

Southern Cross Healthcare Services Limited  
Annual Report and Financial Statements  
for the year ended 1 October 2006

Registered Number 03156327



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# Southern Cross Healthcare Services Limited

## Directors' report for the year ended 1 October 2006

The directors present their annual report together with the audited financial statements for the year ended 1 October 2006.

### Business review and principal activities

The profit and loss account is set out on page 5 and shows the profit for the period. During the year the Company made a payment of a dividend amounting to £13,000,000 (period ended 2 October 2005: £nil). After payment of this dividend, the company made a loss for the financial year of £6,637,991 (2005: profit of £4,007,993).

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

The principal activities of the company are the development and operation of care homes.

### 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 of the company during the year and at the date of this report, unless otherwise stated, were:

P Scott  
C Rutter (resigned 31 August 2006)  
G Sizer  
J Murphy  
K Faulkes (appointed 14 November 2005)  
E Haines (appointed 14 November 2005)  
J Malham (appointed 14 November 2005)  
P McKeever (appointed 14 November 2005)  
J Murray (appointed 12 December 2005)

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.

## **Auditors and 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 and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board



W McLeish

Secretary

22 December 2006

# **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 1 October 2006 which comprise the profit and loss account, the balance sheet, the 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**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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. We also 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 judgments 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.

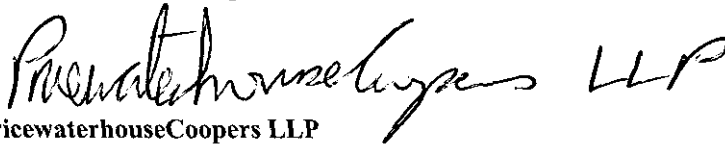
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

## 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 1 October 2006 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

22 December 2006

# Southern Cross Healthcare Services Limited

## Profit and loss account for the year ended 1 October 2006

	Note	Year ended 1 October 2006 £	Period ended 2 October 2005 £
<b>Turnover</b>	1	<b>122,077,807</b>	174,906,283
Cost of sales		(77,419,978)	(113,133,285)
<b>Gross profit</b>		<b>44,657,829</b>	61,772,998
Administrative expenses before operating lease rentals		(15,128,282)	(19,381,690)
Operating lease rentals		(25,523,658)	(37,805,719)
<b>Administrative expenses</b>		<b>(40,651,940)</b>	(57,187,409)
<b>Operating profit</b>	4	<b>4,005,889</b>	4,585,589
Interest receivable		5,198,438	1,417,541
Interest payable	5	-	(184,173)
<b>Profit on ordinary activities before taxation</b>		<b>9,204,327</b>	5,818,957
Taxation	6	(2,842,318)	(1,810,964)
<b>Profit on ordinary activities after taxation</b>		<b>6,362,009</b>	4,007,993
<b>Dividends</b>		<b>(13,000,000)</b>	-
<b>(Loss)/profit for the financial year</b>	14	<b>(6,637,991)</b>	4,007,993

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 activities before taxation and the retained loss for the financial period and their historical cost equivalents.

# Southern Cross Healthcare Services Limited

## Balance sheet as at 1 October 2006

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Intangible assets	7	541,233	579,127
Tangible assets	8	5,363,822	4,182,626
		<b>5,905,055</b>	<b>4,761,753</b>
<b>Current assets</b>			
Stocks	9	79,466	79,466
Debtors – due within one year	10	11,816,940	7,329,435
Cash at bank and in hand		-	179,150
		<b>11,896,406</b>	<b>7,588,051</b>
<b>Creditors: amounts falling due within one year</b>	11	<b>(13,027,757)</b>	<b>(995,499)</b>
<b>Net current (liabilities)/assets</b>		<b>(1,131,351)</b>	<b>6,592,552</b>
<b>Total assets less creditors falling due within one year</b>		<b>4,773,704</b>	<b>11,354,305</b>
<b>Provisions for liabilities and charges</b>	12	<b>(57,390)</b>	<b>-</b>
<b>Net assets</b>		<b>4,716,314</b>	<b>11,354,305</b>
<b>Capital and reserves</b>			
Called up equity share capital	13	2	2
Profit and loss account	14	4,716,312	11,354,303
<b>Equity shareholders' funds</b>	15	<b>4,716,314</b>	<b>11,354,305</b>

The financial statements on pages 5 to 16 were approved by the board of directors on 22 December 2006 and signed on its behalf by:



P Scott  
Director



G Sizer  
Director



# Southern Cross Healthcare Services Limited

## Statement of accounting policies

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 VAT) 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 33⅓% 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 periods, 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 change arising is recognised in the profit and loss account.

### Leased assets

Assets acquired 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.

### Cashflow 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 of preparing a cashflow 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.

## **Southern Cross Healthcare Services Limited**

### **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.

# Southern Cross Healthcare Services Limited

## Notes to the financial statements for the year ended 1 October 2006

### 1 Turnover

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

### 2 Employee costs

	<b>Year ended 1 October 2006</b>	<b>Period ended 2 October 2005</b>
	<b>£</b>	<b>£</b>
Staff costs consist of:		
Wages and salaries	<b>63,903,372</b>	94,993,896
Social security costs	<b>5,410,594</b>	6,893,366
Pensions costs	<b>26,250</b>	40,297
	<b>69,340,216</b>	101,927,559

The average number of employees during the period was:

	<b>Year ended 1 October 2006</b>	<b>Period ended 2 October 2005</b>
	<b>Number</b>	<b>Number</b>
Care and ancillary	<b>5,321</b>	4,452
Management and administration	<b>203</b>	256
	<b>5,524</b>	4,708

### 3 Directors

The directors received no emoluments during the year (period ended 2 October 2005: £Nil).

# Southern Cross Healthcare Services Limited

## 4 Operating profit

	Year ended 1 October 2006 £	Period ended 2 October 2005 £
Operating profit is stated after charging:		
Depreciation – owned tangible assets	1,387,389	1,524,053
Amortisation of goodwill	37,894	56,841
Operating lease rentals: land and buildings	25,523,658	37,805,719

Auditors' remuneration is paid via the immediate parent undertaking.

## 5 Interest payable

	Year ended 1 October 2006 £	Period ended 2 October 2005 £
Bank loans and overdrafts	-	324
Interest payable to group undertakings	-	183,849
	-	184,173

# Southern Cross Healthcare Services Limited

## 6 Taxation

### (a) Analysis of tax charge in the year

	Year ended 1 October 2006 £	Period ended 2 October 2005 £
Current tax:		
UK corporation tax	2,763,998	1,808,027
Adjustment in respect of previous years	17,639	-
	2,781,637	1,808,027
Deferred tax:		
Current year	43,378	2,937
Adjustments in respect of prior period	17,303	-
Total deferred tax	60,681	2,937
Tax on profit on ordinary activities	2,842,318	1,810,964

### (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:

	Year ended 1 October 2006 £	Period ended 2 October 2005 £
Profit on ordinary activities multiplied by the standard rate of UK corporation tax of 30% (2005: 30%)	2,772,666	1,745,687
Effects of:		
Expenses not deductible for tax purposes	34,710	(2,937)
Accelerated capital allowances/other timing differences	(43,378)	65,277
Adjustments in respect of previous years	17,639	-
	2,781,637	1,808,027

### (c) Factors that may affect future charges

There are no factors which are expected to materially affect future tax charges

# Southern Cross Healthcare Services Limited

## 7 Intangible fixed assets

	<b>Goodwill</b>
	<b>£</b>
<b>Cost</b>	
At 2 October 2005 and 1 October 2006	789,743
<b>Amortisation</b>	
At 2 October 2005	210,616
Charge for the year	37,894
<b>At 1 October 2006</b>	<b>248,510</b>
<b>Net book amount</b>	
<b>At 1 October 2006</b>	<b>541,233</b>
At 2 October 2005	579,127

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

# Southern Cross Healthcare Services Limited

## 8 Tangible fixed assets

	Short leasehold property	Fixtures & fittings and computer equipment	Total
	£	£	£
<b>Cost</b>			
At 2 October 2005	1,119,959	7,011,552	8,131,511
Additions	13,908	2,583,701	2,597,609
Transfers from fellow subsidiaries	10,046	-	10,046
Disposals	-	(53,683)	(53,683)
<b>At 1 October 2006</b>	<b>1,143,913</b>	<b>9,541,570</b>	<b>10,685,483</b>
<b>Depreciation</b>			
At 2 October 2005	296,960	3,651,925	3,948,885
Charge for the year	46,694	1,340,695	1,387,389
Disposals	-	(14,613)	(14,613)
<b>At 1 October 2006</b>	<b>343,654</b>	<b>4,978,007</b>	<b>5,321,661</b>
<b>Net book amount</b>			
<b>At 1 October 2006</b>	<b>800,259</b>	<b>4,563,563</b>	<b>5,363,822</b>
At 2 October 2005	822,999	3,359,627	4,182,626

## 9 Stocks

	1 October 2006	2 October 2005
	£	£
Consumables	79,466	79,466

The replacement cost of stock does not materially differ from the costs stated above.

# Southern Cross Healthcare Services Limited

## 10 Debtors

	1 October 2006	2 October 2005
	£	£
<b>Amounts receivable within one year:</b>		
Trade debtors	5,314,350	5,194,030
Amounts due from group undertakings	6,502,590	2,132,114
Deferred taxation (note 12)	-	3,291
	<b>11,816,940</b>	<b>7,329,435</b>

## 11 Creditors: amounts falling due within one year

	1 October 2006	2 October 2005
	£	£
Bank loans and overdrafts	10,620,885	-
Other creditors	8,241	1,670
Corporation tax	2,398,631	993,829
	<b>13,027,757</b>	<b>995,499</b>

## 12 Deferred tax

	£
Deferred tax asset at 2 October 2005 (note 10)	(3,291)
Deferred tax charge in the profit and loss account	60,681
<b>Deferred tax liability at 1 October 2006</b>	<b>57,390</b>

	2006	2005
	£	£
Deferred tax is provided as follows:		
Capital allowances	57,390	(3,291)



# Southern Cross Healthcare Services Limited

## 13 Share capital

	Authorised		Allotted, called up and fully paid	
	1 October 2006	2 October 2005	1 October 2006	2 October 2005
	£	£	£	£
Ordinary shares of £1 each	1,000	1,000	2	2

## 14 Profit and loss account

	£
At 2 October 2005	11,354,303
Loss for the financial year	(6,637,991)
At 1 October 2006	4,716,312

## 15 Reconciliation of movement in equity shareholders' funds

	Year ended 1 October 2006	Period ended 2 October 2005
	£	£
Loss for the financial year	(6,637,991)	4,007,993
Opening equity shareholders' funds	11,354,305	7,346,312
Closing equity shareholders' funds	4,716,314	11,354,305

# Southern Cross Healthcare Services Limited

## 16 Financial commitments

As at 2 October 2005, the company had annual commitments under non-cancellable operating leases, all of which relate to land and buildings, as set out below:

	<b>Year ended 1 October 2006 Land and buildings £</b>	<b>Period ended 2 October 2005 Land and buildings £</b>
Operating leases which expire:		
After five years	<b>25,523,658</b>	25,429,999

## 17 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.

## 18 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 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:

Southgate House, Archer Street, Darlington, Co Durham, DL3 6AH.

## 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 £26,250 (2005: £40,297).