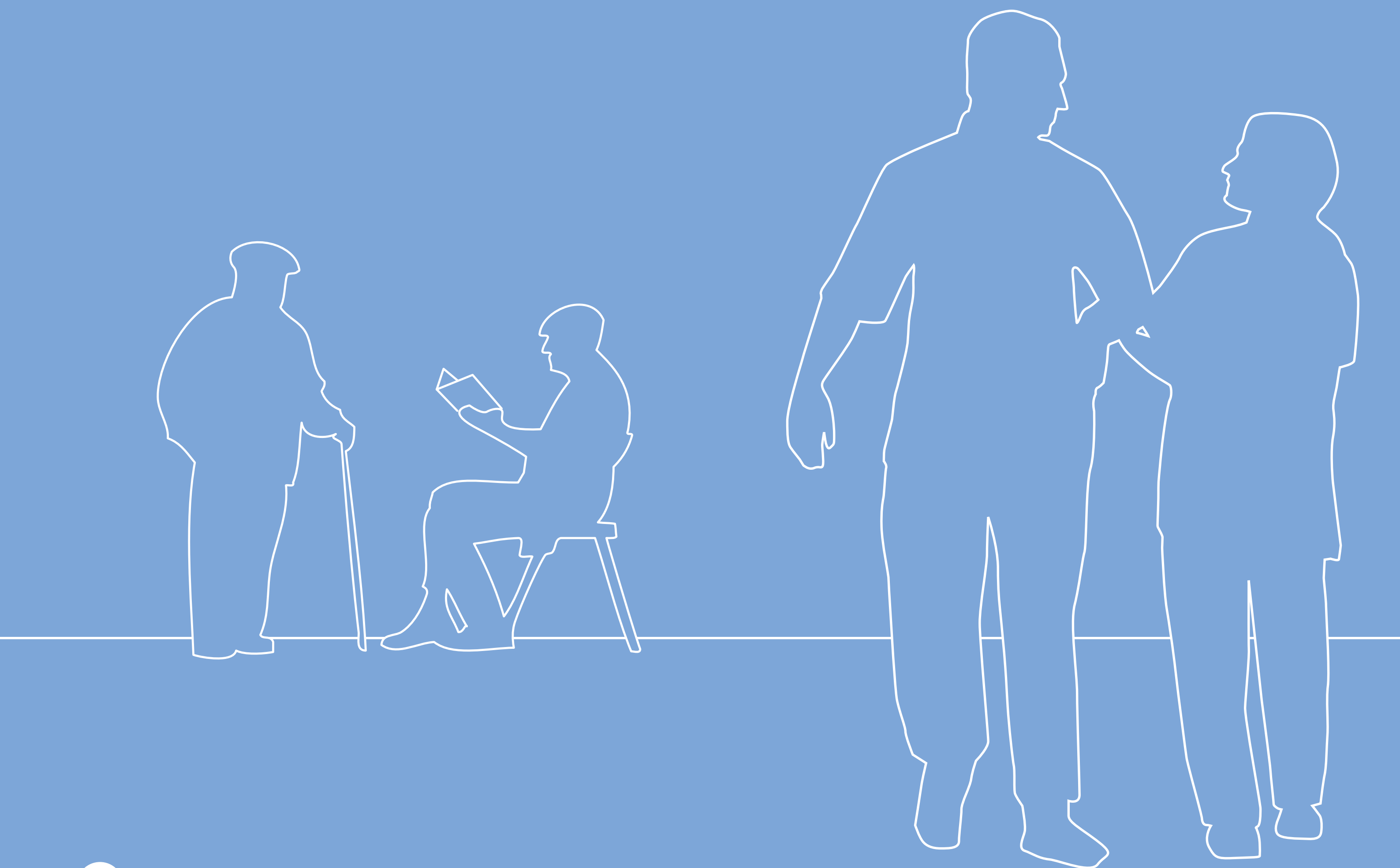
Report & Financial Statements

Shaw healthcare (Group) Limited
31 March 2012

Shaw healthcare
wellness • happiness • kindness

Contents



Officers and professional advisers

DIRECTORS

A Thomas, BA, FCA (Chairman)
P J Nixey, MA (Oxon) (Chief Executive)
R S Brown, BSc, ACMA, ATII
F A Cloud, MA (Oxon), CFA
M Heywood-Briggs, MSc, FRSPH, MCMI (appointed 1 December 2011)
S D Hughes
J H Pain
A C Savery, AIQS

REGISTERED OFFICE

1 Links Court
Links Business Park
St Mellons
Cardiff
CF3 0LT

PRINCIPAL BANKERS

Allied Irish Bank
2 Callaghan Square
Cardiff
CF10 5AZ

SOLICITORS

Eversheds Solicitors
1 Callaghan Square
Cardiff
CF10 5BT

Morgan Cole Solicitors
Bradley Court
Park Place
Cardiff
CF10 3DP

AUDITOR

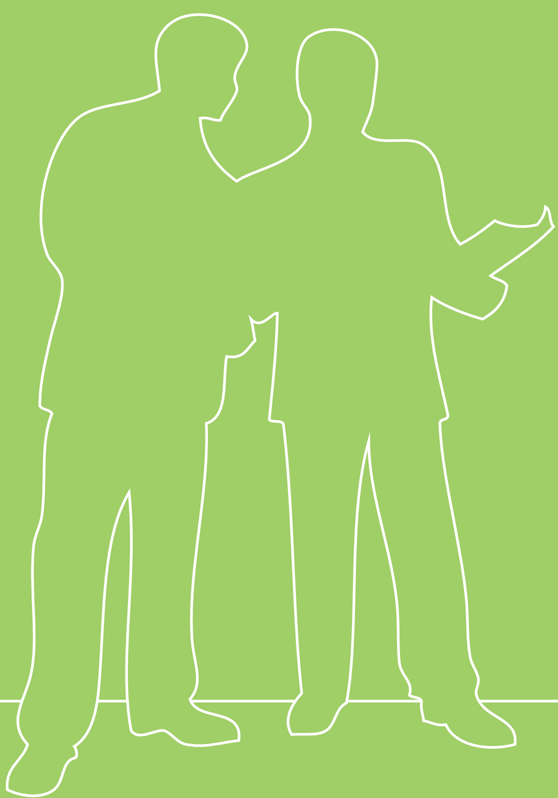
Deloitte LLP
Cardiff

Directors' report

The directors present their annual report on the affairs of the company, together with the audited financial statements, for the year ended 31 March 2012.

PRINCIPAL ACTIVITIES

The principal activity of the company and the group is that of the provision of care services. These include a range of specialist nursing, residential, domiciliary and supported living services to the elderly and to people with dementia, learning disabilities and mental health problems.



BUSINESS REVIEW

Financial performance

The group produced a good set of results in a difficult market characterised by local authorities and the NHS seeking to reduce care costs as part of the wider public sector deficit reduction programme. Operating profit before exceptional items increased by 11% in the year to £9,385,000 (2011: £8,437,000) mainly because of improvements in the financial performance of our Northampton residential care contract and reduced losses at the Pembroke Dock and Wraxall care facilities. Profit on ordinary activities before taxation has increased by 13% to £3,707,000 (2011: £3,278,000) despite substantially reduced profit on the sale of tangible fixed assets (2012: £95,000, 2011: £2,254,000).

The group remains focused on cost control and in particular on staff agency costs which were reduced significantly during the year. Although overall occupancy of market beds in our mature services was unchanged at 88% in March 2012 (2011: 88%), occupancy has improved in a number of the higher fee-paying specialist services. This is reflected in consolidated monthly market bed income which had increased to £2,283,000 by March 2012 (2011: £2,005,000).

The group remains committed to reducing its net debt which was demonstrated by the £8,481,000 reduction to £62,823,000 at 31 March 2012. Net assets have increased by £2,036,000 to £6,262,000 at 31 March 2012 due to the group's continued profitability during the year and in spite of a net actuarial loss on its defined benefit schemes. Further information on the group's defined benefit schemes can be found in note 30 to the financial statements.

An improved net cash inflow from operating activities has contributed to the overall increase in cash generated in the year of £5,897,000 (2011: £1,382,000).

Directors' report

BUSINESS REVIEW (continued)

Quality performance

Shaw is committed to ensuring the highest quality of care and support across all activities. A constant need is evident across the sector to challenge and review systems and processes to ensure that we continue to protect the most vulnerable in our society. With this in mind we have reviewed the structure and scope of both our quality and clinical governance teams, departments which have been established throughout the group for a number of years.

The quality department has further enhanced its reach by developing a new system of measuring and rating quality of service. This quality system goes further than the current 16 service outcomes used by our regulators. We have now developed a quality audit system which not only measures compliance in the same way as our regulator, but also measures quantitatively the quality of care provided. A detailed site visit is performed where we look for quality indicators, with scores based on the quality of kindness, respect and positive interactions between employees and service users. Following trials in the second half of 2012/13, this approach will be adopted for all the group's services as part of a combined system of recording a number of quality indicators over and above regulatory, local authority and NHS requirements. Shaw expects this to become a recognised model that other providers may wish to purchase as it responds to the public's desire for transparent and accessible reviews of services in a context of increased purchasing freedom enjoyed by self-payers and those holding individual budgets.

Employee training

Shaw has continued its development of an in-house learning academy, incorporating e-learning and Qualifications and Credit Framework (QCF) programmes supported by upgraded IT systems. The group plans to ensure that all care employees are trained up to the industry standard (QCF level 2 for support workers, level 3 for team leaders and level 4 for managers). The learning academy enables Shaw's in-house trainers and assessors to deliver QCF courses, thus ensuring that QCF assessments are conducted by people familiar with the company's values, policies and procedures, and allowing assessments to take place in an employee's own workplace and not off-site in the lecture halls of a training establishment. Recruitment and integration of the training team to deliver this effectively was completed during the year, as was the development of the first six in-house developed e-learning programmes. These have been well-received by employees who have welcomed their more interactive style and found them a more efficient way to complete their annual statutory training updates. Further e-learning courses will be developed in the coming year.

Following a greater emphasis during the year on rehabilitation and reablement, we are pleased to report that a new programme of reablement training for employees working in our core and specialist services was introduced during the year.

Directors' report

BUSINESS REVIEW (continued)

Employee awards, communication and involvement

Shaw has always sought to give public recognition to its employees and to celebrate its spirit of teamwork through its regional and national Shaw Stars awards. Awards are given to employees performing a diverse range of duties including care and support staff, domestics, activity co-ordinators, team leaders and managers. Initially awards were given to 51 employees on a regional basis, all of whom were put forward to the national award ceremony held in May 2012, at which nine national winners were announced.

During the year we have developed new ways of improving teamwork and communication across the business: employee "town hall" meetings held twice a year in each region provide a forum at which employees and directors can openly discuss recent achievements, challenges and the outlook for the future. These meetings have been well-received by employees and have been supplemented with a series of informal meetings in each region to which a representative cross-section of the workforce is invited to meet and raise any matter they wish with the director hosting that meeting. These have proved to be very constructive, adopting a two-way, mutually informative dialogue which is reported back to the board and senior management team. As a result, some management decisions have become more understandable while conversely management has been alerted to issues to which it needs to respond.

Business development

Shaw continues to compete for public procurement opportunities with local authorities and NHS bodies as well as pursuing opportunities for organic growth.

On 28 June 2011 Shaw signed a new 28-year contract with the London Borough of Camden to develop and operate two 60-bed care homes and 35 extra-care flats for the provision of residential, nursing and domiciliary care services. The construction budget for the new development is £23million which will be completed in two phases with the first home anticipated to become operational early in 2013. Most of the care staff will transfer under TUPE from two outdated council residential homes which will be closed. Not only will the new homes mark a huge improvement in size, specification and quality, but the new service will be designed to provide more dementia and nursing care. It also provides an opportunity to further develop the wide range of skills among the employee teams to provide an even more specialist service to a more dependent cohort of admissions than was the case ten or even five years ago. The deliberate linking on one site of the extra-care flats and the care home with a single management team is a first for Camden and a welcome recognition of the complementary role which extra-care and care home developments can have when following an integrated community model.

Directors' report

BUSINESS REVIEW (continued)

Business development (continued)

Shaw has expanded its domiciliary care business during the year and in February 2012 was awarded an extension of its existing contract with Wigan Council having successfully expanded this service 12 months earlier. Shaw's performance in this contract over the past year has been characterised by a level of customer satisfaction which is exceptional among the providers of domiciliary care services in Wigan. The company's other established domiciliary care branches continued to raise efficiency, quality and customer satisfaction during the year, and a number of branches were rewarded shortly after the year-end with the Investors In People (IIP) award and a complimentary report from the IIP's Regional Chief Assessor. Shaw also opened a new domiciliary care service in Edinburgh, having won a tender from Edinburgh City Council in February 2012; this service is growing as quickly as it can recruit staff and in time may also be developed to provide services to former patients of the group's low-secure hospital in Glasgow who return to the community, albeit with specialist support.

During the year the group took over the running of two care homes from competitor companies. Firstly, in August 2011, we won a tender from Surrey County Council to take over the management of Redwood Care Centre, a 50-bed care home in Guildford, from Care UK. Secondly, in September 2011, following the demise of Southern Cross Healthcare, we were able to negotiate the transfer of the lease on revised terms of a 90-bed facility at Red Hill Care Centre in Worcester. In addition to expanding our operation in this area we were able to secure the longevity of our 20-bed intermediate care service which we had previously run from the Red Hill Care Centre under a sub-lease from Southern Cross Healthcare.

Shaw brand

During the year the group has updated its brand, including the introduction of three main sub-brands - Shaw Care Homes, Shaw Community Living and Shaw Specialist Services - and an emphasis on its core values of "wellness, happiness, kindness". Our objective is to provide a more accessible, informative and engaging marketing strategy which meets the needs of existing and potential employees, commissioners and the self-pay market. With this in mind, our website is being redesigned for an improved customer experience, with a more integrated, centralised and social media-linked marketing service being developed which will improve the marketing of available market beds and services across the group.

Prospects for 2012/13

The group expects to make further improvements in its financial performance in 2012/13 by focusing on increasing the occupancy levels in market beds and maintaining a tight control of its cost base. We remain on the lookout for relatively low-risk and low-capital intensive business opportunities to further expand our operations. We also hope to launch another share incentive plan to further expand our employee shareholder base.

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

A full description of the judgements supporting the adoption of the going concern basis can be found in note 1 to the financial statements.

Directors' report

BUSINESS RISKS

1. The increasing dependency of residents

The increasing frailty of the older people referred to the group's homes under its existing local authority and NHS contracts presents a significant risk of costs outgrowing revenues. As elderly people in our care homes become more frail, best practice obliges the group to provide more hours of care in the homes. However, the local authorities and NHS trusts who have contracted with the group to provide these elderly person care services are understandably reluctant to pay more than the standard price agreed for the block contract when the price was first determined by a competitive bid.

2. The risk that bed places for sale on the open market are not filled

Approximately 56% of the group's income derives from long-term contracts with local authorities and the NHS, and is therefore secure (2011: 58%). Most of the remainder derives from the sale of bed places on the open market, with the associated risk that sales of empty bed places fall below expectation, causing a drop in revenue and resultant pressure on cash flow. The directors have mitigated this risk by developing a sales and marketing strategy across the group and ensuring that adequate management time and resources are devoted to its implementation.

3. The risk of poor performance leading to regulatory and contractual penalties

If the group is judged by a contract partner or by the regulator to be providing poor care at any of its sites, and this can be proved, then it can be liable to financial penalties under the payment mechanism. If substantial and serious, the group's reputation is damaged and this can impair growth of the business.

Any significant quality failing can also lead to a freeze in referrals into existing homes and a delay in the registration of new homes due to be commissioned. Delays in commissioning a new home adds to the cost of the development.

The group has clinical governance and training departments which exist to raise the quality of care services and thus enhance its reputation and ability to sell services, while protecting against the risks resulting from poor quality care.

4. Risks relating to the current economic climate

The current economic environment and the pressure on public sector bodies to cut costs have an impact on the group's ability to achieve annual inflationary increases in non-contracted residential and nursing fees. In many cases it was necessary to maintain the same fee levels as in the previous year, although in a small number of services modest increases were achieved.

Financial risks are described in note 1a to the financial statements on page 27.

Directors' report

BUSINESS RISKS (continued)

5. Regulatory and market risk

From time to time care industry regulators (CQC, CSSIW, Healthcare Inspectorate Wales and SCSWIS) change the regulations under which registered care operators can provide services. Altered regulations, which may be introduced within less than 12 months of initial notification of intent to change, can affect the profitability and even the commercial viability of specific care services.

A significant proportion of the market for care services in the community is funded by local authorities or the NHS. Any reduction in the volume of services which these public sector bodies are themselves funded by the Treasury to purchase is therefore a very significant risk to operators.

As well as operators being exposed to significant volume risk because of a reduction in funds allocated by the Treasury, changes are also being made to the way care services are purchased by the state on behalf of individuals. The Government's "Personalisation Agenda" aims to allocate the money to procure care directly to the recipients of this care. This "brokerage funding" is now well established in the learning disabilities sector but not yet strongly established with care services for elderly people or mental health services. The changed method of allocation represents a risk to the income presently earned from existing one- to five-year block contracts for care home places or domiciliary care services. It does, however, also create the opportunity for well-regarded services to win a greater share of their local market.

The group counters the above risks by remaining as flexible as possible in the structuring and delivery of its services and by remaining alert to potential change.

Directors' report

CARE AND HOUSING SERVICES PROVIDED

	2012			2011		
	Shaw group	Deferred assets (ii)	Total	Shaw group	Deferred assets (ii)	Total
Registered care home beds	1,982	283	2,265	1,881	283	2,164
Day care places	1,469	-	1,469	1,469	-	1,469
Domiciliary care service units (i)	610	-	610	669	-	669
Residential houses/flats	371	56	427	372	56	428
Supported living service beds	48	-	48	48	-	48

(i) 1 unit = 10 care hours per week
(ii) Deferred assets represent care homes acquired by the company from The Shaw Foundation Limited (formerly Shaw healthcare (Homes) Limited) on 1 October 2006. These assets and contracts did not transfer to the company on that date, but in most cases are expected to do so in the future subject to specific conditions being met. Further information is included in note 11 to the financial statements.

Registered care homes analysed by region

	2012				2011			
	Shaw group		Deferred assets		Shaw group		Deferred assets	
	Number of homes	Number of beds	Number of homes	Number of beds	Number of homes	Number of beds	Number of homes	Number of beds
South East	16	931	3	57	15	881	3	57
Wales & South West	8	216	3	72	11	226	3	72
Midlands	22	818	5	154	22	757	5	154
Scotland	1	17	-	-	1	17	-	-
Total	47	1,982	11	283	49	1,881	11	283

Directors' report

CARE AND HOUSING SERVICES PROVIDED (continued)

Care: Employees providing care services
RO: Employees at regional offices
HO: Employees at head office in Cardiff

Geographical analysis of employee numbers

Employees of Shaw healthcare (Group) Limited and its subsidiary undertakings:

	2012				2011			
Region	Care	RO	HO	Total	Care	RO	HO	Total
South East	1,325	10	-	1,335	1,301	13	-	1,314
Wales & South West	646	12	-	658	670	9	-	679
Midlands	1,385	16	-	1,401	1,354	19	-	1,373
Scotland	53	4	-	57	49	2	-	51
Head office								
Management of homes	-	-	97	97	-	-	101	101
Development of homes	-	-	23	23	-	-	21	21
Total	3,409	42	120	3,571	3,374	43	122	3,539

Employees of The Shaw Foundation Limited:

	2012				2011			
Region	Care	RO	HO	Total	Care	RO	HO	Total
South East	114	-	-	114	118	-	-	118
Wales & South West	149	-	-	149	148	-	-	148
Midlands	294	-	-	294	295	-	-	295
Total	557	-	-	557	561	-	-	561

Employees of The Shaw Foundation Limited in respect of deferred assets (all working within care homes) are shown above. As described in note 11, some of the deferred assets are expected to transfer to Shaw healthcare (Group) Limited in the future, at which time the relevant employees will transfer to the company.

The above figures represent total employees as at 31 March including both full-time and part-time employees.

Directors' report

CARE AND HOUSING SERVICES PROVIDED (continued)

Aggregate value of contracted income

The group has various long-term contracts for the provision of residential care services. The total value of contracted income due up to the contract expiry dates is:

	2012 £ million	2011 £ million
Total value	1,432	1,265

DIVIDENDS

The directors do not recommend the payment of a dividend for the year (2011: £nil).

DIRECTORS

The current directors of the company, who served througout the financial year unless stated otherwise, are as shown on page 3. C Jones resigned as a director on 30 November 2011 and K Martin resigned on 31 January 2012.

TAXATION STATUS

The company is a close company under the provisions of the Taxes Act 1988.

DISABLED EMPLOYEES

People with disabilities, whether registered or not, have equal opportunities when applying for vacancies, with due regard to their aptitudes and abilities. In addition to complying with legislative requirements, procedures are in place to ensure that disabled employees are fairly treated and that their training and career development needs are carefully managed. For those employees becoming disabled during the course of their employment, the group is supportive, whether through re-training or re-deployment, so as to provide an opportunity for them to remain with the group.

AUDITOR

In the case of each of the persons who are directors of the company at the date when this report is approved: so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to continue in office as the company's auditor.

Approved by the Board of Directors and signed on behalf of the Board

P J Nixey

P J Nixey

Chief Executive

27 September 2012

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.
In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Shaw healthcare (Group) Limited

We have audited the financial statements of Shaw healthcare (Group) Limited for the year ended 31 March 2012 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditor's report to the members of Shaw healthcare (Group) Limited

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's profit for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

David Hedditch

David Hedditch (senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom

28 September 2012

Consolidated profit and loss account

Year ended 31 March 2012

		2012			2011		
	Note	Before exceptional items £'000	Exceptional items (note 3) £'000	Total £'000	Before exceptional items £'000	Exceptional items (note 3) £'000	Total £'000
TURNOVER	2	84,160	874	85,034	80,924	-	80,924
Operating costs		(65,505)	-	(65,505)	(63,406)	(159)	(63,565)
GROSS PROFIT		18,655	874	19,529	17,518	(159)	17,359
Administrative expenses		(9,270)	(659)	(9,929)	(9,081)	(991)	(10,072)
OPERATING PROFIT	5	9,385	215	9,600	8,437	(1,150)	7,287
Profit on sale of tangible fixed assets	3			95			2,254
Interest receivable and similar income	4			488			235
Interest payable and similar charges	4			(6,476)			(6,498)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				3,707			3,278
Tax on profit on ordinary activities	7			(1,022)			(1,134)
PROFIT FOR THE FINANCIAL YEAR	23			2,685			2,144

All amounts derive from continuing operations.

Consolidated statement of total recognised gains and losses

Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		2,685	2,144
Actuarial (loss)/gain relating to pension schemes	30	(906)	2,106
UK deferred tax attributable to actuarial (loss)/gain	30	228	(590)
Total recognised gains relating to the year		2,007	3,660

Consolidated and company balance sheets

As at 31 March 2012

	Note	2012 Group £'000	2012 Company £'000	2011 Group £'000	2011 Company £'000
FIXED ASSETS					
Intangible assets – goodwill	10	2,459	-	2,623	-
Intangible assets – negative goodwill	10	-	(52)	-	(100)
Deferred assets	11	1,008	1,008	1,008	1,008
Tangible assets	12	81,793	2,772	83,764	2,317
Investments	13	-	4,099	-	4,098
		85,260	7,827	87,395	7,323
CURRENT ASSETS					
Stocks	14	-	-	455	-
Debtors due within one year	15	3,036	2,491	4,098	1,960
Debtors due after one year	15	269	13,388	274	13,600
Short-term investments	16	1,500	1,500	1,267	1,267
Cash at bank and in hand		25,098	3,637	19,434	2,215
		29,903	21,016	25,528	19,042
CREDITORS: amounts falling due within one year	17	(14,025)	(4,569)	(11,376)	(2,650)
NET CURRENT ASSETS		15,878	16,447	14,152	16,392
TOTAL ASSETS LESS CURRENT LIABILITIES		101,138	24,274	101,547	23,715
CREDITORS: amounts falling due after more than one year	18	(91,266)	(9,798)	(94,341)	(10,856)
PROVISIONS FOR LIABILITIES	20	(2,911)	(89)	(2,713)	(100)
PENSION LIABILITY	30	(699)	-	(267)	-
NET ASSETS		6,262	14,387	4,226	12,759
CAPITAL AND RESERVES					
Share capital	21	50	50	50	50
Other reserves	22	376	359	267	309
Profit and loss account	23	5,836	13,978	3,909	12,400
SHAREHOLDERS' FUNDS	24	6,262	14,387	4,226	12,759

The financial statements of Shaw healthcare (Group) Limited, registered number 5391089, were approved by the Board of Directors and authorised for issue on 27 September 2012. Signed on behalf of the Board of Directors

P J Nixey Chief Executive

R S Brown Group Finance Director

Consolidated cash flow statement

Year ended 31 March 2012

	Note	2012 £'000	2011 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	16,108	11,598
Returns on investments and servicing of finance	26	(6,168)	(7,026)
Taxation	26	(590)	(409)
Capital expenditure and financial investment	26	(869)	1,418
CASH INFLOW BEFORE FINANCING		8,481	5,581
Financing	26	(2,584)	(4,199)
INCREASE IN CASH IN THE YEAR	27	5,897	1,382

Notes to the financial statements

Year ended 31 March 2012

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, which have been applied consistently throughout the current and the prior financial year, are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the business review in the Directors' Report. In addition, note 1a to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

Approximately 56% of the group's operating income derives from long-term contracts with local authorities and NHS trusts, and is therefore secure. Most of the remainder derives from the sale of bed places on the open market, with the associated risk that sales of empty bed places fall below expectation, causing a drop in revenue and resultant pressure on cash flow. The directors have mitigated this risk by developing a sales and marketing strategy across the group and ensuring that adequate management time and resources are devoted to its implementation.

The group bears the risk of cost inflation although this is partly offset by annual indexation clauses in its long-term contracts. The group also bears the risk of poor cost control, especially in relation to staff costs and other direct costs such as food, energy, medical and cleaning supplies. This risk is mitigated through a comprehensive framework of controls and performance indicators and by entering into fixed price agreements where possible and appropriate.

The company and several of its subsidiaries are subject to bank covenant tests which are monitored regularly by management. With two exceptions, all tests have been, and are projected to be, achieved with adequate headroom. The exceptions relate to those businesses operating properties in Pembroke, and are described below.

Shaw (Pembroke) Specialist Services Limited reported operating losses for the year due to the facility not achieving the level of occupancy that was expected. This resulted in a breach of the combined banking covenants, incorporating the results of Surehaven (Pembroke) Limited, when they were first tested on 31 March 2011 and quarterly thereafter. The company's bankers have issued covenant deferral letters in respect of these tests, and subsequently have reset the covenants which will be tested for the first time on 30 September 2012. In May 2011 the directors took the decision to close the company's care facility for the foreseeable future while considering the future of the business. Consequently the revised covenant tests will be breached, although the directors consider it likely that further covenant deferral letters will be issued by the bank. Whilst these circumstances create material uncertainties over the availability of finance, the company can rely on short-term support from the group to meet operating cash flow requirements, and a written letter of support, up to a maximum of £310,000 for the period 12 months after the date of signing, to this effect has been received from Shaw healthcare (Group) Limited. The group's formal commitment is to guarantee loan interest but not capital repayments.

Notes to the financial statements Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Going concern (continued)

Surehaven (Pembroke) Limited reported operating losses for the year due to the facility not achieving the level of occupancy that was expected, although losses were significantly less than in the prior year due to occupancy improving during the course of the year. The combined banking covenants, incorporating the results of Shaw (Pembroke) Specialist Services Limited, were breached when they were first tested on 31 March 2011 and quarterly thereafter. The company's bankers have issued covenant deferral letters in respect of these tests, and subsequently have reset the covenants which will be tested for the first time on 30 September 2012. The revised covenants are still expected to be breached, although the directors consider it likely that further covenant deferral letters will be issued by the bank. Whilst these circumstances create material uncertainties over the availability of finance, the company can rely on short-term support from the group to meet operating cash flow requirements, and a written letter of support to this effect has been received from Shaw healthcare (Group) Limited. The group's formal commitment is to guarantee loan interest but not capital repayments.

In last year's report we referred to Surehaven Glasgow Limited, a subsidiary company whose business is to operate a low-secure hospital in Glasgow, expecting to breach its banking covenants when they were first tested on 30 September 2011. However, during the year the company's bankers agreed to defer the first covenant tests until September 2012, and to amend the requirements of those tests. Taking into account the company's improved recent and forecast financial performance, the directors are confident that the revised covenant tests will be met with adequate headroom.

The directors have considered the current and forecast performance of the remainder of the Shaw business and, in particular, the ability of the business to fund the operations of the entities described above. The directors have concluded that, while the circumstances described above represent material uncertainty in the accounts of the respective subsidiary companies, they do not affect the ability of the group as a whole to continue as a going concern.

Where compliance with loan covenants is achieved with minimal headroom, as is the case with those businesses running properties in Hereford and Wraxall, the group has the ability to improve cash flow through deferring the payment of inter-company fees and lending cash to the affected subsidiary. The majority of the property-owning subsidiaries have their own banking facilities and the security on these loans is ring-fenced from the rest of the group. These arrangements provide a degree of protection to the rest of the group as a last resort in the unlikely scenario that any of these individual businesses were to fail.

At 31 March 2012 the group held £7,632,000 of cash and £1,500,000 of fixed term deposits outside ring-fenced companies. In total the group held £25,098,000 of cash and £1,500,000 of fixed term deposits. The strong cash position has been achieved as a result of continued tight control of working capital and the ongoing strategy to dispose of non-core assets which gives the group the flexibility to address its business risks, reduce its indebtedness and invest in suitable new opportunities.

The directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings up to 31 March. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

1. ACCOUNTING POLICIES (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Deferred assets

Deferred assets represent net assets acquired by the company from The Shaw Foundation Limited (formerly Shaw healthcare (Homes) Limited) on 1 October 2006. These assets and contracts did not transfer to the company on that date, but were expected to do so in the future subject to specific conditions being met. An agreement exists between the company and The Shaw Foundation whereby the company enjoys the benefits and bears the burdens of these deferred assets until the date of transfer.

On 3 January 2012 the directors signed a deed of amendment (the Deed) varying the original terms of the business transfer agreement between the company and The Shaw Foundation in respect of the clauses relating to the deferred assets. The effect of the Deed was to classify the deferred assets as either "ten year assets" – being those facilities which are expected to transfer to the company in the future as originally intended – or "trust assets" – being those assets which, for legal and commercial reasons, are not expected to transfer but which, while operational, will continue to be run by The Shaw Foundation under existing arrangements with benefits and burdens passing to the company as described above.

Liability for maintenance costs

The liability for the cost of maintenance is recognised in the accounting period in which the work is carried out.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of tangible fixed assets other than freehold land, less any estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold land - Nil

Freehold buildings - 1.67%-10% straight-line

Long leasehold land and buildings - Over the shorter of the lease term or 50 years

Furniture and equipment - 20%-33.3% straight-line

Capitalised development costs - Annuity basis over 30 years

For buildings, depreciation is charged from the date the buildings were first put into use or, in the case of care homes, the date of registration.

For capitalised development costs, depreciation is charged from the date of completion of the construction project to which the development costs relate.

No depreciation is charged on assets in the course of construction. Assets are transferred from this category into the appropriate asset class on completion of the construction stage.

Notes to the financial statements
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Fixed asset investments
Fixed asset investments are shown at cost less provision for impairment.

Pension costs
For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. Interest costs, net of the expected return on assets, are included within finance charges in the profit and loss account. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leases
Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Derivative financial instruments
Interest rate swaps are disclosed at the balance sheet date at the fair value of the swap as valued by the loan finance provider.

Finance costs
Finance costs of financial liabilities are recognised in the profit and loss account over the term of such instruments at a constant rate of the carrying amount.

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Revenue recognition
The group recognises revenue as care is provided for non-contracted market beds and as it is made available for contracted block beds.

Development fees charged in respect of new contracts are recognised in the year that staff costs and overheads are charged to the profit and loss account. The development fees are allocated under “Housing and management services fees” in note 2.

Sales of residential properties which were constructed solely for resale are recorded as property sales in turnover. Revenue is recognised at the point of unconditional exchange of contracts.

Other reserves
Amounts are transferred from the profit and loss reserve to other reserves to reflect the intention of the group to carry out certain major repairs or replacement of equipment in the future where it is not appropriate to recognise a liability for the expense at the balance sheet date.

Notes to the financial statements
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Development contracts and stocks

All costs incurred on the development of new schemes are charged to the profit and loss account in the year in which they are incurred until the scheme is considered certain to proceed, at which point the costs are capitalised. Development work in progress is valued at the lower of cost and net realisable value.

Costs incurred on the development of extra-care flats are capitalised as tangible fixed assets in the course of construction until complete, at which point they are transferred to current asset stocks before being sold as part of operating activities.

Share-based payment – company share option plan

The company operates an equity-settled company share option plan for certain directors and employees. Equity-settled share-based payments arising from this plan are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Fair value is measured using the Black-Scholes pricing model. Expected volatility used in the model is determined by considering the potential change in value of the company's shares in the future based on management's best estimate of future performance. The expected life used in the model is management's best estimate taking into consideration expected future performance and behavioural considerations.

At each balance sheet date, the company revises its estimate of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and makes a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. The last options were granted in May 2011.

Share-based payment – share incentive plan

The company operates an equity-settled share incentive plan whereby all qualifying employees receive an entitlement to free shares subject to certain conditions being met. Where material, the company recognises the fair value of free shares issued in the profit and loss account, and makes a corresponding adjustment to equity.

Notes to the financial statements
Year ended 31 March 2012

1a. FINANCIAL RISK MANAGEMENT

Quality risk

Most of the group's income derives from long-term contracts with local authorities and NHS trusts, with the balance deriving from the sale of care home places, extra-care flats and services on the open market. Any shortcoming in the quality of care services places this income at risk: either because contracted income reduces if key performance indicator targets are not met or because a home with a failing reputation is unlikely to attract new business.

The main threat to quality is not being able to recruit and retain employees of a sufficient calibre. This risk is managed by intensive training of employees at every level.

Credit risk

The credit risk on liquid funds and derivative financial instruments is reduced because the group uses a number of banks with high credit-ratings assigned by international credit-rating agencies.

Most of the group's income derives from long-term contracts with public sector organisations; as such, the recoverability of amounts due is judged to be subject to low risk. The group has no significant concentration of credit risk with the balance of its income derived from the open market, with exposure spread over a number of counterparties and customers. Debtor amounts presented in the balance sheet are net of allowances for bad debts.

Some of the bank loan agreements entered into by the group include covenant tests which must be met under the terms of the agreement. Covenants are monitored on an ongoing basis using actual and forecast financial information in order to ensure compliance.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the group uses a mixture of long-term and short-term debt finance.

Price risk

As a significant proportion of the group's income derives from long-term contracts with public sector organisations, most of its income will not be subject to fluctuations in market price. Annual indexation increases are applied as per the terms of the contract. This also guarantees a certain percentage of the group's income regardless of actual occupancy levels. However, the proportion of the group's income that does not derive from long-term contracts is subject to economic and political factors such as the current pressure on public sector bodies to cut costs. This has an impact on the group's ability to achieve annual inflationary increases.

Income derived from the selling of care home places and services on the open market will generally be at rates in excess of those contracted with public sector organisations.

Volume risk

Where care home places on the external market are vacant the group bears the related fixed costs, resulting in an adverse financial impact if sales of beds fall below expectations. The group has put in place a management structure which mitigates this risk by ensuring that sufficient commercial emphasis is placed on the selling of care home places on the external market.

In respect of sales of extra-care flats, the group bears the risk that completed flats are not sold in anticipated volumes. This risk is mitigated as much as is possible with marketing strategies and advance planning.

Interest rate risk

The group's interest rate risk arises from borrowings issued at variable rates that expose the group to interest rate cash flow risk. Where significant, this risk is managed through the use of interest rate swaps.

Defined benefit schemes

As described in note 30, the group participates in six defined benefit schemes which have a pension liability of £699,000 at 31 March 2012 (2011: £267,000). For existing schemes, the group employs actuaries and investment managers to manage the risks as far possible. When assessing prospective new business opportunities, the board of directors takes into account the level of risk associated with participation in a defined benefit pension scheme.

Notes to the financial statements
Year ended 31 March 2012

2. TURNOVER

The turnover shown in the profit and loss account arises wholly in the United Kingdom and represents amounts earned during the year, exclusive of Value Added Tax.

	2012 £'000	2011 £'000
Care home residential fees	71,020	67,849
Domiciliary care fees	4,847	3,804
Housing and management services fees	3,171	2,900
Service contract income	2,157	2,076
Other income	2,439	3,624
Property sales	523	671
Grants received	3	-
Total excluding exceptional item	84,160	80,924
Exceptional item (note 3)	874	-
	85,034	80,924

3. EXCEPTIONAL ITEMS

Exceptional items reported within operating profit

	2012 £'000	2011 £'000
Reported within turnover		
Income relating to deferred assets (i)	874	-
Reported within operating costs		
Restructuring costs	-	(93)
Adjustment to net realisable value of stocks of extra-care flats	-	(66)
	-	(159)
Reported within administrative expenses		
Impairment of tangible fixed assets (ii)	(412)	(991)
Stamp Duty Land Tax (iii)	(247)	-
	(659)	(991)

3. EXCEPTIONAL ITEMS (continued)

Exceptional items reported within operating profit (continued)

(i) Income of £874,000 was received from The Shaw Foundation during the year ending March 2012 relating to a change in the way that the Group's income is calculated for the deferred assets held on its behalf by The Shaw Foundation (described further in note 11). The exceptional credit recorded in turnover relates to the one-off income generated from the retrospective application of the revised calculation method back to the original agreement in October 2006.

(ii) An impairment charge of £412,000 was recognised during the year (2011: £991,000) in respect of the two freehold facilities at Pembroke Dock. The impairment charge recognised takes into account an external valuation performed in 2012 along with a revised discounted cash flow forecast.

(iii) A charge of £247,000 was recognised during the year (2011: £nil) in respect of penalties, interest and professional fees incurred in relation to a backdated Stamp Duty Land Tax (SDLT) payment made during the year. The SDLT payment, which amounted to £282,000, relates to the acquisition of the trade and assets of The Shaw Foundation in October 2006, and is included within fixed asset additions in the year shown in note 12 to the financial statements.

Exceptional item reported after operating profit

The profit on sale of tangible fixed assets of £95,000 relates to the disposal of part of the freehold land at Lancum House in Wellingborough.

The effect of the exceptional item reported after operating profit on the amounts charged to the profit and loss account for taxation was:

	2012 £'000	2011 £'000
Tax on profit on sale of tangible fixed assets	25	621

4. FINANCE CHARGES

	2012 £'000	2011 £'000
Interest receivable and similar income		
Investment income	81	68
Net finance charges relating to defined benefit pension scheme	407	167
	488	235
Interest payable and similar charges		
On bank loans, overdraft and other loans	(6,476)	(6,498)

Notes to the financial statements
Year ended 31 March 2012

5. OPERATING PROFIT

Operating profit is stated after charging:

	2012 £'000	2011 £'000
Depreciation of tangible fixed assets - owned assets	2,523	2,375
Amortisation of goodwill	164	164
Operating leases - other	417	326
Operating leases - plant and machinery	849	822

The analysis of auditor's remuneration is as follows:

	2012 £'000	2011 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	47	47
Fees payable to the company's auditor and associates for other services to the group		
- The audit of the company's subsidiaries pursuant to legislation	31	32
Total audit fees	78	79
Other services	4	8
Total non-audit fees	4	8
Fees payable to the company's auditor and associates in respect of associated pension schemes	5	5

The disclosures above are for the group. The company is not required, in its individual financial statements, to disclose separately information about fees for non-audit services provided to the company because the consolidated financial statements are required to disclose such fees on a consolidated basis.

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2012 £'000	2011 £'000
Wages and salaries	49,629	45,149
Social security costs	3,149	3,325
Other pension costs	933	763
Share-based payments (note 9)	29	14
	53,740	49,251

The average number of persons employed by the group (including part-time employees) was:

	No.	No.
Administration	332	338
Provision of care and related services	2,933	3,033
	3,265	3,371

	2012 £'000	2011 £'000
Directors' remuneration		
Emoluments	868	663
Compensation for loss of office	-	73
Company contributions to money purchase schemes	57	55
	925	791

	2012 £'000	2011 £'000
Remuneration of the highest paid director		
Emoluments	202	193
Company contributions to money purchase schemes	20	20
	222	213

	No.	No.
Number of directors who		
Are members of a money purchase pension scheme	5	5
Had awards receivable in the form of shares under a long-term incentive scheme	6	-

Notes to the financial statements
Year ended 31 March 2012

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2012 £'000	2011 £'000
Current taxation - United Kingdom corporation tax:		
Current tax on income for the year at 26% (2011: 28%)	840	870
Adjustments relating to prior years	(109)	(24)
Total current tax	731	846
Deferred tax		
Origination and reversal of timing differences	317	276
Adjustments relating to prior years	(26)	12
Total deferred tax	291	288
Total tax charge for the year	1,022	1,134

The difference between the current taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	3,707	3,278
Tax on profit on ordinary activities before tax at 26% (2011: 28%)	964	918
Factors affecting the current tax charge for the year		
Capital allowances in excess of depreciation	-	(68)
Depreciation in excess of capital allowances	10	-
Difference between accounting profit and chargeable gain on asset disposal	-	(10)
Expenses not allowed for tax purposes	85	87
Utilisation of losses brought forward	(249)	(199)
Pre-trading expenditure deductible	-	(118)
Impairment of fixed assets	107	296
Adjustments in respect of prior years	(109)	(24)
Other timing differences	(77)	(36)
Current tax charge for the year	731	846

Taxable losses of £6,000,000 (2011: £8,596,000) have been carried forward to set off against future profits.

A deferred tax asset of £115,000 (2011: £157,000) has not been recognised in respect of tax losses carried forward and short-term timing differences. This asset has not been recognised as there is insufficient evidence that the asset can be utilised in the foreseeable future.

The forthcoming changes in the corporation tax rate from 26% to 23% in future years are not expected to materially affect the future tax charge.

8. PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt with in the financial statements of the parent company was £1,606,000 (2011: £3,019,000). As permitted by s408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent company.

9. SHARE-BASED PAYMENTS

Equity-settled company share option plan

The company set up a company share option plan in April 2009 for certain directors and employees. Options are exercisable at £0.004, which is the estimated fair value of the company's shares on the date of the grant.

The total number of options granted was 16,960,000. The options vest in four annual tranches beginning on 1 March 2009 and on the anniversary of this date thereafter, ending on 1 March 2012. The grant of each tranche of options is conditional on participating directors and employees being employed on the relevant vesting anniversary. There are no other performance conditions attached to the options.

Details of the share options outstanding during the year are as follows:

	2012		2011	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at 1 April	11,840,000	0.004	16,460,000	0.004
Granted during the year	11,000,000	0.004	-	-
Exercised during the year	-	-	(1,510,000)	0.004
Forfeited during the year	(2,307,500)	0.004	(3,010,000)	0.004
Expired during the year	-	-	(100,000)	0.004
Outstanding at 31 March	20,532,500	0.004	11,840,000	0.004
Exercisable at 31 March	1,862,500	0.004	-	-

9. SHARE-BASED PAYMENTS (continued)

The share options granted during the year were valued at £0.004. This was done using the Black-Scholes model with the following assumptions:

	2012	2011
Share value	£0.004	£0.004
Option exercise price	£0.004	£0.004
Expected volatility	1,000%	1,000%
Expected life	10 years	10 years
Expected dividend	£nil	£nil
Risk-free interest rate	3.35%	3.35%

Expected volatility was determined by considering the potential change in value of the company's shares in the future based on management's best estimate of future performance. The expected life used in the model is management's best estimate taking into consideration expected future performance and behavioural considerations.

Based on the above valuation, the company recognised total expenses of £29,000 related to equity-settled share-based payments in 2012 (2011: £14,000).

Equity-settled share incentive plan

In January 2010 the company set up an equity-settled share incentive plan whereby all qualifying employees received an entitlement to free shares which vest over a three-year period or sooner in certain circumstances. In the year ended 31 March 2010, 1,500,000 shares were issued valued at £0.004. Based on this valuation, the fair value of grant of shares was negligible, and accordingly no cost was recognised in the profit and loss account in that year. No shares were issued during the year ended 31 March 2012 or the year ended 31 March 2011.

10. INTANGIBLE FIXED ASSETS – GOODWILL

	Group			Company		
	Positive goodwill £'000	Negative goodwill £'000	Total £'000	Positive goodwill £'000	Negative goodwill £'000	Total £'000
Cost						
At 1 April 2011 and 31 March 2012	3,534	-	3,534	-	(316)	(316)
Amortisation						
At 1 April 2011	(911)	-	(911)	-	216	216
Charge for the year	(164)	-	(164)	-	48	48
At 31 March 2012	(1,075)	-	(1,075)	-	264	264
Net book value						
At 31 March 2012	2,459	-	2,459	-	(52)	(52)
At 31 March 2011	2,623	-	2,623	-	(100)	(100)

11. DEFERRED ASSETS

On 1 October 2006 the company completed the acquisition of virtually the entire business of The Shaw Foundation Limited (then called Shaw healthcare (Homes) Limited) which included its care homes and the benefits and burdens of the contracts it had with local authorities and the NHS to develop and operate these facilities and services, and associated employees at home and head office level.

Although the entire sale was completed on 1 October 2006, some assets and contracts did not transfer to the company on that date as they were subject to specific conditions being met. The consideration for such assets and contracts is referred to as deferred assets. An agreement exists between the company and The Shaw Foundation whereby the company enjoys the benefits and bears the burdens of these deferred assets until the date of transfer.

On 3 January 2012 the directors signed a deed of amendment (the Deed) varying the original terms of the business transfer agreement between the company and The Shaw Foundation in respect of the clauses relating to the deferred assets. The effect of the Deed was to classify the deferred assets as either "ten year assets" – being those facilities which are expected to transfer to the company in the future as originally intended – or "trust assets" – being those assets which, for legal and commercial reasons, are not expected to transfer but which, while operational, will continue to be run by The Shaw Foundation under existing arrangements with benefits and burdens passing to the company as described above. Deferred assets amounting to £1,008,000 (2011: £1,008,000) are included under fixed assets.

Notes to the financial statements
Year ended 31 March 2012

12. TANGIBLE FIXED ASSETS

Group	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Capitalised development costs £'000	Furniture and equipment £'000	Total £'000
Cost					
At 1 April 2011	60,237	28,361	823	5,352	94,773
Additions in the year	433	-	-	531	964
At 31 March 2012	60,670	28,361	823	5,883	95,737
Depreciation					
At 1 April 2011	4,078	3,794	61	3,076	11,009
Charge for the year	1,230	557	32	704	2,523
Impairment loss (note 3)	412	-	-	-	412
At 31 March 2012	5,720	4,351	93	3,780	13,944
Net book value					
At 31 March 2012	54,950	24,010	730	2,103	81,793
At 31 March 2011	56,159	24,567	762	2,276	83,764

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £6,827,000 (2011: £6,529,000). Capitalised finance costs written off in the profit and loss account during the year amounted to £308,000 (2011: £224,000).

An impairment charge of £412,000 was recognised during the year (2011: £991,000) in respect of the two freehold facilities at Pembroke Dock. The impairment charge recognised takes into account an external valuation performed in 2012 along with a revised discounted cash flow forecast.

12. TANGIBLE FIXED ASSETS (continued)

Company	Freehold land and buildings £'000	Furniture and equipment £'000	Total £'000
Cost			
At 1 April 2011	2,434	704	3,138
Additions in the year	371	349	720
Disposals in the year	-	(13)	(13)
At 31 March 2012	2,805	1,040	3,845
Depreciation			
At 1 April 2011	367	454	821
Charge for the year	140	120	260
Disposals in the year	-	(8)	(8)
At 31 March 2012	507	566	1,073
Net book value			
At 31 March 2012	2,298	474	2,772
At 31 March 2011	2,067	250	2,317

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £406,000 (2011: £157,000). Capitalised finance costs of £76,000 were written off in the profit and loss account during the year (2011: £8,000).

13. FIXED ASSET INVESTMENTS

Company	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2011	4,217
Additions in the year	1
At 31 March 2012	4,218
Provision for impairment	
At 1 April 2011 and 31 March 2012	119
Net book value	
At 31 March 2012	4,099
At 31 March 2011	4,098

13. FIXED ASSET INVESTMENTS (continued)

Principal group investments

The parent company and the group have investments in the following subsidiary undertakings:

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
Shaw healthcare Limited	England and Wales	Provision of care services to other Shaw companies and external clients	£1 ordinary shares	100
Shaw healthcare (FM Services) Limited	England and Wales	Provision of facilities management services to other Shaw companies and external clients	£1 ordinary shares	100
Shaw healthcare (Specialist Services) Limited	England and Wales	Development and operation of care homes for people with very challenging care needs	£1 ordinary shares	100
Shaw healthcare (Herefordshire) Limited	England and Wales	Taking over management then redeveloping six Herefordshire County Council (HCC) care homes, providing care and day care services under a 30-year contract with HCC; also the development of extra-care flats for sale and rental	£1 ordinary shares	100
Shaw healthcare (Developments) Limited	England and Wales	Purchase and development of land and facilities	£1 ordinary shares	100
Shaw healthcare (Ledbury) Limited	England and Wales	Development and operation of a community healthcare facility (GP surgery plus 24/7 minor injury service, NHS outpatients facility and inpatients beds) under a 25-year contract with Herefordshire Primary Care Trust together with nursing home and acquired brain injury unit	£1 ordinary shares	100
Shaw healthcare (Managed Services) Limited	England and Wales	Provision of management services to other Shaw companies and external clients	£1 ordinary shares	100
Shaw Community Services Limited	England and Wales	Provision of domiciliary care and supported living services under contract to local authorities and as requested by individuals	£1 ordinary shares	100

13. FIXED ASSET INVESTMENTS (continued)

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
Shaw healthcare (Barton) Limited	England and Wales	Development and operation of a community healthcare facility (GP surgery and NHS outpatients facility plus inpatient beds) under a 30-year contract with East Staffordshire Primary Care Trust plus development and sale of extra-care flats	£1 ordinary shares	100
Shaw healthcare (de Montfort) Limited	England and Wales	Taking over management then redeveloping seven Northamptonshire County Council (NCC) care homes, providing care services under a 30-year contract with NCC	£1 ordinary shares	100
Shaw healthcare (Northamptonshire) Limited	England and Wales	Development and management of four specialist reablement day and care centres under a 25-year PFI contract with Northamptonshire County Council	£1 ordinary shares	100
Shaw healthcare (North Somerset) Limited	England and Wales	Taking over management then redeveloping two North Somerset County Council (NSCC) care homes, providing care and day care services under a contract with NSCC	£1 ordinary shares	100
Surehaven Limited	England and Wales	The development of specialist care in medium and low secure private hospitals	£1 ordinary shares	100
Shaw healthcare (West Sussex) Limited	England and Wales	Taking over management of 16 West Sussex County Council (WSCC) care homes and building 12 new care homes providing care and day care services under a 30-year contract with WSCC	£1 ordinary shares	100
Shaw healthcare (Wraxall) Limited	England and Wales	Development and operation of a residential, nursing and specialist care complex under a contract with North Somerset County Council	£1 ordinary shares	100

Notes to the financial statements
Year ended 31 March 2012

13. FIXED ASSET INVESTMENTS (continued)

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
Shaw (Pembroke) Specialist Services Limited	England and Wales	Development and operation of care homes for people with very challenging care needs	£1 ordinary shares	100 (i)
Surehaven (Pembroke) Limited	England and Wales	The development of specialist care in medium- and low-secure private hospitals	£1 ordinary shares	100 (i)
Surehaven Glasgow Limited	England and Wales	The development of specialist care in medium- and low-secure private hospitals	£1 ordinary shares	100 (i)
Shaw Support Services Limited	England and Wales	Provision of domiciliary care and supported living services under contract to local authorities	£1 ordinary shares	100
My Care My Home Limited	England and Wales	Provision of care advice and other care-related services	£1 ordinary shares	100
Surehaven (Leicester) Limited	England and Wales	Non-trading	£1 ordinary shares	100 (i)

(i) Wholly owned by a subsidiary of the parent company.

14. STOCKS

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Work in progress	-	-	7	-
Extra-care flats held for resale	-	-	448	-
	-	-	455	-

15. DEBTORS

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Amounts falling due within one year				
Trade debtors	1,926	602	2,679	339
Amounts owed by group undertakings	-	1,076	-	1,208
Taxation and social security	-	282	-	-
Other debtors and prepayments	1,110	531	1,419	413
	3,036	2,491	4,098	1,960

Amounts falling due after more than one year				
Prepaid consideration	269	-	274	-
Amounts owed by group undertakings	-	13,388	-	13,600
	269	13,388	274	13,600

16. SHORT-TERM INVESTMENTS

Short-term investments of £1,500,000 (2011: £1,267,000) represent monies placed on a one year fixed term deposit with Santander.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	2,336	307	2,303	287
Other loans	828	752	68	-
Trade creditors	1,851	1,138	1,546	253
Amounts owed to group undertakings	-	105	-	619
Taxation and social security	2,121	562	2,065	569
Other creditors	1,105	235	598	132
Accruals and deferred income	5,784	1,470	4,796	790
	14,025	4,569	11,376	2,650

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	76,732	6,792	79,049	7,098
Other loans	9,525	3,006	10,585	3,758
Other creditors	5,009	-	4,707	-
	91,266	9,798	94,341	10,856

19. BORROWINGS

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	79,068	7,099	81,352	7,385
Other loans	10,353	3,758	10,653	3,758
	89,421	10,857	92,005	11,143
Due within one year	3,164	1,059	2,371	287
Due after more than one year	86,257	9,798	89,634	10,856
	89,421	10,857	92,005	11,143

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
a) Bank loans				
In less than one year	2,336	307	2,303	287
Between one and two years	2,366	327	2,357	306
Between two and five years	8,597	1,117	7,623	1,047
Over five years	65,769	5,348	69,069	5,745
	79,068	7,099	81,352	7,385

A total of 13 bank loans is secured over 27 separate properties, the group's remaining portfolio of residential houses in South Wales and its property sale proceeds bank account. The loans are repayable in instalments over periods from one to 24 years. Interest charged during the year ranged from 2.54% to 6.28%. The loans are due to be repaid between 2012 and 2036.

19. BORROWINGS (continued)

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
b) Other loans				
In less than one year	828	752	68	-
Between one and two years	905	752	828	752
Between two and five years	2,627	2,254	2,771	2,255
Over five years	5,993	-	6,986	751
	10,353	3,758	10,653	3,758

A total of five other loans is secured over 13 separate properties and repayable in instalments over periods from four to 26 years. Interest charged during the year ranged from 2.75% to 15%. The loans are due to be repaid between 2016 and 2038.

20. PROVISIONS FOR LIABILITIES

	Group			Company		
	Included in provisions £'000	Included in pension liability (note 30) £'000	Total £'000	Included in provisions £'000	Included in pension liability (note 30) £'000	Total £'000
Deferred taxation						
At 1 April 2011	2,592	(104)	2,488	(21)	-	(21)
Charged/(credited) to the profit and loss account	205	86	291	(3)	3	-
Credited to the statement of total recognised gains and losses	-	(228)	(228)	-	(3)	(3)
At 31 March 2012	2,797	(246)	2,551	(24)	-	(24)
Dilapidation provision						
At 1 April 2011	121	-	121	121	-	121
Credited to the profit and loss account	(7)	-	(7)	(8)	-	(8)
At 31 March 2012	114	-	114	113	-	113
Total provisions for liabilities	2,911	(246)	2,665	89	-	89

20. PROVISIONS FOR LIABILITIES (continued)

Deferred taxation

The amounts of deferred taxation provided/(recognised) at 26% (2011: 28%) in the financial statements are as follows:

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Capital allowances in excess of depreciation	4,573	-	4,803	-
Depreciation in excess of capital allowances	(70)	(19)	(63)	(18)
Other timing differences	(413)	(5)	(412)	(3)
Tax losses carried forward	(1,293)	-	(1,736)	-
	2,797	(24)	2,592	(21)

Dilapidation provision

The dilapidation provision relates to Red Hill Care Centre, a leasehold property. Under the terms of the lease, repair work will have to be undertaken, in addition to that charged to the profit and loss account, in order to maintain the property to the required standard, as requested by the lessor.

21. SHARE CAPITAL

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Allotted, called up and fully paid				
100 million ordinary shares of £0.0005 each	50	50	50	50

22. OTHER RESERVES

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	267	309	152	259
Transferred from profit and loss account	109	50	115	50
At 31 March	376	359	267	309

23. PROFIT AND LOSS ACCOUNT

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	3,909	12,400	350	9,433
Profit for the financial year	2,685	1,606	2,144	3,019
Credit to equity for equity-settled share-based payments	29	29	14	14
Actuarial (losses)/gains net of deferred tax	(678)	(7)	1,516	(16)
Transferred to other reserves	(109)	(50)	(115)	(50)
At 31 March	5,836	13,978	3,909	12,400

24. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	4,226	12,759	552	9,742
Profit for the financial year	2,685	1,606	2,144	3,019
Credit to equity for equity-settled share-based payments	29	29	14	14
Actuarial (losses)/gains net of deferred tax	(678)	(7)	1,516	(16)
At 31 March	6,262	14,387	4,226	12,759

Notes to the financial statements
Year ended 31 March 2012

25. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2012 £'000	2011 £'000
Operating profit	9,600	7,287
Depreciation	2,523	2,375
Impairment loss	412	991
Amortisation of goodwill	164	164
Decrease in stocks	455	608
Decrease in debtors	1,067	707
Increase/(decrease) in creditors	1,791	(650)
(Decrease)/increase in provisions	(7)	12
Surplus of pension charge over contributions paid	74	90
Share-based payments	29	14
Net cash inflow from operating activities	16,108	11,598

26. ANALYSIS OF CASH FLOWS

	2012 £'000	2011 £'000
Returns on investments and servicing of finance		
Interest received	81	68
Interest paid	(6,249)	(7,094)
	(6,168)	(7,026)
Taxation		
UK corporation tax paid	(590)	(409)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(964)	(1,098)
Receipts from sale of tangible fixed assets	95	2,516
	(869)	1,418
Financing		
Loans received in the year	-	1,557
Loans repaid in the year	(2,584)	(5,756)
	(2,584)	(4,199)

Notes to the financial statements
Year ended 31 March 2012

27. ANALYSIS AND RECONCILIATION OF NET DEBT

	At 1 April 2011 £'000	Cash flows £'000	At 31 March 2012 £'000
Cash at bank and in hand	19,434	5,664	25,098
Short-term investments	1,267	233	1,500
	20,701	5,897	26,598
Debt due within one year	(2,371)	(793)	(3,164)
Debt due after more than one year	(89,634)	3,377	(86,257)
	(92,005)	2,584	(89,421)
Net debt	(71,304)	8,481	(62,823)

28. FINANCIAL COMMITMENTS

Operating leases

At 31 March, the group and company had annual commitments under non-cancellable operating leases as follows:

Leases which expire	2012 £'000	2011 £'000
Buildings		
Within one year	-	265
Within two to five years	188	117
After more than five years	310	-
	498	382
Other		
Within one year	68	99
Within two to five years	652	529
	720	628

Purchase of Homefield House

On 27 March 2007 the company entered into an agreement with The Shaw Foundation which conferred on the company the option to purchase Homefield House, a registered care home owned and operated by The Shaw Foundation. The consideration for the purchase was fixed at £1,560,000, of which £312,000 was paid at the time of entering into the agreement. The option is effective until 30 September 2012.

Under the same agreement, if the above option expires without being exercised then The Shaw Foundation may require the company to purchase Homefield House for the same consideration within 30 days of the end of the option period described above.

The payment of £312,000 already made is included in debtors falling due within one year on the basis that, in the event that neither option is exercised, The Shaw Foundation will repay this amount to the company.

29. INTEREST RATE SWAP AGREEMENTS

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Interest paid	2,180	303	2,273	300

Interest rate swap agreements based on floating LIBOR have been entered into by the following group companies:

- Shaw healthcare (Group) Limited;
- Shaw healthcare (Ledbury) Limited;
- Shaw healthcare (Northamptonshire) Limited;
- Shaw healthcare (Barton) Limited;
- Shaw healthcare (Wraxall) Limited;
- Shaw healthcare (Herefordshire) Limited;
- Shaw (Pembroke) Specialist Services Limited;
- Surehaven (Pembroke) Limited; and
- Surehaven Glasgow Limited.

Interest rates are fixed at rates ranging from 4.58% to 6.72% (excluding margin). The agreements expire between 30 September 2014 and 31 March 2035. The aggregate of the fair values of the agreements at 31 March 2012 was a liability of £11,315,000 (2011: £5,878,000). The fair value of the agreement held by the parent company at 31 March 2012 was a liability of £1,511,000 (2011: £796,000).

30. DEFINED BENEFIT SCHEMES

The group participates in the following defined benefit schemes:

- Northamptonshire County Council Pension Fund;
- Worcestershire County Council Pension Fund;
- West Sussex County Council Pension Fund;
- Avon Pension Fund;
- Shaw healthcare (Group) Pension Fund; and
- Greater Manchester Pension Fund.

An approximate roll forward of the liabilities of the schemes as at 31 March 2012 has been made by an actuary, taking into account known member movements and other cash flows over the period. The results of this are summarised below.

	2012	2011
Principal actuarial assumptions at the balance sheet date		
Discount rate	4.90%	5.50%
Price inflation	2.50%	2.90%
Rate of increase in salaries	2.70%	3.10%
Rate of increase for pensions in payment - current pensioners	2.50%	2.90%
Rate of increase for pensions in payment - current active and deferred members	2.50%	2.90%
Post retirement mortality (life expectancy)		
Current pensioners age 65 - males	22.2	22.7
Current pensioners age 65 - females	24.2	25.6
Future pensioners age 65 (currently age 45) - males	23.9	25.0
Future pensioners age 65 (currently age 45) - females	26.2	28.0
Expected return on assets		
Equities	7.0%	7.5%
Bonds	4.0%	5.5%
Other bonds	4.0%	5.5%
Property	5.0%	5.5%
Cash	3.0%	1.0%
Other	7.0%	4.0%

	£'000	£'000
Amounts recognised in the balance sheet		
Fair value of scheme assets	23,706	22,606
Present value of scheme liabilities	(23,070)	(20,912)
Surplus in schemes	636	1,694
Pension assets not recognised in respect of schemes in surplus	(1,581)	(2,065)
Gross pension liability recognised	(945)	(371)
Related deferred tax asset	246	104
Net pension liability recognised	(699)	(267)

30. DEFINED BENEFIT SCHEMES (continued)

	2012 £'000	2011 £'000
Amounts recognised in the profit and loss account		
Current service cost	(707)	(697)
Past service cost	-	-
Pension cost recognised within operating costs	(707)	(697)
Interest cost	(1,188)	(1,281)
Expected return on scheme assets	1,595	1,448
Pension credit recognised within interest receivable	407	167
Total pension cost recognised	(300)	(530)
Actual return on assets over the period		
Actual return	388	1,480
Analysis of amount recognised in the statement of total recognised gains and losses		
Asset (loss)/gain	(697)	33
Liability (loss)/gain	(694)	3,881
Pension assets not recognised in respect of schemes in surplus	485	(1,808)
Gross actuarial (loss)/gain recognised	(906)	2,106
Deferred tax asset/(liability)	228	(590)
Net actuarial (loss)/gain recognised	(678)	1,516
Changes in the fair value of scheme assets		
At 1 April	22,606	21,049
Expected return on scheme assets	1,595	1,448
Actuarial (loss)/gain	(697)	33
Member contributions	201	208
Employer contributions	633	607
Benefits paid	(632)	(739)
At 31 March	23,706	22,606
Changes in the present value of scheme liabilities		
At 1 April	20,912	23,346
Interest cost	1,188	1,281
Current service cost	707	697
Member contributions	201	208
Actuarial loss/(gain)	694	(3,881)
Benefits paid	(632)	(739)
Past service cost	-	-
At 31 March	23,070	20,912

30. DEFINED BENEFIT SCHEMES (continued)

	2012	2011
Major categories of assets as a percentage of total assets		
Equities	78%	78%
Bonds	14%	14%
Property	5%	5%
Cash	2%	2%
Other	1%	1%
	100%	100%

Pension information for the parent company is not disclosed separately because the Shaw healthcare (Group) Pension Fund is a multi-employer scheme and therefore the assets and liabilities of the fund cannot be accurately allocated to the employees of Shaw healthcare (Group) Limited.

The estimated amount of employer contributions expected to be paid to the schemes during 2012/2013 is £582,000.

Defined contribution pension scheme

The group operates a defined contribution pension scheme for which the pension cost charge for the year amounted to £124,636 (2011: £125,865). The group also participates in the Kent County Council Pension Fund which is treated as a defined contribution scheme on the grounds of materiality. Contributions to the scheme in the year were £2,058 (2011: £2,050).

31. RELATED PARTY TRANSACTIONS

During the year the group purchased consultancy services in the ordinary course of business from Hees International Capital Limited, a company controlled by K S Martin, a non-executive director of the group until his resignation as a director on 31 January 2012. The amount charged to the profit and loss account during the year in respect of these services was £18,220 (2011: £60,000).

The company has taken advantage of the exemption in FRS8 not to disclose transactions between companies 100% controlled within the Shaw healthcare (Group) Limited group.

32. CONTROLLING PARTY

There is no ultimate controlling party as no corporate body or individual has more than a 30% holding in the share capital of the company.

33. SUBSEQUENT EVENT

In August 2012 Belle Grove Care Home in Bromley ceased trading. Belle Grove is the last of six homes, all now closed, that have been operated by the group since 2005 under a contract with the London Borough of Bromley (LBB).
The closure of these homes was part of a planned programme agreed with LBB.

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