

Southern Cross Healthcare Services Limited
Annual report and financial statements
for the year ended 30 September 2007

Registered Number 03156327

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Southern Cross Healthcare Services Limited
Annual report and financial statements
for the year ended 30 September 2007
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Southern Cross Healthcare Services Limited

Directors' report for the year ended 30 September 2007

The directors present their report together with the audited financial statements of the company for the year ended 30 September 2007

Business review and principal activities

The principal activities of the company are the development and operation of care homes. The directors do not anticipate a change in the company's activities.

The profit and loss account is set out on page 5 and shows the profit for the year. During the year the Company made no dividend payments (2006 £13,000,000). The company made a profit for the financial year of £6,082,188 (2006 loss of £6,637,991).

The directors are satisfied with the result for the year and the financial position at the year end.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are integrated with those of the group and are not identified separately. Further discussion of these risks and uncertainties and of future performance, in the context of the group as a whole, is provided in the group's annual report which does not form part of this report.

Key performance indicators ('KPIs')

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. The development, performance and position of Southern Cross Healthcare Group PLC, which includes the company, is discussed in the group's annual report which does not form part of this report.

Directors

The directors who held office during the year and up to the date of signing the financial statements, were

P Scott

G Sizer

J Murphy

K Faulkes

E Haines

J Malham

P McKeever

J Murray

A Heaps (appointed 20 August 2007)

J Farmer (appointed 20 August 2007)

M Preston (appointed 20 August 2007)

P Whittaker (appointed 20 August 2007)

None of the directors had any interest in the ordinary share capital of the company. The interests of the directors in the share capital of the ultimate parent company, Southern Cross Healthcare Group PLC, are shown in the financial statements of that company.

Southern Cross Healthcare Services Limited

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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 confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Employee involvement

The future success of the company is dependent on the skill and commitment of its staff, both full time and part time and it is the policy of the company to develop and maintain employee awareness and involvement in its activities through regular management visits and dissemination of relevant information. Particular importance is attached to career development and staff training is available to those who wish to participate through in-house and nationally recognised training courses. It is also company policy to consider fully applications from disabled persons, and to employ, such persons, where practicable. In the event of employees becoming disabled every effort is made to retain them in order that their employment may continue

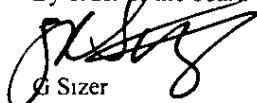
Disclosure of information to auditors

Each director, as at the date of this report has confirmed that in so far as they are aware there is no relevant audit information (this is information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and they have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting

By order of the board



G Sizer

Director

21 December 2007

Southern Cross Healthcare Services Limited

Independent auditors' report to the members of Southern Cross Healthcare Services Limited

We have audited the financial statements of Southern Cross Healthcare Services Limited for the year ended 30 September 2007 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

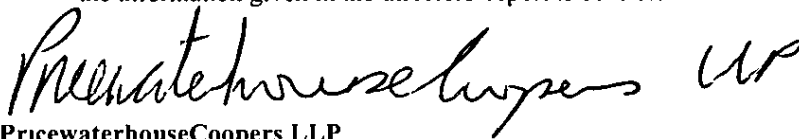
Southern Cross Healthcare Services Limited

Independent auditors' report to the members of Southern Cross Healthcare Services Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

21 December 2007

Southern Cross Healthcare Services Limited

Profit and loss account for the year ended 30 September 2007

| | Note | 2007 £ | 2006 £ |
|--|------|--------------|--------------|
| Turnover | 1 | 128,125,467 | 122,077,807 |
| Cost of sales | | (82,588,520) | (77,419,978) |
| Gross profit | | 45,536,947 | 44,657,829 |
| Administrative expenses before operating lease rentals | | (13,798,781) | (15,128,282) |
| Operating lease rentals | | (25,380,930) | (25,523,658) |
| Administrative expenses | | (39,179,711) | (40,651,940) |
| Operating profit | 4 | 6,357,236 | 4,005,889 |
| Interest receivable | 5 | 3,469,482 | 5,198,438 |
| Profit on ordinary activities before taxation | | 9,826,718 | 9,204,327 |
| Taxation | 6 | (3,744,530) | (2,842,318) |
| Profit for the financial year | 15 | 6,082,188 | 6,362,009 |
| Dividends | 7 | - | (13,000,000) |
| Retained profit/(loss) for the financial year | 15 | 6,082,188 | (6,637,991) |

All amounts relate to continuing activities

The company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the profit on ordinary activities before taxation and the retained profit/(loss) for the financial year and their historical cost equivalents

Southern Cross Healthcare Services Limited

Balance sheet as at 30 September 2007

| | Note | 2007 £ | 2006 £ |
|---|------|---------------------|---------------------|
| Fixed assets | | | |
| Intangible assets | 8 | 503,339 | 541,233 |
| Tangible assets | 9 | 6,542,214 | 5,363,822 |
| | | 7,045,553 | 5,905,055 |
| Current assets | | | |
| Stocks | 10 | 79,466 | 79,466 |
| Debtors | 11 | 15,567,681 | 11 816,940 |
| | | 15,647,147 | 11,896,406 |
| Creditors, amounts falling due within one year | 12 | (11,790,139) | (13,027,757) |
| Net current assets/(liabilities) | | 3,857,008 | (1,131,351) |
| Total assets less current liabilities | | 10,902,561 | 4,773,704 |
| Provisions for liabilities and charges | 13 | (104,059) | (57,390) |
| Net assets | | 10,798,502 | 4,716,314 |
| Capital and reserves | | | |
| Called up share capital | 14 | 2 | 2 |
| Profit and loss account | 15 | 10,798,500 | 4,716,312 |
| Total shareholders' funds | 16 | 10,798,502 | 4,716,314 |

The financial statements on pages 5 to 15 were approved by the board of directors on 21 December 2007 and signed on its behalf by



G Sizer
Director

Southern Cross Healthcare Services Limited

Statement of accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied consistently.

Turnover

Turnover represents fees charged (excluding value added tax) for the provision of services. Turnover is recognised once the service has been provided.

Tangible fixed assets

Tangible fixed assets are initially recorded at purchase price plus any incidental costs of purchase. Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets over their expected useful lives. It is calculated at the following rates:

| | | |
|--|---|--------------------------|
| Leasehold properties | - | over life of lease |
| Fixtures and fittings and computer equipment | - | 10% to 33 1/3% per annum |

Goodwill

Goodwill representing the excess of consideration paid over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its estimated life of 20 years, which represents the minimum lease period of the homes acquired. Goodwill arising on acquisitions is reviewed for impairment at the end of the first full year after acquisition, or if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment charge arising is recognised in the profit and loss account.

Leased assets

Assets under operating leases have their annual rentals charged to the profit and loss account on a straight-line basis over the term of the lease.

Reverse premiums and other payments received in respect of operating lease agreements are released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

Deferred taxation

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

Stocks

Stock is valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving items.

Southern Cross Healthcare Services Limited

Cash flow statement and related party disclosure

The company is a wholly owned subsidiary of Southern Cross Healthcare Limited and is included in the consolidated financial statements of Southern Cross Healthcare Group PLC which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Southern Cross Healthcare Group PLC group or investees of Southern Cross Healthcare Group PLC.

Pension costs

The company operates a defined contribution scheme, providing benefits for employees additional to those from the State. New entrants are only eligible to join the Southern Cross Healthcare scheme. This is a money purchase scheme to which the company does not contribute.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to property, plant and equipment are included in liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Southern Cross Healthcare Services Limited

Notes to the financial statements for the year ended 30 September 2007

1 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom

2 Employee costs

| | 2007 | 2006 |
|---|-------------------|-------------------|
| | £ | £ |
| The aggregate costs of staff were. | | |
| Wages and salaries | 66,710,051 | 63,903,372 |
| Social security costs | 5,803,887 | 5,410,594 |
| Pensions costs (note 19) | 30,312 | 26,250 |
| | 72,544,250 | 69,340,216 |

The average monthly number of employees during the year was

| | 2007 | 2006 |
|-------------------------------|---------------|---------------|
| By activity: | Number | Number |
| Care and ancillary | 5,404 | 5,321 |
| Management and administration | 169 | 203 |
| | 5,573 | 5,524 |

3 Directors

The directors received no emoluments during the year (2006 £Nil) The directors' remuneration was paid by Southern Cross Healthcare Limited, another group company

Southern Cross Healthcare Services Limited

4 Operating profit

| | 2007 £ | 2006 £ |
|--|------------|------------|
| Operating profit is stated after charging | | |
| Depreciation – owned tangible assets | 1,702,610 | 1,387,389 |
| Amortisation of goodwill | 37,894 | 37,894 |
| Operating lease rentals land and buildings | 25,380,930 | 25,523,658 |

Auditors' remuneration is paid via the immediate parent undertaking

5 Interest receivable

| | 2007 £ | 2006 £ |
|---|-----------|-----------|
| Interest receivable from group undertakings | 3,469,482 | 5,198,438 |

6 Taxation

(a) Analysis of tax charge in the year

| | 2007 £ | 2006 £ |
|--|-----------|-----------|
| Current tax | | |
| UK corporation tax on profits for the year | 2,933,061 | 2,763,998 |
| Adjustment in respect of previous years | 764,800 | 17,639 |
| Total current tax | 3,697,861 | 2,781,637 |
| Deferred tax | | |
| Origination and reversal of timing differences | 35,295 | 43,378 |
| Adjustments in respect of previous years | 11,374 | 17,303 |
| Total deferred tax (note 11) | 46,669 | 60,681 |
| Tax on profit on ordinary activities | 3,744,530 | 2,842,318 |

Southern Cross Healthcare Services Limited

(b) Factors affecting the tax charge for the year

The tax assessed differs from the standard rate of corporation tax in the UK (30%) The differences are explained below

| | 2007 | 2006 |
|---|-----------|-----------|
| | £ | £ |
| Profit on ordinary activities before tax | 9,826,718 | 9,204,327 |
| Profit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2006 30%) | 2,948,015 | 2,772,666 |
| Effects of | | |
| Expenses not deductible for tax purposes | 8,008 | 34,710 |
| Accelerated capital allowances/other timing differences | (22,962) | (43,378) |
| Adjustments in respect of previous years | 764,800 | 17,639 |
| Current tax charge for the year | 3,697,861 | 2,781,637 |

(c) Factors that may affect future charges

The tax charge will be impacted by the change in the standard rate of corporation tax from 30% to 28% from April 2008

7 Dividends

| | 2007 | 2006 |
|---|------|------------|
| | £ | £ |
| Dividend paid £Nil (2006 £13,000 per £1 ordinary share) | - | 13,000,000 |

Southern Cross Healthcare Services Limited

8 Intangible assets

| | Goodwill £ |
|---|----------------|
| Cost | |
| At 2 October 2006 and 30 September 2007 | 789,743 |
| Accumulated amortisation | |
| At 2 October 2006 | 248,510 |
| Charge for the year | 37,894 |
| At 30 September 2007 | 286,404 |
| Net book amount | |
| At 30 September 2007 | 503,339 |
| At 2 October 2006 | 541,233 |

Goodwill relates to the acquisition of Grampian Homes being the excess of consideration paid over the fair value of the assets and liabilities acquired

9 Tangible assets

| | Short leasehold property £ | Fixtures and fittings and computer equipment £ | Total £ |
|---------------------------------|-------------------------------------|--|-------------------|
| Cost | | | |
| At 2 October 2006 | 1,143,913 | 9,541,570 | 10,685,483 |
| Additions | 121,096 | 2,765,013 | 2,886,109 |
| Disposals | - | (5,161) | (5,161) |
| At 30 September 2007 | 1,265,009 | 12,301,422 | 13,566,431 |
| Accumulated depreciation | | | |
| At 2 October 2006 | 343,654 | 4,978,007 | 5,321,661 |
| Charge for the year | 48,686 | 1,653,924 | 1,702,610 |
| Disposals | - | (54) | (54) |
| At 30 September 2007 | 392,340 | 6,631,877 | 7,024,217 |
| Net book amount | | | |
| At 30 September 2007 | 872,669 | 5,669,545 | 6,542,214 |
| At 2 October 2006 | 800,259 | 4,563,563 | 5,363,822 |

Southern Cross Healthcare Services Limited

10 Stocks

| | 2007 | 2006 |
|-------------|--------|--------|
| | £ | £ |
| Consumables | 79,466 | 79,466 |

11 Debtors

| | 2007 | 2006 |
|--|-------------------|-------------------|
| | £ | £ |
| Amounts receivable within one year: | | |
| Trade debtors | 5,855,235 | 5,314,350 |
| Amounts due from group undertakings | 9,712,356 | 6,502,590 |
| Other debtors | 90 | - |
| | 15,567,681 | 11,816,940 |

12 Creditors: amounts falling due within one year

| | 2007 | 2006 |
|----------------------------|-------------------|-------------------|
| | £ | £ |
| Bank loans and overdrafts | 8,679,188 | 10,620,885 |
| Other creditors | - | 8,241 |
| Deferred government grants | 177,890 | - |
| Corporation tax | 2,933,061 | 2,398,631 |
| | 11,790,139 | 13,027,757 |

All bank loans and overdrafts are repayable within one year and are held under guarantee by Southern Cross Healthcare Group plc. Interest on all loans is currently charged on a margin of 1.25% above libor.

Southern Cross Healthcare Services Limited

13 Provisions for liabilities and charges

| | Deferred Tax £ |
|---------------------------------------|----------------------|
| At 2 October 2006 | 57,390 |
| Charge in the profit and loss account | 46,669 |
| At 30 September 2007 | 104,059 |

| | 2007 £ | 2006 £ |
|-------------------------------------|-----------|-----------|
| Deferred tax is provided as follows | | |
| Accelerated capital allowances | 104,059 | 57,390 |

14 Called up share capital

| | 2007 £ | 2006 £ |
|----------------------------------|-----------|-----------|
| Authorised | | |
| 1,000 ordinary shares of £1 each | 1,000 | 1,000 |
| Allotted and fully paid | | |
| 2 ordinary shares of £1 each | 2 | 2 |

15 Profit and loss account

| | £ |
|-------------------------------|-------------------|
| At 2 October 2006 | 4,716,312 |
| Profit for the financial year | 6,082,188 |
| At 30 September 2007 | 10,798,500 |

Southern Cross Healthcare Services Limited

16 Reconciliation of movement in equity shareholders' funds

| | 2007 £ | 2006 £ |
|--------------------------------------|------------|-------------|
| Profit/(loss) for the financial year | 6,082,188 | (6,637,991) |
| Opening equity shareholders' funds | 4,716,314 | 11,354,305 |
| Closing equity shareholders' funds | 10,798,502 | 4,716,314 |

17 Financial commitments

As at 30 September 2007, the company had annual commitments under non-cancellable operating leases, all of which relate to land and buildings, as set out below

| | 2007 £ | 2006 £ |
|-------------------------------|------------|------------|
| Operating leases which expire | | |
| After five years | 26,187,152 | 25,523,658 |

18 Contingent liabilities

The company has provided guarantees in respect of lease obligations to assist the trading of other group companies. Commitments covered by the guarantees are disclosed in the financial statements of the ultimate parent company.

19 Pension costs

The company operates a defined contribution pension scheme, the assets of which are held separately from those of the company in an independently administered fund. Contributions made by the company to the scheme during the year amounted to £30,312 (2006: £26,250).

20 Ultimate parent company

The immediate parent company is Southern Cross Healthcare Limited, a company registered in England and which prepares consolidated financial statements.

The ultimate parent undertaking and controlling party is Southern Cross Healthcare Group PLC, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Southern Cross Healthcare Group PLC's consolidated financial statements can be obtained from its registered office.

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