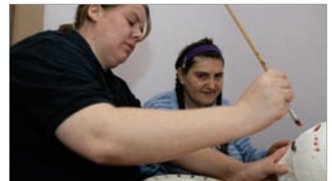
Southern Cross
Healthcare

Interim Report and Accounts 2009



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Operating Highlights

- Comprehensive portfolio review completed: clear link established between quality of service, occupancy and profitability
- Action plans being implemented to address declines in occupancy whilst maintaining margins
- Available beds increased to 37,575 at period end (H1 2008 – 37,084 beds)
- Number of homes operated increased to 734 at the period end (H1 2008 – 728)
- Average occupancy in mature estate of 88.9% (H1 2008 – 90.4%)
- Average weekly fee up 4.3% to £536 (H1 2008 – £514) and local authority fee increases from April 2009 expected to be c. 2.7%
- Overall service quality has improved

Financial Highlights

- Revenue increased by 6.9% to £460.8m (H1 2008 – £431.2m)
- Adjusted EBITDA fell 7.5% to £28.5m (H1 2008 – £30.8m)
- Profit before tax and IAS 17 charge for future minimum rental increases reduced by 16.1% to £14.1m (H1 2008 – £16.8m)
- Home EBITDAR margin, before central costs, decreased to 29.3% (H1 2008 – 29.9%)
- Cash inflow from operations £26.7m (H1 2008 – £29.5m)
- Adjusted earnings per share down 21.0% to 5.37p (H1 2008 – 6.80p)
- Net debt reduced since year end by £23.1m to £74.4m as at 29 March 2009
- Increased headroom following removal of £70m EBITDA covenant

Notes:
Home EBITDAR is defined as earnings before interest, tax, depreciation, amortisation, rent and loss on disposal of property, plant and equipment and subsidiary undertakings and impairment of property assets held for resale. Adjusted EBITDA is defined as earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings and charges for future minimum rental increases.

Adjusted earnings per share is defined as earnings before charges for future minimum rental increases, loan arrangement fees written off, loss on disposal of property, plant and equipment and subsidiary undertakings and impairment of freehold assets held for sale and the taxation impact thereof, divided by the weighted average number of shares.

Mature occupancy excludes immature beds, newly developed homes or refurbished homes which have been trading for less than 12 months.

Chief Executive's Statement

Overview

Southern Cross has grown rapidly by acquisition over the past four years. The new management team has identified the need to fully integrate those acquisitions with the aim of growing both occupancy rates and operating margins.

In the first quarter of 2009, management conducted a thorough business review which was triggered by a recognition that business performance was being hampered by three issues which it believes are closely linked: inconsistency of service quality delivery together with declining occupancy and profitability. However, the review also demonstrated clearly that the business has tremendous potential. Despite customer funding constraints, demand for care home places continues and demographic trends suggest it will continue to grow. As the leading national provider of elderly care, Southern Cross is in a strong position to capture a significant proportion of this growth by developing an improved understanding of the market and offering residents appropriate levels of quality and service.

According to the latest published figures for England (accounting for 75% of the Group's estate), service quality in 29% of our homes is externally assessed as either adequate or poor (71% good or excellent). This is not acceptable to management and similar challenges exist in Scotland, Wales and Northern Ireland. Underlying occupancy has been weakening over a three-year period.

Management's priorities are to address the decline in occupancy rates whilst restoring operating margins, both of which can be achieved initially through improvements in service quality. These issues are already being addressed and we expect to see progress in the second half of 2009.

The specific quality targets set for the business in the medium term are to reduce the number of underperforming homes in the portfolio. For example in England, where homes are assessed by the Care Quality Commission ("CQC") our aim is to increase those in the good or excellent categories from the current 71% to 73% by September this year and, within two years, to 80%. This will take time to achieve partly because the CQC audit process for an individual home takes at least 12 months to complete. Similar improvements are targeted across the rest of the UK.

Demand for the services provided by Southern Cross and the adopted business model remain resilient but have not been unaffected by the economic downturn. Specifically, there is uncertainty about who will ultimately pay for the services required by a growing number of elderly people. In addition, our key local authority customers (69% of revenues) are applying increasingly stringent placement criteria in order to exercise control over their budgets. As a consequence, the average age and frailty of residents, on admission, is increasing.

Furthermore, approximately 10% of local authority weekly fees are now linked to service quality and, in many cases, explicit penalties are being introduced against homes delivering lower attributed service quality. We expect this trend to continue and expect to benefit from it once we have achieved the initiatives to improve the quality of care we offer our residents. Our policy is to support local authorities in introducing appropriate measures of service quality, but to remain highly challenging of those which do not pay a fair price linked to the true cost of care. Management is actively strengthening relationships with local authorities. In Northumberland, for example, a fee dispute was settled which had remained unresolved for 12 months.

Despite the evident challenges, management is confident that considerable value can be extracted from the existing portfolio provided that the required business improvements are implemented, a process that we believe will take two years to complete.

H1 Operating Performance

Revenues in the first half increased by 6.9% to £460.8m (H1 2008 – £431.2m) reflecting 4.3% higher average weekly fees of £536 during the period. Like-for-like mature occupancy was 1.5% lower due, in part, to an increase in resident mortality experienced over the cold winter months.

This led to a decrease in Adjusted EBITDA of 7.5% to £28.5m. Home-related cost management initiatives were introduced during the period to mitigate the impact of the deterioration in occupancy. Home running costs reduced to 12.8% of revenue, compared to 13.1% for the comparable period in 2008. Head office costs continue to be minimised.

In the light of the fall in occupancy, this was a resilient operating performance.

Service quality improved in the first half of the year. Our operations teams achieved an overall CQC scoring of 71% good or excellent against 69% at the end of the previous full year.

Cash has been carefully controlled. In the first half management adopted a more disciplined approach to maintenance capital expenditure, focusing on essential items required to maintain the quality of the portfolio with limited discretionary spend. Development capital expenditure on existing homes has been deferred pending conclusion of the portfolio review process and is expected to be modest for the remainder of the financial year.

As a result of operating cash flow, together with the £17.6m tax repayment received in February 2009 (see Financial Review), net debt has been reduced by £23.1m, which is ahead of the level anticipated at the time of the refinancing in October 2008. Given the reduction in net debt and the continued strong operational cash flow, the business has negotiated the removal of the £70m EBITDA headline covenant which formed part of last year's refinancing in order to re-establish headroom.

Business Review

The review's findings supported management's expectation that there is a clear relationship between service quality and profitability: zero star rated homes have average home EBITDAR margins of 17% and occupancy of 80%, significantly below three star rated homes which have 35% home EBITDAR margins and 94% occupancy.

Although performance varied from home to home, a number of common weaknesses were identified and are now being addressed. A key area of focus is that of management skills development and training within our operations function which we believe will lead to a reduction in home manager turnover, identified as the major causal factor of non-compliant service quality. In addition, considerable attention is being directed towards understanding local market dynamics including the potential to arrange the portfolio around definable customer segments with distinct operating standards. In general, there is considerable variability in the performance and quality of homes across the portfolio which will be addressed by the implementation of common standards and the transfer of good practices.

In response to these findings, each home has now agreed an action plan covering the quality of service, team development and local marketing, all of which have a direct bearing on operating margin.

One of the priorities for the new management team has been to improve the basic management controls and business stewardship across the portfolio. Internal controls have been improved and better information management systems have been implemented. As a result, significant enhancements have been made in both the quality and rigour of business analysis.

Investment in our people will be increased and further reviews are scheduled for the second half of the year covering the roles, responsibilities and training needs within the organisation.

Business Development

The Group has continued to grow the business, albeit with more measured expectations reflecting the current economic climate. Of the four "in-house" developments under construction at the start of the period, two have been completed and the others are expected to be finished by end June 2009. These will provide a combined 330 beds which are of an exceptional quality both in terms of design and specification.

Leases have been completed in respect of two new build homes in Andover and Timperley with a further three homes in build and due for completion over the next six months. Together these will provide 333 beds.

On 25 March 2009 the Group exchanged contracts for the acquisition of six leasehold homes (311 beds) from Britannia Leased Homes Limited. These have been acquired at nil cost to the Group with the deal structured to provide appropriate investment and levels of rent cover.

Discussions with potential purchasers continue regarding the divestment of the freehold interests of the remaining nine homes retained by the Group.

In future, the Group expects to see growth principally through the acquisition of homes through agreements to lease but also through continued development of the existing portfolio. A number of homes already benefit from planning consents for extensions and discussions are underway with our landlords to explore opportunities to fund and develop on this basis.

Outlook

Following discussions with Local Authorities, average weekly fee increases are anticipated to be c. 2.7% for the year beginning April 2009. Average weekly private pay fee increases of 8% have been agreed, effective from February 2009. Within these increases is the impact of some Local Authorities introducing "Quality Premiums", further underlying the importance of achieving high standards of care across the entire portfolio.

Average occupancy of the mature estate (mature occupancy) for the first half was 88.9% (H1 2008 – 90.4%) with a period end spot rate of 87.8%. Seasonally higher occupancy is anticipated in the remainder of the year and the return to higher levels over the next two years as our service quality and other initiatives deliver the expected results.

An indication is expected this month from the Low Pay Commission regarding its recommendation on the new level of the National Minimum Wage which will come into effect in October 2009.

Despite the challenging market conditions, the Board believes that Southern Cross has the potential to create greater value, and management is actively engaged in business improvement to increase occupancy rates and strengthen operating margins.

Jamie Buchan
Chief Executive
11 May 2009

Financial Review

Basis of Preparation

The financial information on pages 10 to 24 has been prepared using accounting policies consistent with International Financial Reporting Standards, as adopted by the EU (IFRSs) and in accordance with IAS 34 "Interim Financial Reporting". In accordance with IFRS 3 "Business Combinations" the balance sheet as at 30 March 2008 has been restated to reflect finalisation of fair values on provisional goodwill on acquisitions completed within the last 12 months.

Revenue Statement

The Group's operating performance is summarised in the following table:

	26 weeks ended 29 March 2009 £'m	26 weeks ended 30 March 2008 £'m	Growth %
Revenue	**460.8**	431.2	6.9
Home EBITDAR	**134.9**	129.1	4.5
Home EBITDAR margin (%)	**29.3**	29.9	–
Adjusted EBITDA[1]	**28.5**	30.8	(7.5)
Operating loss	**(8.6)**	(3.6)	–
Loss before taxation	**(12.5)**	(8.6)	–
Average number of available beds	**37,515**	35,944	4.4
Cash generated from operating activities	**26.7**	29.5	(9.5)

[1] Adjusted EBITDA represents EBITDA after adding back charges for future minimum rental increases.

Revenue

During the 26-week period ended 29 March 2009 the average number of available beds increased by 1,571 (4.4%) to 37,515 relative to the comparable period in the prior year.

Over the same period, revenue increased by £29.6m from £431.2m in 2008 to £460.8m. Revenue growth was attributable to the full-period impact of acquisitions completed in the prior year, an increase in available beds (4.4%), fee rate increases achieved (4.3%) offset by lower average mature occupancy (1.5%), which, in total, accounted for £28.5m of the increased revenues.

Acquisitions, in respect of new developments opened and direct to lease agreements, contributed £1.1m of revenue during the period.

Across the Group's entire portfolio, the average weekly fee increased from £514 for the 26-week period ended 30 March 2008 to £536 for the 26-week period ended 29 March 2009. The increase of 4.3% being driven by fee rate increases achieved.

Home Operating Costs

During the period home payroll costs increased from £245.6m in the same period of 2008 to £266.9m, of which £6.8m was a result of a higher number of beds being occupied during the period. Over the same period, on a per average occupied bed basis, home payroll costs have increased by 5.8%. The increase in payroll costs on a per average occupied bed basis is attributable to increases in the National Minimum Wage and annual leave entitlement set by the Working Time Directive which, together, have increased home payroll costs by c. 4.6%. The additional increase of 1.2% is a result of reduced occupancy. During the period under review the Group's home running costs were 12.8% of revenue, compared to 13.1% for the comparable period of 2008.

Rent

The rent charge for the period, including a non-cash charge of £26.6m (2008 – £25.4m) for future minimum rental increases, amounted to £119.0m (2008 – £109.7m). Excluding the non-cash charge, the rental charge for the period was £92.4m (2008 – £84.3m), an increase of 9.6% and giving a rent cover of Home EBITDAR before central costs to cash rent of 1.46 times (2008 – 1.53 times). The increase in rental charge is consistent with the growth in operational size of the Group.

Central Costs

Total central costs for the period amounted to £14.0m, a decrease of £0.5m over the corresponding period of 2008. As a percentage of revenue, central costs during the period decreased from 3.4% in 2008 to 3.0% in 2009, reflecting achieved economies of scale.

EBITDA
Earnings before interest, tax, depreciation and amortisation of goodwill ("EBITDA") for the period decreased by £3.5m to £1.9m. Excluding the impact for future minimum rental increases under IAS 17, Adjusted EBITDA decreased by £2.3m to £28.5m.

Net Finance Costs
Net finance costs during the period, including £0.7m (2008 – £nil) non-cash charge in respect of the fair value of financial instruments and amortisation of loan arrangement fees totalling £0.2m (2008 – £nil), were £3.9m (2008 – £5.0m). Excluding these charges, net finance costs were £3.0m (2008 – £5.0m).

Taxation
During the period the Group took the decision to prepare its subsidiary financial statements under IFRS. As a consequence of this decision, the non-cash charges, under IAS 17, for future minimum rental increases that were previously recognised upon consolidation, are now charged into the individual subsidiary financial statements. On this basis, tax computations for financial years 2008 and 2007, incorporating the future minimum rental charges, were resubmitted to HM Revenue & Customs ("HMRC").

The preparation of the subsidiary financial statements under IFRS has resulted in the crystallisation of taxable losses, in individual subsidiaries, totalling £157.7m, associated with the charges for future minimum rental increases. An immediate consequence is the utilisation of taxable losses, in respect of financial years 2008 and 2007, totalling £76.2m. The utilisation has resulted in a current tax credit of £21.4m being recognised during the period and a repayment of taxes, in respect of financial years 2008 and 2007, totalling £17.6m. Furthermore the Group does not expect to pay cash taxes for the current financial year or be a significant payer of cash taxes for the next four years.

Taxable losses within individual subsidiaries not immediately realised and totalling £81.5m have been assessed against the future expected taxable profits of the same subsidiary. Following this assessment, the Directors consider there are £22.8m of taxable losses where the future economic benefit cannot be measured reliably and have therefore not recognised a deferred tax asset in respect of these losses, resulting in a prior period deferred tax charge of £6.2m being recognised in the period under review.

The current period deferred tax credit of £3.4m represents the tax credit on losses during the period at the expected effective rate of tax for the current financial year.

Dividends
As previously announced, the Directors have decided not to declare an interim dividend for the current financial year. The Directors will consider the recommendation of a final dividend at the appropriate time.

Loss per Share
The loss per share for the period was 8.14p (2008 – 3.34p). Adjusted earnings per share for the period before future minimum rental increase charges and the taxation impact thereof, including the deferred tax impact of £6.2m following the Group's decision to prepare its subsidiary financial statements under IFRS, were 5.37p (2008 – 6.80p), a decrease of 21.0%.

Cash Flow

	26 weeks ended 29 March 2009 £'m	26 weeks ended 30 March 2008 £'m
Cash flows from operations	**26.7**	29.5
Net interest and taxation	**6.6**	(9.5)
Investing activities	**(10.0)**	51.8
Financing activities	**3.5**	(72.5)
Net increase/(decrease) in cash	**26.8**	(0.7)

Net increase in cash during the period was £26.8m (2008 – £0.7m decrease). Cash inflow from operations for the period was £26.7m (2008 – £29.5m), representing a cash conversion ratio compared to Adjusted EBITDA of 93.7% (2008 – 95.8%).

Net finance charges paid during the period amounted to £8.8m (2008 – £3.4m) and included £5.1m (2008 – £nil) relating to refinancing costs paid. The remaining payments principally related to interest and commitment charges incurred in accordance with the Group's banking facilities. Net tax repayments during the period, totalling £15.4m

(2008 – payment £6.1m), included a payment on account of £2.2m and a tax repayment in respect of financial years 2008 and 2007 of £17.6m.

Net cash outflow from investing activities amounted to £10.0m (2008 – £51.8m inflow). Included within investing activities are purchases of property, plant and equipment of £21.3m (2008 – £30.8m), of which £10.9m (2008 – £11.9m) relates to development expenditure on new properties. Receipts from the sale of property, plant and equipment during the period were £11.9m (2008 – £0.1m) and relate to the sales of Torrwood and Pitkerro, net of professional fees. Purchase of subsidiary undertakings during the period of £0.6m (2008 – £47.8m) related to professional costs and associated fees in respect of acquisitions completed in the previous financial year. The Group did not dispose of any subsidiary undertakings during the period. In the corresponding period of 2008 receipts from the disposal of subsidiary undertakings totalled £130.3m.

The net cash inflow from financing activities for the period amounted to £3.5m (2008 – £72.5m outflow).

Net Debt and Financing

During the period since the 2008 financial year end, the Group's net debt has decreased by £23.1m to £74.4m.

On 29 March 2009 the Group had committed bank facilities of £144.2m, which were reduced by £5.0m on 30 March 2009 following a scheduled £5.0m repayment of the Group's syndicated term loan.

On 8 May 2009 the Group committed to reduce its syndicated banking facilities by a further £15.0m. The reduction comprises a voluntary £5.0m term loan repayment and the acceleration of the 31 July 2009 and 31 January 2010 repayments. In addition £10.0m of availability under the term loan will be transferred to the revolving credit facility in order to provide more flexibility and reduce borrowing costs. The Group expects these transactions to be completed shortly after this publication, following which the Group's syndicated term loan will have been reduced to £40.0m.

As a consequence of the Group's lower debt its banking syndicate has agreed to remove the banking covenant requiring the Group to achieve an adjusted EBITDA of not less than £70.0m. The remaining financial covenants are based on normal financial ratios, of which the fixed charge cover, currently set at 1.30 for FY2009, is the key covenant.

Principal Risks and Uncertainties

Southern Cross, like all businesses, faces a number of operating risks and uncertainties. There are a number of risks that could impact the Group's long-term performance and steps are taken to understand and evaluate these in order to achieve our objective of creating long-term sustainable returns for Shareholders.

The Group has a risk management process in place, which is designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls is conducted by the Audit Committee, which reports its findings to the Board.

The most fundamental risks faced by the Group are:

» if the Group fails to comply with regulation, regulatory action could include, among other penalties, the revocation of a care home's licence to operate;
» the Group could suffer severe negative publicity if a serious incident were to occur at one of the Group's care homes;
» if the average weekly fee increases do not, at least, rise in line with costs then profit margins will be reduced;
» the Group's current growth strategy is dependent on the Group being able to enter lease agreements with developers on satisfactory terms; and
» if the Group fails to attract and retain nursing and other qualified staff, it may be unable to provide residents with quality nursing care and may have to reduce the number of beds in its care homes.

Richard Midmer
Finance Director
11 May 2009

Statement of Directors' Responsibilities

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8.

The Directors of Southern Cross Healthcare Group PLC are listed in the Annual Report for 28 September 2008.

By order of the Board

J Buchan
11 May 2009

R Midmer
11 May 2009

Independent Review Report to Southern Cross Healthcare Group PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 29 March 2009, which comprise the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 29 March 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Newcastle upon Tyne
11 May 2009

Notes:

a) The maintenance and integrity of the Southern Cross Healthcare Group PLC website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

	Note	26 weeks ended 29 March 2009 unaudited £'m	26 weeks ended 30 March 2008 unaudited £'m	52 weeks ended 28 September 2008 audited £'m
Revenue	4	**460.8**	431.2	889.4
Home payroll costs	4	**(266.9)**	(245.6)	(500.6)
Home running costs	4	**(59.0)**	(56.5)	(113.1)
Home EBITDAR[1] before central costs	4	**134.9**	129.1	275.7
Rent				
Charge for rental amounts currently payable		**(92.4)**	(84.3)	(171.1)
Charge for future minimum rental increases		**(26.6)**	(25.4)	(50.5)
Total rent	4	**(119.0)**	(109.7)	(221.6)
Home EBITDA[2] before central costs		**15.9**	19.4	54.1
Central costs		**(14.0)**	(14.5)	(26.5)
Other operating income		**–**	0.5	–
Adjusted EBITDA[3] before charge for future minimum rental increases		**28.5**	30.8	78.1
Charge for future minimum rental increases		**(26.6)**	(25.4)	(50.5)
EBITDA		**1.9**	5.4	27.6
Loss on disposal of property, plant and equipment and subsidiary undertakings	12	**(0.3)**	–	(9.6)
Impairment of freehold assets held for resale		**–**	–	(4.5)
Depreciation		**(10.2)**	(8.2)	(17.6)
Amortisation		**–**	(0.8)	(1.1)
Operating loss		**(8.6)**	(3.6)	(5.2)
Finance costs		**(4.6)**	(5.2)	(11.2)
Exceptional finance costs		**–**	–	(6.9)
Total finance costs		**(4.6)**	(5.2)	(18.1)
Finance income		**0.7**	0.2	0.4
Loss before taxation		**(12.5)**	(8.6)	(22.9)
Taxation (charge)/credit	5	**(2.8)**	2.3	4.9
Loss attributable to ordinary Shareholders		**(15.3)**	(6.3)	(18.0)

	Note	Pence per share	Pence per share	Pence per share
Loss per share attributable to equity Shareholders				
Basic and diluted	6	**(8.14)**	(3.34)	(9.57)

All of the above activities relate to continuing operations.

The notes on pages 14 to 24 form part of this financial information.

[1] Home EBITDAR is defined as earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings, impairment of freehold assets held for resale and rent.

[2] EBITDA is defined as earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings and impairment of freehold assets held for resale.

[3] Adjusted EBITDA represents EBITDA after adding back charges for future minimum rental increases.

Consolidated Balance Sheet

	Note	As at 29 March 2009 unaudited £'m	As at 30 March 2008 – restated unaudited £'m	As at 28 September 2008 audited £'m
ASSETS				
Non-current assets				
Property, plant and equipment	12	**132.4**	115.1	121.3
Goodwill	9	**219.1**	217.3	218.5
Deferred tax assets		**16.8**	32.3	41.2
Other non-current assets		**3.4**	3.1	3.3
Total non-current assets		**371.7**	367.8	384.3
Current assets				
Cash and cash equivalents	8	**29.0**	14.2	2.2
Trade receivables		**43.6**	43.1	44.6
Inventories		**2.4**	2.4	2.4
Property assets held for sale	12	**24.6**	71.6	36.1
Other current assets		**22.3**	13.5	9.7
Total current assets		**121.9**	144.8	95.0
Total assets		**493.6**	512.6	479.3
LIABILITIES				
Current liabilities				
Short-term financial liabilities		**(31.9)**	(86.0)	(97.4)
Corporation tax payable		**(2.8)**	(7.0)	(8.8)
Trade and other payables		**(96.9)**	(92.1)	(91.2)
Total current liabilities		**(131.6)**	(185.1)	(197.4)
Non-current liabilities				
Long-term financial liabilities		**(69.9)**	(50.9)	(1.3)
Provisions and similar obligations		**(9.8)**	(11.0)	(9.4)
Deferred government grants		**(3.2)**	(2.4)	(3.4)
Future minimum rental payable		**(184.3)**	(132.6)	(157.7)
Total non-current liabilities		**(267.2)**	(196.9)	(171.8)
Total liabilities		**(398.8)**	(382.0)	(369.2)
Net assets		**94.8**	130.6	110.1
Equity				
Ordinary shares	10	**1.9**	1.9	1.9
Share premium		**161.5**	161.5	161.5
Retained deficit		**(68.6)**	(32.8)	(53.3)
Total equity		**94.8**	130.6	110.1

The notes on pages 14 to 24 form part of this financial information.

Consolidated Cash Flow Statement

	Note	26 weeks ended 29 March 2009 unaudited £'m	26 weeks ended 30 March 2008 unaudited £'m	52 weeks ended 28 September 2008 audited £'m
Cash flows from operating activities				
Cash flows from operations	11	**26.7**	29.5	71.4
Interest received		**0.7**	0.3	0.3
Interest and bank loan arrangement fees paid		**(9.5)**	(3.7)	(11.5)
Tax received/(paid)		**15.4**	(6.1)	(10.6)
Net cash generated from operating activities		**33.3**	20.0	49.6
Cash flows from investing activities				
Purchase of subsidiary undertakings, net of cash acquired	12	**(0.6)**	(47.8)	(55.2)
Sale of subsidiary undertakings		**–**	130.3	130.3
Purchase of property, plant and equipment	12	**(21.3)**	(30.8)	(62.0)
Receipts from the sale of property, plant and equipment	12	**11.9**	0.1	51.6
Net cash (used in)/generated from investing activities		**(10.0)**	51.8	64.7
Cash flows from financing activities				
Repayment of borrowings		**(41.8)**	(160.6)	(250.6)
New borrowings		**45.6**	97.7	140.7
Capital element of finance leases		**(0.3)**	(0.2)	(0.6)
Dividends paid	7	**–**	(9.4)	(16.5)
Net cash generated from/(used in) financing activities		**3.5**	(72.5)	(127.0)
Net increase/(decrease) in cash and cash equivalents		**26.8**	(0.7)	(12.7)
Opening cash and cash equivalents		**2.2**	14.9	14.9
Closing cash and cash equivalents		**29.0**	14.2	2.2

Note:
Included within the purchase of property, plant and equipment are purchases of freehold and leasehold properties totalling £nil (2008 – £4.2m) and development expenditure on new properties totalling £10.9m (2008 – £11.9m). Excluding these amounts, expenditure on the underlying portfolio amounted to £10.4m (2008 – £14.7m).

Consolidated Statement of Changes in Shareholders' Equity

	Share capital £'m	Share premium account £'m	Retained deficit £'m	Total equity £'m
At 29 September 2008	1.9	161.5	(53.3)	110.1
Loss attributable to ordinary Shareholders	–	–	(15.3)	(15.3)
At 29 March 2009	**1.9**	**161.5**	**(68.6)**	**94.8**

	Share capital £'m	Share premium account £'m	Retained deficit £'m	Total equity £'m
At 1 October 2007	1.9	161.5	(18.6)	144.8
Share-based payments	–	–	1.5	1.5
Ordinary dividends paid	–	–	(9.4)	(9.4)
Loss attributable to ordinary Shareholders	–	–	(6.3)	(6.3)
At 30 March 2008	**1.9**	**161.5**	**(32.8)**	**130.6**

Notes to the Financial Information

For the 26 weeks ended 29 March 2009

1 General Information

These interim financial results do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the 52 weeks ended 28 September 2008 were approved by the Board of Directors on 9 December 2008 and delivered to the Registrar of Companies. The report of the Auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 237 of the Companies Act 1985.

2 Basis of Preparation

This condensed consolidated half-yearly financial information for the 26 weeks ended 29 March 2009 has been prepared in accordance with the Disclosure and Transparency Rules ("DTR") of the Financial Services Authority and with IAS 34, "Interim financial reporting" as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the annual financial statements for the 52 weeks ended 28 September 2008, which have been prepared in accordance with IFRS as adopted by the European Union.

3 Accounting Policies

The accounting policies adopted are consistent with those of the annual financial statements for the 52 weeks ended 28 September 2008.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments and share-based payments at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are goodwill, property assets held for resale and provision for onerous leases. These are discussed further below.

From 29 September 2008 the following standard, amendments and interpretations became effective and were adopted by the Group:

IFRIC 12 Service concession arrangements
IFRIC 14 The limit on a defined benefit assets, minimum funding requirements and their interaction

The adoption of these amendments and interpretations has not had a significant impact on the Group's loss for the period or equity.

4 Segmental Analysis

Based on an analysis of risks and returns, the Directors consider that the Group has two identifiable business segments – Elderly Care and Specialist.

All operations of the Group are carried out in the United Kingdom and therefore no geographical segmentation is disclosed. Consequently, the Group has considered business segmentation as the primary segmentation, with two reportable segments, Elderly Care and Specialist.

Revenue, loss before taxation and total equity of the Group are wholly attributable to the operation of care homes and arise solely within the United Kingdom.

Included below is segmental analysis of average occupancy and income statement items:

Total 26-week period ended 29 March 2009	Elderly Care Number	Specialist Number	Total Number
Available beds			
Acquisitions	221	–	221
Continuing operations	36,362	932	37,294
Segment available beds	36,583	932	37,515
Occupied beds			
Acquisitions	74	–	74
Continuing operations	32,248	771	33,019
Segment occupied beds	32,322	771	33,093

	Elderly Care %	Specialist %	Total %
Occupancy			
Acquisitions	33.5	–	33.5
Continuing operations	88.7	82.7	88.5
Segment occupancy	88.4	82.7	88.2

	£	£	£
Average weekly fee			
Acquisitions	572	–	572
Continuing operations	522	1,092	534
Segment average weekly fee	522	1,092	536

4 Segmental Analysis continued

Total 26-week period ended 30 March 2008	Elderly Care Number	Specialist Number	Total Number
Available beds			
Acquisitions	1,698	46	1,744
Continuing operations	33,213	987	34,200
Segment available beds	34,911	1,033	35,944
Occupied beds			
Acquisitions	1,519	38	1,557
Continuing operations	29,798	854	30,652
Segment occupied beds	31,317	892	32,209

	Elderly Care %	Specialist %	Total %
Occupancy			
Acquisitions	89.5	82.6	89.3
Continuing operations	89.7	86.5	89.6
Segment occupancy	89.7	86.4	89.6

	£	£	£
Average weekly fee			
Acquisitions	484	1,012	497
Continuing operations	504	932	515
Segment average weekly fee	503	936	514

4 Segmental Analysis continued

Primary Reporting Format – Business Segments

The following tables present income statement information regarding the Group's business segments for the 26-week period ended 29 March 2009 and the 26-week period ended 30 March 2008.

Total 26-week period ended 29 March 2009	Elderly Care £'m	Specialist £'m	Total £'m
Revenue			
Acquisitions	1.1	–	1.1
Continuing operations	437.8	21.9	459.7
Segment revenue	438.9	21.9	460.8
Home payroll costs			
Acquisitions	(1.1)	–	(1.1)
Continuing operations	(251.7)	(14.1)	(265.8)
Segment Home payroll costs	(252.8)	(14.1)	(266.9)
Home running costs			
Acquisitions	–	–	–
Continuing operations	(56.5)	(2.5)	(59.0)
Segment Home running costs	(56.5)	(2.5)	(59.0)
Home EBITDAR before central costs			
Acquisitions	–	–	–
Continuing operations	129.6	5.3	134.9
Segment Home EBITDAR before central costs	129.6	5.3	134.9
Home EBITDAR before central costs (%)			
Acquisitions	–	–	–
Continuing operations	29.5	24.2	29.3
Segment Home EBITDAR before central costs (%)	29.5	24.2	29.3
Total rent			
Acquisitions	(0.6)	–	(0.6)
Continuing operations	(114.9)	(3.5)	(118.4)
Segment rent	(115.5)	(3.5)	(119.0)
Home EBITDA before central costs			
Acquisitions	(0.6)	–	(0.6)
Continuing operations	14.7	1.8	16.5
Segment Home EBITDA before central costs	14.1	1.8	15.9
Other expenses:			
Loss on disposal of property, plant and equipment and subsidiary undertakings	(0.3)	–	(0.3)
Depreciation	(9.7)	(0.5)	(10.2)
Central payroll costs	(9.6)	(0.4)	(10.0)
Unallocated expenses:			
Central costs	(3.9)	(0.1)	(4.0)
Unallocated operating income			
Operating loss	(9.4)	0.8	(8.6)

4 Segmental Analysis continued

The analysis above includes the charge in the period for future minimum rental increases. Excluding the impact of this charge, Home EBITDA before central costs is as follows:

	Elderly Care £'m	Specialist £'m	Total £'m
Home EBITDA before the charge for future minimum rental increases and central costs:			
Acquisitions	(0.4)	–	(0.4)
Continuing operations	40.2	2.7	42.9
Segment Home EBITDA before the charge for future minimum rental increases and central costs	39.8	2.7	42.5

Total 26-week period ended 30 March 2008	Elderly Care £'m	Specialist £'m	Total £'m
Revenue			
Acquisitions	19.1	1.0	20.1
Continuing operations	390.4	20.7	411.1
Segment revenue	409.5	21.7	431.2
Home payroll costs			
Acquisitions	(10.7)	(0.8)	(11.5)
Continuing operations	(221.2)	(12.9)	(234.1)
Segment Home payroll costs	(231.9)	(13.7)	(245.6)
Home running costs			
Acquisitions	(2.8)	(0.2)	(3.0)
Continuing operations	(50.8)	(2.7)	(53.5)
Segment Home running costs	(53.6)	(2.9)	(56.5)
Home EBITDAR before central costs			
Acquisitions	5.6	–	5.6
Continuing operations	118.4	5.1	123.5
Segment Home EBITDAR before central costs	124.0	5.1	129.1
Home EBITDAR before central costs (%)			
Acquisitions	29.3	–	27.9
Continuing operations	30.3	24.6	30.0
Segment Home EBITDAR before central costs (%)	30.3	23.5	29.9
Total rent			
Acquisitions	(6.3)	–	(6.3)
Continuing operations	(98.7)	(4.7)	(103.4)
Segment rent	(105.0)	(4.7)	(109.7)
Home EBITDA before central costs			
Acquisitions	(0.7)	–	(0.7)
Continuing operations	19.7	0.4	20.1
Segment Home EBITDA before central costs	19.0	0.4	19.4
Other expenses:			
Depreciation	(7.7)	(0.5)	(8.2)
Amortisation	(0.8)	–	(0.8)
Central payroll costs	(10.0)	(0.3)	(10.3)
Unallocated expenses:			
Central costs			(4.2)
Unallocated operating income			0.5
Operating loss			(3.6)

4 Segmental Analysis continued

The analysis above includes the charge in the period for future minimum rental increases. Excluding the impact of this charge, Home EBITDA before central costs is as follows:

	Elderly Care £'m	Specialist £'m	Total £'m
Home EBITDA before the charge for future minimum rental increases and central costs:			
Acquisitions	1.0	–	1.0
Continuing operations	42.3	1.5	43.8
Segment Home EBITDA before the charge for future minimum rental increases and central costs	43.3	1.5	44.8

5 Taxation

	26 weeks ended 29 March 2009 £'m	26 weeks ended 30 March 2008 £'m
Current tax		
– Current period	**–**	4.5
– Prior period (realisation of taxable losses)	**(21.4)**	–
Deferred tax		
– Current period	**(3.4)**	(6.8)
– Prior period (realisation of taxable losses)	**21.4**	–
– Prior period (reversal of deferred tax asset)	**6.2**	–
Taxation charge/(credit)	**2.8**	(2.3)

The current tax prior period credit of £21.4m relates to the realisation of losses in respect of the 52 weeks ended 28 September 2008 and 30 September 2007 as a result of preparing subsidiary financial statements under IFRS.

The deferred tax prior period charge relates to the realisation of losses, as referred to above, totalling £21.4m and a further charge of £6.2m in respect of losses arising as a result of preparing the subsidiary financial statements under IFRS, where the future economic benefit cannot be measured reliably.

The tax charge for the 26-week period ended 29 March 2009 is higher than the average standard rate of corporation tax in the United Kingdom (28%) (2008 – 29%), due to the reversal of some of the deferred tax asset.

5 Taxation continued

	26 weeks ended 29 March 2009 £'m	26 weeks ended 30 March 2008 £'m
Loss before taxation	**(12.5)**	(8.6)
Loss before taxation multiplied by the average standard rate of corporation tax in the United Kingdom of 28% (2008 – 29%)	**(3.5)**	(2.5)
Effect of:		
– Additional provision of deferred tax assets	**6.2**	–
– Amortisation of intangibles	**–**	0.2
– Expenses not deductible for tax purposes	**–**	0.1
– Other	**0.1**	(0.1)
Tax charge/(credit) for the period	**2.8**	(2.3)

The tax charge is expected to be in line with the standard rate in future periods.

6 Loss per Ordinary Share

Basic loss per share is calculated by dividing the loss for the period attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share is calculated by dividing the loss for the period attributable to ordinary equity holders of the parent, by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	26 weeks ended 29 March 2009 Number	26 weeks ended 30 March 2008 Number
Basic weighted average number of shares (excluding treasury shares)	**188,067,377**	188,067,377
Dilutive potential ordinary shares:		
Employee share options	**–**	–
Diluted weighted average number of shares	**188,067,377**	188,067,377

6 Loss per Ordinary Share continued

The Group presents exceptional items and future minimum rental increases on the face of the income statement. Items that are considered exceptional, by virtue of their size or incidence, are disclosed in order to improve a reader's understanding of the financial information. To this end, additional basic and diluted earnings per share information is also presented on this basis. Reconciliations of earnings and the weighted average number of ordinary shares used are set out below:

	26 weeks ended 29 March 2009			26 weeks ended 30 March 2008		
	Earnings £'m	Basic per share amount p	Diluted per share amount p	Earnings £'m	Basic per share amount p	Diluted per share amount p
Loss attributable to ordinary Shareholders	(15.3)	(8.14)	(8.14)	(6.3)	(3.34)	(3.34)
Charge for future minimum rental increases	26.6	14.14	14.14	25.4	13.52	13.52
Amortisation	–	–	–	0.8	0.41	0.41
Taxation impact of above (including impact of tax losses not recognised as a result of preparing subsidiary financial statements under IFRS)	(1.2)	(0.63)	(0.63)	(7.1)	(3.79)	(3.79)
Adjusted measure[1]	10.1	5.37	5.37	12.8	6.80	6.80

[1] Profit attributable to ordinary Shareholders before charge for future minimum rental increases, amortisation and taxation impact thereof.

7 Dividends Paid and Declared

The Directors have decided not to recommend an interim dividend (2008 – 3.75p per share).

8 Bank Overdrafts and Loans

	As at 28 September 2008 £'m	Cash flow £'m	Non-cash movement £'m	As at 29 March 2009 £'m
Cash and cash equivalents	2.2	26.8	–	29.0
Bank loans – net of arrangement fees totalling £1.6m (2008 – £1.0m)	(97.7)	(3.8)	–	(101.5)
Obligations under finance leases	(2.0)	0.3	(0.2)	(1.9)
Net debt	(97.5)	23.3	(0.2)	(74.4)

During the period bank loans totalling £41.8m were repaid, including scheduled repayments of bank term loans amounting to £5.6m (2008 – £3.0m) made in line with repayment terms. New loans totalling £45.6m were also drawn down in the period.

Bank loans outstanding at 29 March 2009 include £1.6m of mortgage debt (2008 – £1.6m), which is secured upon freehold property to which it relates. The debt is repayable on disposal of the property.

9 Goodwill

Group	£'m
At 28 September 2008	218.5
Acquisitions (note 12)	0.6
At 29 March 2009	**219.1**

Impairment Test for Goodwill
Goodwill arising on acquisitions, as noted above, is not being amortised but tested annually for impairment. The date elected for impairment testing is 29 March.

For the purposes of this impairment review, goodwill is allocated to the Group's two business segments. The recoverable amounts of these cash generating units (CGUs) are determined based on value in use calculations. These cash flow projections are based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the growth rates stated below. The growth rates do not exceed the long-term average growth rate for the sector in which the Group operates.

Key assumptions used for value in use calculations of both segments:

	%
Growth rate	3
Discount rate	9

As at 29 March 2009 and 30 March 2008, no impairment charge to goodwill has been required.

10 Called Up Share Capital

	29 March 2009 Number	30 March 2008 Number	28 September 2008 Number
Authorised:			
Ordinary shares of 1p each	**300,000,000**	300,000,000	300,000,000
	£'m	£'m	£'m
Ordinary shares of 1p each	**3**	3	3
	Number	Number	Number
Allotted, called up and fully paid:			
Ordinary shares of 1p each	**188,067,377**	188,067,377	188,067,377
	£'m	£'m	£'m
Ordinary shares of 1p each	**1.9**	1.9	1.9

11 Cash Flows from Operating Activities

Reconciliation of operating loss net cash flow from continuing operations:

	26 weeks ended 29 March 2009 £'m	26 weeks ended 30 March 2008 £'m
Operating loss	(8.6)	(3.6)
Adjustments for:		
Loss on disposal of property, plant and equipment and subsidiary undertakings	0.3	–
Depreciation	10.2	8.2
Amortisation	–	0.8
Changes in working capital (excluding effects of acquisitions of subsidiaries)		
Increase in inventories	–	(0.3)
Increase in trade and other receivables	(11.2)	(4.9)
Increase in payables	9.7	3.0
Increase in future minimum rental payable	26.6	25.4
Government grants	–	1.2
Decrease in provisions	(0.3)	(0.3)
Cash flows from operating activities	26.7	29.5

12 Acquisitions and Disposals

Professional costs and associated fees in respect of acquisitions completed in the previous financial year totalled £0.6m.

Sale of Freehold Assets Held for Resale

During the period, the Group disposed of freehold assets for consideration totalling £12.2m. The related assets had a net book value of £11.5m, resulting in a profit on disposal of £0.7m.

Professional costs, associated fees and other items in respect of freehold asset disposals completed in the previous year totalled £1.0m.

Property, Plant and Equipment

During the period, the Group had fixed asset additions totalling £21.3m (30 March 2008 – £31.5m), relating to property, plant and equipment within the Group's care homes. Within this total expenditure, the purchase of freehold and leasehold property amounted to £2.4m (2008 – £4.2m) and development expenditure on new properties totalled £9.7m (2008 – £12.7m).

Property Assets Held for Sale

Property assets held for sale consist of nine properties with a carrying value of £24.6m, which the Group intends to sell in the near future.

13 Related Party Transactions

In the opinion of the Directors, there is no ultimate controlling party.

14 Seasonality

Trading results of the Group are subject to seasonal fluctuations, with stronger financial performance in the second half of the financial year. This is due to a seasonal fall in occupancy over the winter months and proportionately higher payroll costs in the first half of the financial year due to the timing of annual wage increases. The second half of the year includes annual fee rate increases in April.

15 Events after the Balance Sheet Date

On 29 March 2009 the Group had drawn bank loans totalling £101.5m, which was reduced by £5.0m on 30 March 2009 following a scheduled £5.0m repayment of the Group's syndicated term loan.

On 8 May 2009 the Group committed to reduce its syndicated banking facilities by a further £15.0m. The reduction comprises of a voluntary £5.0m term loan repayment and the acceleration of the 31 July 2009 and 31 January 2010 repayments. In addition £10.0m of availability under the term loan was transferred to the revolving credit facility. The transfer will enable the Group to lower its interest costs. The Group expects these transactions to be completed shortly after this publication, following which the Group's syndicated term loan will have been reduced to £40.0m.

As a consequence of the Group's lower debt, its banking syndicate has agreed to remove the banking covenant requiring the Group to achieve an adjusted EBITDA of not less than £70.0m. The remaining financial covenants are based on normal financial ratios, of which, the fixed charge cover, currently set at 1.30 for FY2009, is the key covenant.

Shareholder Information

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Jamie Buchan
Richard Midmer
Kamma Foulkes
Christopher Fisher
Baroness Morgan of Huyton
Nancy Hollendoner

Secretary

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2008/2009 financial calendar

Financial year end 27 September 2009
Full year results announced 7 December 2009

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