited have been guaranteed by its parent and cross guaranteed by a number of its fellow subsidiaries.

A charge is held over cash of £5,861,000 (2006 - £5,861,000) as security over future operating rental payments due to Bupa LeaseCo (Guernsey) Limited.

On 10 February 2006 Bupa replaced most of its existing senior debt facilities with a £1 billion multi currency revolving credit facility. The Group has joint and several liability for all obligations under the agreement.

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2007

33 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its fellow Group undertakings are disclosed below.

Trading transactions

During the year, Bupa Group undertakings entered into the following transactions with related parties who are not members of the Group:

Sales of goods and services and rental income

Sales of goods and services and rental income for the year ended 31 December 2007 are as follows:

	2007 £'000	2006 £'000
Fellow Bupa Group undertakings	<u>9,549</u>	<u>12,286</u>

Purchases of goods and services and rental charges

Purchases of goods and services and rental charges for the year ended 31 December 2007 are as follows:

	2007 £'000	2006 £'000
Bupa	15,581	13,441
Fellow Bupa Group undertakings	<u>36,054</u>	<u>39,463</u>
	<u>51,635</u>	<u>52,904</u>

Interest received

Interest received for the year ended 31 December 2007 is as follows:

	2007 £'000	2006 £'000
Fellow Bupa Group undertakings	<u>31,747</u>	<u>18,218</u>

Interest paid

Interest paid for the year ended 31 December 2007 is as follows:

	2007 £'000	2006 £'000
Finance leases		
Fellow Bupa Group undertakings	<u>-</u>	<u>775</u>

	2007 £'000	2006 £'000
Loan and current account from Group undertakings		
Bupa	3,580	1,822
Bupa Finance Plc	-	1,061
Fellow Bupa Group undertakings	<u>22,910</u>	<u>9,332</u>
	<u>26,490</u>	<u>12,215</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2007

33. RELATED PARTY TRANSACTIONS (CONTINUED)

Non-current other receivables

Non-current other receivables comprise

	2007	2006
	£'000	£'000
Fellow Bupa Group undertakings	<u>417,099</u>	<u>408,638</u>

Current accounts receivable

Current accounts receivable comprise

	2007	2006
	£'000	£'000
Fellow Bupa Group undertakings	<u>136,036</u>	<u>244,558</u>

Non-current accounts payable

Non-current accounts payable comprise

	2007	2006
	£'000	£'000
Bupa Finance Plc	-	22,909
Fellow Bupa Group undertakings	<u>241,617</u>	<u>108,064</u>
	<u>241,617</u>	<u>130,973</u>

Current accounts payable

Current accounts payable comprise

	2007	2006
	£'000	£'000
Bupa	76,698	48,304
Bupa Finance Plc	23,576	18,829
Fellow Bupa Group undertakings	<u>127,321</u>	<u>292,381</u>
	<u>227,595</u>	<u>359,514</u>

Sales and purchases of goods and services with related parties were made at market price discounted to reflect the quantity of goods purchased and the relationships between parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

BUPA CARE HOMES (CFG) PLC
(Registered No. 1969735)
COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

BUPA CARE HOMES (CFG) PLC

COMPANY PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Operating (expenses)/income		<u>289</u>	<u>(5)</u>
Operating profit/(loss)		289	(5)
Income from shares in group undertakings	36	136,200	-
Interest receivable and similar income	37	18,321	17,600
Interest payable and similar charges	38	<u>(21,938)</u>	<u>(21,183)</u>
Profit/(Loss) on ordinary activities before taxation		132,872	(3,588)
Tax on profit/(loss) on ordinary activities	39	<u>(1,100)</u>	<u>1,076</u>
Profit/(Loss) for the financial year		<u>131,772</u>	<u>(2,512)</u>

The operating profit/(loss) is all derived from continuing operations

There were no recognised gains and losses other than the profit/(loss) for the financial year

There were no material differences between reported profit and loss and historical profit and loss on ordinary activities before and after taxation

The accounting policies and notes on pages 46 to 50 form part of these financial statements

BUPA CARE HOMES (CFG) PLC

**COMPANY BALANCE SHEET
as at 31 December 2007**

	Note	2007 £'000	2006 £'000
Fixed assets			
Investments	40	<u>225,489</u>	<u>225,489</u>
Current assets			
Debtors		104,342	371,770
Debtors due within one year	41	<u>-</u>	<u>216,358</u>
Debtors due after one year	41	<u>104,342</u>	<u>155,412</u>
Cash at bank and in hand		<u>-</u>	<u>-</u>
		104,342	371,770
Creditors: amounts falling due within one year	42	<u>(42,233)</u>	<u>(317,581)</u>
Net current assets		<u>62,109</u>	<u>54,189</u>
Total assets less current liabilities		287,598	279,678
Creditors: amounts falling due after more than one year	43	<u>(129,212)</u>	<u>(127,064)</u>
Net assets		<u>158,386</u>	<u>152,614</u>
Capital and reserves			
Called up share capital	44	40,553	40,553
Share premium account	45	114,141	114,141
Capital redemption reserve	45	2,110	2,110
Profit and loss account	45	<u>1,582</u>	<u>(4,190)</u>
Shareholders' funds		<u>158,386</u>	<u>152,614</u>

These financial statements were approved by the Board of Directors on 9 May 2008 and were signed on its behalf by



N R Taylor
Director

The accounting policies and notes on pages 46 to 50 form part of these financial statements

BUPA CARE HOMES (CFG) PLC**COMPANY CASH FLOW STATEMENT
as at 31 December 2007**

	Note	2007 £'000	2006 £'000
Net cash outflow from operating activities	46	-	868
Returns on investment and servicing of finance	46	<u>(5,900)</u>	<u>11,700</u>
Cash (outflow)/inflow before equity dividend and financing		(5,900)	12,568
Equity dividend paid		<u>(126,000)</u>	<u>-</u>
Cash (outflow)/inflow before financing		(131,900)	12,568
Financing	46	<u>125,678</u>	<u>(12,821)</u>
Decrease in cash	47	<u>(6,222)</u>	<u>(253)</u>

The accounting policies and notes on pages 46 to 50 form part of these financial statements

BUPA CARE HOMES (CFG) PLC**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2007**

	2007 £'000	2006 £'000
Profit/(loss) for the financial year	131,772	(2,512)
Dividends	<u>(126,000)</u>	<u>-</u>
Retained profit/(loss) for the financial year and net addition to/(reduction in) shareholders' funds	5,772	(2,512)
Opening shareholders' funds	<u>152,614</u>	<u>155,126</u>
Closing shareholders' funds	<u>158,386</u>	<u>152,614</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE COMPANY FINANCIAL STATEMENTS for the year ended 31 December 2007

34. STATEMENT OF ACCOUNTING POLICIES

(a) Significant accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, under the historical cost accounting convention and on a going concern basis

As the Company is a wholly owned subsidiary undertaking of Bupa, a Company registered in England and Wales, which publishes consolidated accounts, the Company has, pursuant to paragraph 17 of Financial Reporting Standard No 8 Related Party Disclosures (FRS 8), not included details of transactions with other companies which are subsidiary undertakings of Bupa. There were no other related party transactions

Accounting conventions

A summary of the more significant accounting policies, which have been applied consistently, is set out below

(b) Taxation including deferred taxation

The charge for taxation is based on the result for the year and takes into account deferred tax

Deferred tax is provided in full on all timing differences that have originated, but not reversed, at the balance sheet date which result in an obligation to pay more, or a right to pay less or to receive more, tax with the following exception

- Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which 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 current tax rates and laws

Trading losses surrendered to other Group subsidiary undertakings are made on a full payment basis

(c) Investments

Investments are carried at cost less provision for impairment in value

35. STAFF COSTS AND DIRECTORS' REMUNERATION

The emoluments of the Directors are disclosed in note 5. The Company has no other employee costs during the year

36. INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2007 £'000	2006 £'000
Ordinary dividends	<u>136,200</u>	<u>-</u>

37. INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £'000	2006 £'000
Loan to Group undertakings	<u>18,321</u>	<u>17,600</u>

BUPA CARE HOMES (CFG) PLC

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2007

38. INTEREST PAYABLE AND SIMILAR CHARGES

	2007	2006
	£'000	£'000
Loan note	5,900	5,900
Loan from Group undertaking	<u>16,038</u>	<u>15,283</u>
	<u>21,938</u>	<u>21,183</u>

39. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

(i) Analysis of tax charge/(credit) in the year

	2007	2006
	£'000	£'000
Current tax		
UK corporation tax on profit for the year	(998)	(1,193)
Adjustments in respect of prior periods	<u>2,098</u>	<u>-</u>
Total current tax	1,100	(1,193)
Deferred tax		
Origination and reversal of timing differences	<u>-</u>	<u>117</u>
Tax on profit/(loss) on ordinary activities	<u>1,100</u>	<u>(1,076)</u>

(ii) Factors affecting the tax credit

The tax credit for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below

	2007	2006
	£'000	£'000
Profit/(Loss) on ordinary activities before tax	<u>132,872</u>	<u>(3,588)</u>
Tax charge/(credit) on profit/loss on ordinary activities at 30%	39,862	(1,076)
Effect of		
Expenses not deductible for tax purposes	(40,860)	-
Deferred tax on short-term and other timing differences	-	(117)
Adjustments to tax charge in respect of prior period	<u>2,098</u>	<u>-</u>
	<u>1,100</u>	<u>(1,193)</u>

BUPA CARE HOMES (CFG) PLC

**NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2007**

40. INVESTMENTS

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2007 and 31 December 2007	154,924	52,000	23,155	230,079
Provision				
At 1 January 2007 and 31 December 2007	(4,590)	-	-	(4,590)
Net book value at 31 December 2007	150,334	52,000	23,155	225,489
Net book value at 31 December 2006	150,334	52,000	23,155	225,489

At 31 December 2007, the Company owned the whole of the issued share capital of the following undertakings, either directly or indirectly, all of which operate in the United Kingdom

Name	Ordinary shares number	Nominal value £	Business activity	Place of registration
Bupa Care Homes Group Limited	50,000,000	1	Holding Company of care homes operators	England and Wales
Bupa Care Homes (CFHCare) Limited*	124,999,999	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (CFCHomes) Limited *	53,368,562	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (Partnerships) Limited *	100	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (Bedfordshire) Limited	2	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (GL) Limited *	22,296,637	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (BNH) Limited *	156	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (AKW) Limited	1	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (Carrick) Limited	151,000	1	Owner and operator of care homes	Scotland
Crispins Nursing Homes Limited	1,000	1	Owner and operator of care homes	England and Wales
Bupa Care Homes (Developments) Limited	2,200,000	1	Developer of care homes	England and Wales
Surgichem Limited	100,000	1	Manufacturer and distributor of monitored drug dosage systems	England and Wales
Care First at Home Limited	100	1	Leasing assets to Group entities	England and Wales
Kyle Building Services Limited *	100	1	Developer of care homes	Scotland

* Investment held by subsidiary undertaking

In addition to the companies listed above, the Company either directly or indirectly owns a number of non-trading subsidiary companies. Subsidiary undertakings are included at cost less provisions. The other investments relate to 11% of the shares of ANS 2003 Plc acquired in September 2005 for a consideration of £23,155,000 from fellow Group undertakings

BUPA CARE HOMES (CFG) PLC

**NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2007**

41. DEBTORS

	2007	2006
	£'000	£'000
Amounts falling due within one year:		
Amounts owed by Group undertakings	<u>-</u>	<u>216,358</u>
Amounts falling due after one year:		
Amounts owed by Group undertakings	<u>104,342</u>	<u>155,412</u>

The amounts falling due after one year owed by Group undertakings include loans issued on 18 February 2000 to Bupa Investments Limited. The loans are repayable in 2030 and bear interest at 6.4% per annum.

42. CREDITORS – amounts falling due within one year

	2007	2006
	£'000	£'000
Bank loans and overdraft	6,416	194
Amounts owed to Group undertakings	35,817	317,098
Accruals and deferred income	<u>-</u>	<u>289</u>
	<u>42,233</u>	<u>317,581</u>

43. CREDITORS – amounts falling due after more than one year

	2007	2006
	£'000	£'000
11.8% debenture stock	50,000	50,000
Amounts owed to Group undertakings	<u>79,212</u>	<u>77,064</u>
	<u>129,212</u>	<u>127,064</u>
Loans are repayable as follows:		
In five years or more	<u>50,000</u>	<u>50,000</u>

The 11.8% debenture stock is repayable at par in 2014. The stock is secured by a fixed charge over certain of the Group's assets and a first floating charge over the businesses attached thereto and a general floating charge over the remainder of the assets of the Company and Bupa Care Homes (CFHCare) Limited.

The amount due to Group undertakings due after more than one year relates to a loan from Bupa Blackbird Investments LLP, repayable on demand and bearing interest at a rate of six months LIBOR plus 40 base points.

44. SHARE CAPITAL

	2007	2006
	£'000	£'000
Authorised		
Equity interests		
220,000,000 ordinary shares of 25 pence each	<u>55,000</u>	<u>55,000</u>
Allotted, called up and fully paid		
Equity interests		
162,213,958 ordinary shares of 25 pence each	<u>40,553</u>	<u>40,553</u>

BUPA CARE HOMES (CFG) PLC**NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 December 2007****45. RESERVES**

	Share premium account £'000	Capital redemption reserve fund £'000	Profit and loss account £'000
At 1 January 2007	114,141	2,110	(4,190)
Retained profit for the year	<u>-</u>	<u>-</u>	<u>5,772</u>
At 31 December 2007	<u>114,141</u>	<u>2,110</u>	<u>1,582</u>

46. ANALYSIS OF CASH FLOW

	2007 £'000	2006 £'000
Reconciliation of operating profit/(loss) to net cash outflow from operating activities		
Operating profit/(loss)	289	(5)
(Increase)/Decrease in working capital		
Other debtors	-	896
Accruals and deferred income	<u>(289)</u>	<u>(23)</u>
Net cash outflow from operations	<u>-</u>	<u>868</u>
Returns on investments and servicing of finance		
Interest received	-	17,600
Interest paid	<u>(5,900)</u>	<u>(5,900)</u>
	<u>(5,900)</u>	<u>11,700</u>
Financing		
Loan to fellow Group undertaking	-	(97,752)
Borrowing from fellow Group undertakings	<u>125,678</u>	<u>84,931</u>
	<u>125,678</u>	<u>(12,821)</u>

Cash comprises cash at bank and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

47. ANALYSIS AND RECONCILIATION OF NET DEBT

	2007 £'000	2006 £'000
Decrease in cash	(6,222)	(253)
Cash at beginning of year	<u>(194)</u>	<u>59</u>
Cash at the end of year	<u>(6,416)</u>	<u>(194)</u>