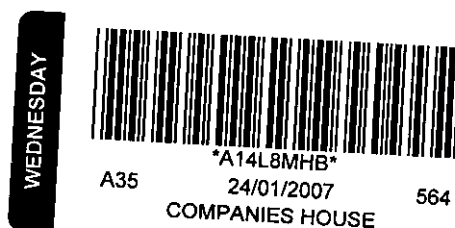


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**Southern Cross
Healthcare**
Group PLC

Annual Report and Accounts **2006**

01-10-06



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Southern Cross Healthcare Group

Southern Cross Healthcare is the largest provider of care homes for the elderly in the UK, and a major provider of specialist services for people with physical and/or learning disabilities, operating 580 homes with 28,917 beds at 1 October 2006.

Following the listing of the Company's shares on the London Stock Exchange in July 2006, the Company entered the FTSE 250 index in September 2006.

Group at a Glance

Operating Highlights

★ Ashbourne Healthcare, acquired in November 2005, successfully integrated, adding 10,000 beds to Group capacity.

★ Other acquisitions added a further 950 beds with another 428 beds added through the Group's development programme.

★ Available beds increased to 28,917 beds at year end (2005 – 17,000 beds).

★ Average occupancy of 91.0% (2005 – 91.6%). Underlying occupancy of 91.6% (2005 – 91.6%).

★ Average weekly fee up 8.0% to £478 (2005 – £443).

★ Efficient cost control management, post-acquisition and integration of new beds, has maintained operating margins.

★ IPO successfully completed in July 2006, raising £175.0m. Proceeds of issue were used to refinance the business.

Statutory Financial Highlights

★ Revenue of £610.9m (2005: 28 weeks – £188.2m).

★ Operating income of £1.6m (2005: 28 weeks – £7.5m) after a charge of £30.7m (2005: 28 weeks – £4.0m) for future minimum lease charges under IAS 17.

★ Basic loss per share for the year of (9.4)p (2005 – (0.1)p).

Other Financial Highlights

★ Underlying revenues up 10.0% to £385.6m (2005: annualised – £349.5m).

★ Home EBITDAR before central costs of £189.6m (2005: 28 weeks – £60.2m).

★ Underlying Home EBITDAR before central costs, up 11.0% to £124.3m (2005: annualised – £111.8m).

★ Adjusted EBITDA of £48.8m (2005: 28 weeks – £15.7m).

★ Adjusted earnings per share of 10.0p.

★ Home EBITDAR, before central costs, margin of 31.0% (2005: 28 weeks – 32.0%). The comparative period represents the most profitable part of the calendar year.

★ Net cash inflow from operations of £50.6m (2005: 28 weeks – £15.0m) representing cash conversion of Adjusted EBITDA of 103.7% (2005 – 95.6%).

★ First dividend of 1.1p per share, representing pro rata dividend for period since IP

Note: Underlying results exclude the effect of acquisitions. 2005 (annualised) numbers are calculated using the audited numbers for the 28 weeks ended 2 October 2005, dividing by 28 weeks and multiplying by 52 weeks.

Elderly Care

24,027

Number of beds¹

466

Number of homes¹

£481.6m

Fee income

£142.8m

Home EBITDAR before central costs

£455

Revenue
Bed per week

3,974

Number of beds¹

72

Number of homes¹

£94.0m

Fee income

£38.2m

Home EBITDAR before central costs

£524

Revenue
Bed per week

Specialist Care

916

Number of beds¹

42

Number of homes¹

£35.3m

Fee income

£8.6m

Home EBITDAR before central costs

£873

Revenue
Bed per week

¹ As at 1 October 2006 including managed portfolio

Note: Resident analysis at 1 October 2006.

Chairman's Statement

It is with great pleasure that I welcome all new Southern Cross Healthcare shareholders following the Initial Public Offering of shares earlier this year.

William Colvin Chairman

Introduction

It is with great pleasure that I welcome all new Southern Cross Healthcare ("Southern Cross") shareholders following the Initial Public Offering ("IPO") of shares earlier this year. The last 12 months have seen the Company grow significantly to a position where it is now the UK's leading provider of care home services for the elderly and also a major provider of specialist services for people with physical and/or learning-disabilities.

As the market leader, and primary consolidator in the UK care home services sector, Southern Cross has benefited from the growing demand for high-quality, value-for-money, long-term care services across the UK. The success of our strategy of acquiring and developing modern, purpose-built care homes in areas of high demand is reflected in the financial results for the 52 weeks to 1 October 2006.

Results and Dividends

Turnover for the 52 weeks ended 1 October 2006 increased by 75%, on an annualised basis, to £610.9m, primarily as a result of the acquisition of Ashbourne Healthcare completed in November 2005. Average fees per occupied bed also increased during the year by 8.0% and a number of individual new homes were acquired and developed from the Company's pipeline of growth opportunities.

Adjusted earnings before interest, tax, depreciation, exceptional charges and charges for future minimum rental increases ("Adjusted EBITDA") was £48.8m representing an increase of 67.1% compared to the prior year on an annualised basis. The loss before taxation was £17.4m, reflecting the impact of the IFRS adjustment for charges for future minimum rental increases of £30.7m, exceptional charges relating to the IPO which amounted to £3.1m, and the financing costs of the capital structure pre-IPO.

Basic loss per ordinary share was 9.4p after a UK Corporation tax credit of £5.3m. Adjusted earnings per share before charges for future minimum rental increases and exceptional charges and the taxation impact thereof were 10.0p.

Had the Company been listed for the whole of the 52 weeks ended 1 October 2006, the Board considers that it would have recommended a dividend of 4.8p per ordinary share. Taking into account the 82 days for which the Company was listed prior to the financial year end, the Board is recommending a pro rata dividend of 1.1p per ordinary share. Going forward the Company expects to grow dividends from this level to reflect the growth prospects and cashflow generation of the business, while maintaining an appropriate level of dividend cover.

Management and Staff

The Board, on behalf of all shareholders, would like to thank all the dedicated staff working in our homes and also those supporting the homes, as well as the management team who oversee the entire national operation. Their hard work and commitment have enabled us to build Southern Cross to become market leader in the sector.

Outlook

Care home services are playing an increasingly important role in the overall healthcare provision across the UK. The combination of an ageing population and the reduction in overall bed numbers within the NHS and the long-term care sector have resulted in the growing demand for quality care services.

Looking ahead to the next 12 months, we believe Southern Cross is well placed to achieve further progress in both revenue growth and profitability. We have secured £300m of landlord funds to enable us to continue our acquisition plans and we have a significantly expanded development pipeline which will add a further 1,000 beds to our portfolio by December 2007. At the same time, we shall continue our drive for growth in fee and occupancy rates, as well as maintaining tight cost control.

The Board remains confident that there will be a growing demand for our services and remains firmly committed to ensuring that all our homes provide the best possible levels of care for all of our valued clients.

William Colvin
Chairman

Chief Executive's Statement

During another excellent year, we have continued to consolidate the long-term care sector to become the UK market leader, as well as successfully listing our business on the London Stock Exchange.

Philip Scott Chief Executive

Strategy Overview

I am delighted to confirm another excellent year for the Southern Cross Group.

During a year in which we have successfully listed the Company's shares on the London Stock Exchange, we have continued to grow our market presence, by adding volume to both of our principal business streams and expanding our development pipeline. Our funding strategy and business model ensures that we can continue to increase shareholder returns without recourse to additional shareholder equity, as the last 12 months' activity has demonstrated.

Strategically, the Group remains committed to the long-term care market, targeting further growth in both core and specialist divisions. The demand for long-term care services is anticipated to increase substantially over the next 25 years. On the basis that the percentage of elderly people currently living in residential care homes in each of the age groups 65 years to 74 years, 75 years to 84 years and over 85 remains unchanged, then the application of those percentages to forecast census figures from 2006 to 2031 suggests a need for an average of 14,000 new beds per annum just to satisfy emerging demand.

Given the ongoing contraction of supply in the marketplace – as a consequence of small providers selling their properties to realise the land value which is often greater than the care home business value, occupancy levels over the next few years are likely to reach capacity in excess of the current level of 91%, a figure which includes a portfolio of immature development homes.

We believe that the typical dependency levels of persons living in care homes today are such that 24-hour care is required to meet the range of social and nursing care needs presented. Whilst supportive of Government's strategy of ensuring elderly people have options for home care if possible, we remain convinced that with a reducing pool of taxpayers due to an ageing population, the residential care model continues to offer "best economic value" for 24-hour care services. At current average weekly fee rates, of £465 for Elderly Care this equates to a price of just over £2.75 per hour.

We will therefore continue to pursue our strategy of increasing capacity via acquisition and organic growth programmes in anticipation of the growing demand for our services.

As the UK's largest provider, we still have only a 6% share of a £12 billion revenue market, and consequently have resourced our development and acquisition teams to ensure that we continue to add capacity and increase our market penetration over the next five years.

Group Branding

With two business streams (elderly care and specialist services), we have redefined our marketing strategy this year to create an additional brand, targeted specifically at clients who are funding their own placement. Rather like the hotel sector, we now offer – via our Ashbourne Senior Living brand – facilities with higher accommodation standards and those additional services often requested by self-funding residents.

The Southern Cross brand will continue to predominantly cater for residents who are funded by local authorities. Those placements are generally procured on an agreed service specification linked to client dependency and price. Active Care Partnerships is our specialist services brand providing younger people with as much support as required to maximise their ability to lead active and independent lives.

Acquisition Activity

During the year we acquired the Ashbourne Group adding a further 193 leasehold care homes and over 10,000 beds to group capacity. Integration of that portfolio is now complete and I am pleased to report that occupancy has increased in that portfolio by 2% since acquisition in November 2005.

In addition to the Ashbourne purchase, we added a total of 950 beds via small bolt on transactions.

This includes, post-flotation, the "United A" portfolio that added 270 beds to the Group. All beds, except for the "United A" portfolio, were funded utilising landlord facilities in line with our current funding strategy. We will shortly exchange contracts for the on-sale of the "United A" freeholds to one of our landlord funds.

Development Pipeline

Our development pipeline has expanded significantly and we currently have in excess of 2,000 beds in various stages of planning and construction. A further 1,000 beds will be delivered and open for business by the end of December 2007. Particular areas of focus continue to be Northern Ireland (NI) and Scotland (SC) where demographic pressure is increasing demand for elderly care services.

During the year we have opened a 64-bedded facility in Enniskillen (NI), 90 beds in Wishaw and 85 beds in Renfrew (both SC). We have also added an 80-bedded unit in York and a further 66 beds by way of extensions to existing facilities.

In addition we have added two specialist units in Scotland under the Active Care Partnerships brand.

Disposal Programme

The Group continues to review the long-term sustainability of particular homes acquired as part of material acquisitions. In the last 12 months we have assigned the leasehold interest for three homes that did not meet our trading performance expectations and were unlikely to do so in the long term. As part of the Ashbourne acquisition, we acquired a number of unencumbered freeholds. Two of these have been sold and a further five will be marketed for sale given the age and limitations of the properties. We are likely to achieve a small profit on the disposal of these businesses.

Sale and Leaseback Financing

The Group has funded its growth using sale and leaseback financing since incorporation in 1996. That funding mechanism remains at the core of our financing strategy and I am delighted to report that we have secured £300m of landlord funds available for a two-year period at a fixed initial yield, to enable us to continue our acquisition plan unabated. These funds give us real visibility over forward rents and over the last year we have as a consequence of our covenant strength, continued to access new funding sources with relatively low yield expectations.

Chief Executive's Statement

Geographic Presence

Total	580 Homes	28,917 Beds
Scotland	78 Homes	4,604 Beds
Northern Ireland	21 Homes	977 Beds
North and Yorkshire	192 Homes	9,627 Beds
Midlands	101 Homes	4,698 Beds
Wales and SW England	68 Homes	2,861 Beds
East Anglia	58 Homes	2,761 Beds
South East England	62 Homes	3,389 Beds

Note: Available beds including managed portfolio as at 1 October 2006.

Market Outlook

With the anticipated demographic pressures compounded by the continued contraction in supply and the ongoing burden of legislation (such as the Care Standards Act and National Minimum Wage) pushing up operating costs, we expect that fee rates will continue to rise in excess of inflation. That is essential to reduce the number of beds leaving the market, to encourage new development to meet the anticipated emerging demand and to provide full cost recovery in respect of increased legislation.

Given the quality of our modern, well-invested, purpose-built portfolio and the fact that we are now compliant with most of the legislative requirements that required material capital expenditure, we expect our operating costs to remain relatively stable. Home payroll costs account for the largest proportion of our operating cost base. However, we have a recognition agreement with the GMB union and therefore continue to have real visibility over likely cost increases, as negotiation and agreement of pay awards precede fee reviews. In addition, we continue to recruit personnel directly from overseas and as a consequence our reliance on agency personnel has continued to reduce during the year.

Acquisition and development opportunities continue to present themselves and we expect to participate in the ongoing consolidation of the sector. We are on course to exceed our annual target of adding 1,200 beds in 2007 and therefore our efforts are now focused on adding to the 2008 development pipeline.

Philip Scott
Chief Executive

Business Review

Elderly Care

Quality service provision remains our key focus, whilst progressing our branded service offerings to our clients.

John Murphy Group Operations Director

The Group's core interest remains the provision of care services for elderly people, complemented by a small but expanding specialist care business. Over the last 12 months both business streams have increased capacity as acquisition and development activity has progressed.

Our Elderly Care business has recently been branded under two service offerings; Southern Cross Healthcare and Ashbourne Senior Living. The specialist business is branded under the Active Care Partnerships identity and trades under a separate divisional operational team.

Southern Cross Healthcare

The largest of the branded portfolios with 466 homes and 24,027 beds, Southern Cross provides services for clients predominantly funded by local authority payers. The facilities are in modern purpose built homes, with the majority of beds being in single ensuite rooms.

The Southern Cross branded homes are located throughout the United Kingdom, albeit with greater penetration in Scotland, and the North of England. The average home size is 55 beds and typically of a two storey construction.

Over the last year we have sustained good levels of occupancy whilst experiencing the usual seasonality, that being a marginal increase in occupancy post-April of each year as local authorities enter a new budget year. That gain is in part offset by a slight reduction in occupancy over winter months as mortality rates increase and commissioners of service have extended periods of vacation, thus slowing referrals.

Homes operating under the Southern Cross brand seek to cater predominantly for high dependency residents with specific nursing or social care needs. Average length of stay for this client group is 11 months.

Average occupancy levels of 93% in our mature homes are in line with last year's performance. Group average occupancy remains stable at 91%.

Business Review

Ashbourne Senior Living

Currently 72 homes with 3,974 beds have been rebranded under the *Ashbourne Senior Living* brand. Recognising that a number of our clients self fund their care placement and often want additional services and perhaps a higher standard of accommodation, homes operating under this brand will in time be able to meet the demand for such.

Presently, any client (except in Scotland) with a net worth in excess of £21,000 has to fully fund his or her own care placement. Given the push towards home ownership in the 1970s and 1980s combined with such a low qualifying threshold and an increasing demand for long-term care services, this will inevitably lead to more and more clients having to fund their own care. On that basis, rather like the hotel sector, service users will price differentiate on the basis of *accommodation and service standards*.

Occupancy performance is in line with Group average of 91% and average fee rates are some 15% higher than those paid by local authorities.

We make every effort to increase the comfort level of every resident, assisting them with a variety of essential activities and are constantly looking at ways to improve their experience with us.

Specialist Care

We will continue to develop our Active Care brand, mainly through organic development as commissioners continue to request modern, purpose-built, fully-equipped units that promote independent living.

Active Care Partnerships

With 42 homes and 916 beds Active Care Partnerships provides social and healthcare support services for clients with a range of learning disabilities. All homes, whilst registered with the Commission for Social Care Inspection, tend to be much smaller than those homes within Elderly Care portfolios and discreetly located within residential communities. The care model is much more socially focused with an emphasis on promoting and developing a range of skills to live as independently as possible.

Over the last year we have added two developments to the Active Care portfolio, Moorpark Place and the Green Door Clinic, both located in Scotland. These two units are modern, purpose built in design, providing the much needed space required by the respective client groups.

Average fees are £873 per week, reflecting the fact that pricing is negotiated on a case by case basis after a careful assessment of need and costing of resource package required to meet that need.

Personnel

Manpower availability and recruitment to the care sector has improved significantly over the last two years, given access to European labour markets. We continue to maintain an active foreign recruitment programme and we currently employ in excess of 2,000 staff from Eastern Europe and South-East Asia. Those personnel are deployed across the UK during an initial two-year contract period and generally a high number of those staff re-sign for a second period.

Our staff teams have worked diligently over the last year to ensure that our reputation as a provider of high-quality services is maintained. We continue to recognise that hard work and commitment via our care awards initiative, which is designed to reward staff members who have consistently provided a very high level of service in their chosen profession. We are fortunate to have many such staff and I would like to thank all of our employees for their commitment to our resident group and loyalty to the Company.

Within the operational management structure, we continue to maintain a growth overhead, anticipating further acquisition and development activity. That overhead ensures adequate planning is afforded to the integration of completed acquisitions, a process that commences immediately after transaction completion. The integration process is a tried and tested model and a number of senior managers are allocated to effect the integration in the shortest possible timeframe.

Business Review

We have a wide range of vehicles and equipment which assist in the day-to-day lives of our residents, and maintain frequent senior management meetings to discuss potential improvements in our services.

Service Standards

During the year we have again revised our policies and procedures to ensure that "best practice guidelines" as issued by the sector regulator and the Department of Health are fully implemented into our day-to-day service delivery. We continue to robustly monitor our service on a weekly/monthly basis to ensure consistency in the quality of service provided. Results are collated centrally and circulated to Executive Directors for review and comment. A summary of those results is included within monthly Board Papers for all Board Directors to consider.

We have over the last 12 months appointed two new management positions – a Regulation and Compliance Manager and a Group Health and Safety Manager – to ensure we have the in house expertise to provide constant audit and review. These new managers provide Board Directors with data to support best practice initiatives for both disciplines.

Regulatory Environment

Given our national geographic presence, the Group's services are monitored by a number of regulatory bodies. Care homes in England have up to three regulatory inspections a year, two of which are usually unannounced. The Commission for Social Care Inspection (CSCI) is the regulator and their teams of inspectors are located throughout England. We now benefit from having a Provide Relationship Manager, within CSCI, who acts as a central single point of contact to discuss issues. We welcome this initiative and are working closely with the regulator to ensure consistent interpretation of the care standards across all of our homes.

In Scotland the regulator is the Scottish Care Commission that operates in a similar manner to its English counterpart. In Wales, the agency is Care Standards Inspectorate Wales (CSIW) and in Northern Ireland it is Registration and Inspection Units (RIUs). All of these regulatory agencies operate under the Care Standards Act legislation and the associated Care Home Regulations. That legislation gives the regulator very material powers including enforcement action which may be implemented against rogue providers.

The results of the regulatory inspections are public documents and therefore act as a continual benchmark of our service.

As a result of these inspections and our own rigorous internal compliance review procedures, we are confident that our services continue to meet regulatory standards and that our policies and procedures fully comply with care home regulations.

From April 2007 we are likely to see the regulators introduction of a star rating system akin to that of the hotel sector. We remain hopeful that this initiative will in time lead to price differentiation based on the quality of services provided. Should that be the case, clearly those providers gaining a higher star award can expect to achieve higher fee rates. Given the quality of our portfolio and high standard of service provided we anticipate our homes being star rated at the top end of the awards range.

John Murphy
Group Operations Director

As the UK's leading provider of elderly care services, we are supportive of a number of charities, including Action on Elder Abuse.

Corporate, Social Responsibility

Our local focus helps us to deliver a quality service to our residents, support our staff and interact with the local community.

Community

Southern Cross provides financial support to our Care Centres so they can consolidate their position in the local community for the benefit of service users, staff and the local community.

Each of our individual Care Centres has its own ideas for community integration based on its knowledge of the local community. Our service users and staff work together to raise funds from raffles, fetes and coffee mornings all for good causes. This money has gone to improve the lives of our service users and a variety of local causes championed by our Care Centres across the United Kingdom. Our sponsorship of local primary school football teams has been particularly successful. Our approach is designed to encourage confidence building, competitiveness and healthy living amongst young children.

During 2006, our people supported a number of charities including Alzheimer's Society, Children in Need, Macmillan Cancer Support, Royal National Institute for the Blind, Multiple Sclerosis Society and Action on Elder Abuse, which was the featured charity for Southern Cross in 2006. Our people raised £16,770 from various local events around the country. This was increased with a £50,000 donation from Southern Cross.

Our community involvement is focused on local initiatives where we can really make a difference to children and their schools and where we can bring communities together across the generations.

Workplace

Southern Cross is committed to the principle of equal opportunity and opposes all forms of unfair or unlawful discrimination. We intend to provide an environment that gives equality to all, irrespective of race, gender, disability, religion or sexual orientation.

Southern Cross has formed a partnership with the Royal College of Nursing in a special project aimed at internationally-recruited nurses. The objective of the project is to enhance the opportunities and potential for development for such staff. Through local colleges we have been able to help our staff develop their skills and to train nurse mentors to pass these skills on to their colleagues.

At the end of October 2006 10.0% of our workforce were non-UK nationals and 82.5% of our workforce were female.

By understanding and valuing diversity, we are better placed to meet the needs of our service users. Equal opportunities for all are embedded in all of our principles and practices.

Harassment, bullying or any form of intimidation of our employees, clients, customers or suppliers is not acceptable at Southern Cross. We are committed to providing a safe, secure and attractive environment for both our service users and our staff.

Business Review

We know that the best care comes from a continuous commitment to training and creating a motivated and knowledgeable team. Understanding and valuing diversity within our people puts us in a much better position to understand the needs of our clients.

Health and Safety

The Chief Executive has overall responsibility for the health, safety and welfare of staff and service users. The Group Operations Director has responsibility at Board-level, for the Statement of Intent to implement the Health and Safety Policy.

The Senior Operations Team (SET), comprising the Group Operations Director, Managing Directors and other departmental heads, meets regularly and reviews the Health and Safety Strategy and Standards for the Group as set by the Central Health and Safety Committee. This group reviews the organisation's health and safety performance regularly, ensuring that effective monitoring and reporting procedures are in place to meet all relevant legislation and standards.

Environmental Issues

On a number of levels, we are working with our suppliers to develop a "greener" approach to the way we run our business. To that end, we have put in place a number of initiatives to decrease our energy consumption. For example, we have installed smart metering and on line energy reporting for the vast majority of our Care Centres with a commitment to have all of our sites included by December 2006. This system allows each site to be monitored and adjusted where necessary in our efforts to establish an efficient, structured energy management programme. In addition, by the end of 2007 it is our plan to have one third of all of our sites on "green energy". As a matter of practice, when our Care Centres require replacement lighting bulbs they are automatically sent low energy versions.

We have also made significant efforts to improve the amount of recycling that we undertake as a company. We comply with regulations on the disposal of electrical and other materials. We are also making progress in how we dispose of our clinical waste, managing the transition from reliance on landfill disposal to incineration. We have recently appointed a national supplier for the collection of our trade waste and establishing a programme for the responsible disposal and recycling of cardboard. The variety of initiatives we have put in place reflects the scope of our business. From recyclable products for our copiers and printers, to recycling waste cooking oil from our kitchens, we believe in doing what we can to protect the environment.

We will continue to make efforts to reduce the impact of the Group on the environment and to integrate environmental issues into our existing business practices.

Marketplace

Southern Cross is committed to providing a quality service to our service users and their families. We are committed to extending the level of accessibility to our services and communications regardless of an individual's physical characteristics.

Our service users' needs are central to the services we provide. We actively look for their feedback and conduct regular surveys to ensure we incorporate their views when defining our service.

Our suppliers are regarded as partners. Without our partners, we would be unable to provide the quality of service that we do. They are a vital part of our service delivery.

Professional Ethics

Our philosophy of care is to provide the highest standard of person specific care through a range of specialist services. Our core values of privacy, dignity, independence, choice, rights and fulfilment are central to this philosophy.

The objective of the Southern Cross Practice, Ethics, Education and Research Review Group is to ensure that all research and procedures operate under and maintain the highest standards of ethics. The protection of the rights of our service users remain paramount.

Employment Policy

We are committed to recruiting, retaining and motivating suitably qualified employees at all levels within the Group to ensure we meet our business objectives. Our employment policies and procedures are designed to support these objectives.

To that end, we have put together a competitive remuneration package which is reviewed regularly.

Training and professional development are also part of this package and all employees are encouraged to undertake suitable and appropriate training relevant to their individual needs and roles. All managers are expected to undertake a programme of continued professional development which includes the Registered Managers Award. In addition, all staff undergo a rigorous training programme to ensure that they are able to comply with all regulatory requirements.

Regular staff reviews and feedback are incorporated into our employment policies as standard.

Our aim is to provide a supportive environment that recognises diversity and encourages people to reach their full potential.

Employees' Corporate Responsibility

Our staff works hard to deliver a top-quality service and we recognise this contribution each year with the Southern Cross Care Awards. Awards are presented at both a regional and national level to individuals that demonstrate excellence in a number of categories. Their colleagues, service users and service users' families nominate individuals for awards.

Southern Cross provides a number of services to our people to help them in their daily lives. The Company benefits scheme provides a range of special offers and discounts available to our people. This includes special discounts on holidays, health club membership, car purchase and hire schemes, cinema visits and insurance services.

Our employee assistance line is available to all of our staff and their families to offer them advice on stress related issues 24 hours a day.

As part of the local community, our staff organises and takes part in local fund raising opportunities generating funds for both local and national charities. Southern Cross actively encourages this activity.

Business Review

Financial Review

The Group recorded significant growth during the year, through acquisition activity and organic development. Fee income increased by 75%, on an annualised basis, to a total for the year of £610.9m.

Graham Sizer Group Finance Director

Overview

Acquisition and Development Activity

This has been another year of significant growth and development for the Group. November 2005 saw the acquisition of the Ashbourne portfolio, increasing the size of the Group by 193 homes and over 10,000 beds. Outside of that major acquisition, the Group has continued to grow through its development programme (428 new beds opened) and through bolt-on acquisitions (950 new beds via eight transactions). It is the Group's intention to continue with this two-pronged strategy and the completion of dedicated landlord funds totalling £300.0m will enable us to facilitate this growth.

Initial Public Offering ("IPO")

On 12 July 2006, the shares of the Company were admitted to the Official List of the London Stock Exchange. The primary share offer raised £175.0m which was used to refinance debt, redeeming shareholder deep discounted bonds and loan notes and reducing bank indebtedness. Approximately £20.0m of the proceeds were used to meet the costs of flotation.

In September 2006, the Company entered the FTSE 250 list. The IPO has strengthened our financial position, simplified our capital structure and given the Group a solid base to further consolidate the UK care home sector.

Integration and Restructuring

During the year we have completed the integration of the operations and back-office support systems of Highfield (acquired in late March 2005) and Ashbourne (referred to above). These two acquisitions added some 380 care homes and 18,000 beds to the Group. This has resulted in significant synergy savings for procurement at home level but in particular we have reduced the level of central costs required to manage the enlarged Group. These savings are only partly reflected in the current financial year. A full year impact will be recorded in 2007.

International Financial Reporting Standards (IFRS)

As a listed group, the financial statements have been prepared in accordance with applicable IFRS and are effective at 1 October 2006. The primary effects of the transition to IFRS on the Group were in relation to rental charges, in respect of operating leases, in accordance with IAS 17. The application of IAS 17 meant that rental charges included in the income statement increased by £30.7m and £4.0m in the periods to 1 October 2006 and 2 October 2005, respectively, representing an incremental charge for future minimum rental increases.

Trading Activities

During the 52 weeks ended 1 October 2006, we have experienced strong business growth through acquisitions combined with improvements in revenue and earnings of the underlying business. Both factors contributed to the Group's strong operating performance, which is summarised in the table overleaf:

	52 weeks 2006 £'m	28 weeks 2005 £'m	Growth ² %	Underlying growth ² %
Revenue	610.9	188.2	75	10
Operating income	1.6	7.5	(89)	-
Adjusted EBITDA ¹	48.8	15.7	67	11
Loss before taxation	(17.4)	(2.4)	(287)	-
Average number of available beds	27,008	16,575	63	3
Cash generated from operating activities	50.6	15.0	-	-

1 Adjusted EBITDA before exceptional central costs and charge for future minimum rental increases.

2 Growth and underlying growth has been calculated based upon the annualised results of 2005.

3 Underlying growth excludes the impact of acquisitions.

The impact of acquisitions upon the Group's revenue and Home EBITDA before central costs in the year amounted to £225.3m and £65.3m respectively.

The Group results, set out in the consolidated income statement on page 36, show a decrease of £5.9m of operating income, but an increase in earnings before interest, tax, depreciation and amortisation of goodwill ("EBITDA") from £10.6m to £12.9m. Excluding the charge for future minimum rental increases under IAS 17 and exceptional central costs, Adjusted EBITDA increased by 67.0% on an annualised basis, from £15.7m to £48.8m. The loss for the year before taxation amounted to £17.4m (2005 (28 weeks) - £2.4m).

Earnings per Share

Basic loss per share for the year was (9.4)p (2005 - (0.1)p). Earnings per share for the year before future minimum rental increase charges, and exceptional costs and the taxation impact thereof, was 10.0p (2005 - 0.0p). This adjusted measure excludes non-recurring and non-cash-based charges, however it does not reflect a full-year impact of the new capital structure of the Company.

Segmental Results

The Group has two distinct segments within its operations, namely Elderly Care and Specialist. Both segments noted significant growth in the year primarily through acquisitions.

Elderly Care

Elderly Care recorded an increase in average available beds from 15,874 beds to 26,109 beds and revenue on an annualised basis from £321.1m to £575.6m. The growth in this segment was predominantly as a result of acquisition activity with associated average available beds and revenue of 10,606 beds and £218.8m respectively. The average weekly fee for Elderly Care increased by £41.3 per week (9.7%) to £465.1 per week. The operating margin of Elderly Care decreased slightly from 31.8% to 31.4% for the period ended 1 October 2006. However, the decrease is predominantly due to the comparative period being the most profitable part of a calendar year. Total Home EBITDAR before central costs on an annualised basis increased from £102.3m to £181.0m.

Business Review

The underlying central cost overhead has been reduced significantly compared to the current year, through the completion of restructuring. A full year impact of lower central costs will be recorded in 2007.

Specialist Care

The Specialist segment also recorded an increase in average available beds, increasing from 701 beds to 899 beds. Revenue for the segment increased from £28.4m on an annualised basis to £35.3m for the 52 weeks ended 1 October 2006. The average weekly fee for this segment was in line with expectations at £872.6. Acquisition activity within this sector accounted for increased average available beds and revenue of 206 beds and £6.5m respectively. Total Home EBITDAR before central costs on an annualised basis decreased from £9.5m to £8.6m. Further details of acquisitions during the year are shown in note 29.

Rent

The rent charge for the year amounted to £146.8m (2005: 28 weeks – £40.5m). Excluding the non-cash charge under IAS17 for leases with fixed or minimum annual increases, the rental charge for the year was £116.1m giving a rent cover of Home EBITDAR before central costs: cash rent of 1.63 times (2005 – 1.65 times).

Central Costs

Total central costs for the year amounted to £30.8m, an increase of £12.8m on an annualised basis compared to central costs of £9.7m for the 28-week period ended 2 October 2005. The increase is a reflection of increased central overhead as a result of the acquisition of the Ashbourne Group. Also included within total central costs for the current year are exceptional costs of £5.2m. Excluding these non-recurring charges, central costs amounted to £25.6m.

This adjusted central cost charge is still in excess of current recorded levels on an annualised basis, as it does not incorporate a full year's cost savings as a result of synergy and restructuring, relating to the acquisitions completed throughout the year. The central support function of the Group has been relocated to a new purpose-built head office in Darlington. The transition including the integration of Ashbourne's central support function was completed before the year end.

Exceptional Central Costs

The Group incurred significant, non-recurring, exceptional costs during the year, primarily as a result of restructuring following the acquisition of Ashbourne (£1.8m) and costs incurred in relation to the Listing of the Company's shares on the London Stock Exchange (£3.1m). A full analysis of exceptional costs is disclosed in note 4 on page 49.

Finance Income and Costs

Total net financing costs for the year amounted to £19.0m and predominantly related to charges based on the financing structure prior to flotation. Of the total charge, £7.0m related to interest payable upon deep discount bonds and £5.1m related to bank term loans in issue prior to refinancing during July 2006. The charge for amortisation of loan arrangement fees on bank facilities repaid in the period amounted to £3.2m.

Group net debt decreased by £91m over the year following refinancing at IPO. AS full year impact of reduced finance costs will be recorded in 2007.

Taxation

The tax credit on earnings before taxation of £5.3m (2005 – £1.0m charge) represents a headline rate of 30.5% (2005 – 41.6%). However, this headline rate is significantly affected by the tax effect, amounting to £8.1m credit of translation adjustments to IFRS. Such effects predominantly relate to the future tax benefit of the additional-rental charge under IAS17. This amounts to £9.2m.

The pre-exceptional, pre-goodwill amortisation tax charge under UK GAAP of £4.2m (2005: 28 weeks – £3.1m) represents an effective tax rate of 25.6% (2005: 28 weeks – 55.7%) of earnings before goodwill amortisation and exceptional costs. Excluding the tax impact of prior year credits, predominantly a credit of £0.8m arising from enhanced capital allowance claims, the effective rate is 30.5%. The cause of the variance of the effective rate to the standard rate of 30.0% is the disallowance of non-qualifying depreciation.

Going forward, the Group expects the pre-exceptional, pre-goodwill UK GAAP effective tax rate to remain below the standard rate of tax.

Dividends

Total dividends paid during the year amount to Nil (2005 – Nil). The Group has proposed a dividend of £2.1m, being 1.1p per ordinary share, to be paid on 9 February 2007, to those Shareholders on the register of members at close of business on 12 January 2007.

Non-current Assets

Non-current assets increased by £126.8m over the year to £310.1m, predominantly as a result of goodwill increasing to £196.0m through acquisitions. Property, plant and equipment increased by £57.4m primarily as a consequence of acquisitions over the year. However, the balance at 1 October 2006 included £27.9m of freehold property which will be disposed after the year end.

Financing

The Group renegotiated its borrowing facilities as part of the refinancing process. It currently has a £60.0m term loan facility, £50.0m development facility and £30.0m revolving credit facility plus a £8.3m mortgage facility. The Group used the revolving credit facility to issue £15.1m of guarantees to landlords and loan note holders. At 1 October 2006, the total unutilised portion of these facilities amounted to £48.5m.

Group net debt decreased during the year by £91.0m to £67.6m, as a consequence of refinancing through the Listing process when proceeds from the primary issue of shares plus new bank funding were used to repay deep discount bonds, plus accrued interest amounting to £107.1m, existing bank loans amounting to £121.3m and £1.7m of management loan notes.

Business Review

The business continues to benefit from stable and predictable cash flows with a cash conversion ratio of Adjusted EBITDA of 104%.

Group borrowings at 1 October 2006 consist of £60.0m of bank term loans, £18.1m of bank development loans and £6.5m of mortgage debt. The development loan is expected to be repaid shortly after the year end through the sale of freehold properties to which it relates. In addition to bank borrowings the Group had £6.7m of loan notes and £0.4m of finance lease borrowings in issue at the year end.

In July 2006 the Group entered into a three-year interest rate swap for £30.0m, at a fixed rate of 5.07%. Under the Group's treasury policy, this position will be reviewed on a regular basis.

Equity

As part of its public offering process, the Group completed a bonus issue of 240 shares: one share followed by a primary issue of 77.8m shares. The process raised £175.0m. Issued share capital increased to £1.9m with a share premium account of £173.1m. In addition, £11.6m of legal and professional costs directly attributable to the primary issue of shares have been offset against the share premium account.

Cash Flow

	52 weeks ended 1 October 2006 £'m	28 weeks ended 1 October 2005 £'m
Cash flows from operating activities	50.6	15.0
Interest and taxation	(28.7)	(7.0)
Investing activities	(72.0)	30.4
Financing activities	67.8	(34.2)
Net increase in cash	17.7	4.2

Net cash inflow from operations was £50.6m (2005 – £15.0m), representing a cash conversion ratio compared to Adjusted EBITDA of 103.7% (2005 – 95.6%).

Net cash flow from investing activities amounted to £72.0m outflow (2005 (28 weeks) – £30.4m inflow). Gross investing activities amounted to £123.9m, being £94.8m investment on acquisition of subsidiaries, £14.2m representing development capital, predominantly freeholds, and £14.9m representing maintenance capital. Excluding the acquisition of Ashbourne, the Group invested £55.4m on new subsidiaries. Disposal proceeds relating to the disposal of subsidiary undertakings and freehold properties amounted to £51.9m (2005 (28 weeks) – £97.3m). This frequency of acquisition and disposal of subsidiary entities is consistent with our sale and leaseback funding model.

With the integration of acquisitions now complete, combined with a strong balance sheet through refinancing during the year, the Group is well positioned for continued future growth.

The net cash outflow from interest charges amounted to £27.1m (2005: 28 weeks – £5.7m). The increase was primarily due to settlement of £11.0m of accrued interest upon the redemption of shareholder deep discount bonds and £6.5m upon loan notes. The remainder relates to increased bank borrowings for the Ashbourne acquisition (see below).

As described earlier, the capital structure has now been changed and future interest payments will be significantly reduced as a result.

The net cash flow from financing for the year amounted to £67.8m inflow (2005: 28 weeks – £34.2m outflow). In November 2005, the Group initially increased bank borrowings by £40.7m and issued deep discount bonds amounting to £32.3m as part of the Ashbourne acquisition. Existing loan notes within Ashbourne amounting to £18.0m were repaid as part of the acquisition.

As part of the Listing upon the London Stock Exchange, £175.0m was raised through a primary issue of shares and £67.2m through new bank loan finance which was used to redeem £96.1m of deep discount bonds in issue plus associated accrued interest of £11.0m. Existing bank loan finance amounting to £121.3m and management loan notes of £1.7m were also repaid.

The increase in cash and cash equivalents during the year was £17.7m (2005: 28 weeks – £4.2m) resulting in a year end balance of £21.9m (2005 – £4.2m).

Conclusion

2006 has been another strong year for Southern Cross Healthcare. The integration of acquisitions is complete and we have seen strong underlying growth and cash generation in our existing businesses. Refinancing as part of the Listing on the London Stock Exchange has strengthened our balance sheet and we have new banking facilities in place. The Group is well positioned for future growth.

Graham Sizer
Group Finance Director

Directors and Officers

William Colvin, Non-Executive Director and Chairman

William Colvin was appointed Non-Executive Chairman of the Company in March 2005, when the Group acquired the Highfield Group. He joined NHP PLC in 2000 and became chief executive later that year. Prior to 2000 he was group finance director of British Borneo Oil & Gas PLC for seven years. Mr Colvin currently holds non-executive directorship positions at, Scottish Care Limited, Energy XXI PLC and Sondex PLC. Mr Colvin is a business and economics graduate from Edinburgh University and he qualified as a Scottish Chartered Accountant in 1982 at Ernst and Young.

Philip Scott, Chief Executive

Philip Scott was appointed Chief Executive Officer in February 2002. Mr Scott has more than 15 years' experience in the healthcare industry having previously worked in senior management roles for a number of corporate healthcare providers, including Crestacare PLC and Tamaris PLC, before joining the Group. He is a trained nurse holding both RGN and RMN qualifications and holds a Diploma in Professional Nursing Development from the University of Ulster.

Graham Sizer, Group Finance Director

Graham Sizer joined the Company as Group Finance Director in December 2002. Having previously worked at Grant Thornton, Mr Sizer has ten years' experience within the care homes sector, as group financial controller for Tamaris PLC as well as group financial director for Idun Health Care Limited. Mr Sizer graduated from Southampton University with a degree in accounting and statistics and qualified as a chartered accountant in 1995 at Morgan, Brown & Spofforth before joining Grant Thornton.

John Murphy, Group Operations Director

John Murphy joined the Company as Group Operations Director in March 2005. Mr Murphy has more than 19 years' experience in operational management in the care sector and his experience includes working as the group operations director for Tamaris PLC, managing director of Caledonian Nursing Homes, chief executive of Idun Health Care Limited, chief executive of Highfield Care and a member of the board of NHP PLC.

Committees

Audit Committee:

Christopher Fisher (Chairman)
Ray Miles
Baroness Morgan of Huyton

Nominations Committee:

William Colvin (Chairman)
Ray Miles
Baroness Morgan of Huyton

Remuneration Committee:

Ray Miles (Chairman)
Joseph Baratta
Christopher Fisher

From left:

William Colvin
Philip Scott
Graham Sizer
John Murphy
Ray Miles
Joseph Baratta
Baroness Morgan of Huyton
Christopher Fisher

Ray Miles, Senior Independent Non-Executive Director

Ray Miles became a Non-Executive Director of the Company in June 2006 and is the Senior Independent Director. Mr Miles has spent most of his career in the shipping and transport industry. From 1988 until December 2005, Mr Miles was chief executive officer of CP Ships Limited and was also the senior independent director of Stelmar Shipping Limited from 2004 to 2005. He has been a non-executive director of Provident Financial PLC since 2003 and its senior independent director since October 2004. He is chairman of the Devon Community Foundation and joined the advisory board of Stena AB in 2006.

Joseph Baratta, Non-Executive Director

Joseph Baratta became a Non-Executive Director of the Company in September 2004. Mr Baratta is a senior managing director in the private equity group of The Blackstone Group, having joined the firm as an associate in 1998. Mr Baratta has also worked in the mergers and acquisitions department at Morgan Stanley. Mr Baratta currently also serves as a director of Merlin Entertainments Group Ltd and Center Parcs. Mr Baratta graduated magna cum laude from Georgetown University.

Company Secretary

William McLeish, was appointed as Company Secretary on 25 May 2006 and is a chartered accountant. Before joining the Group, William was the company secretary of Rozelle Healthcare Limited, an operator of care homes which was acquired by the Group in November 2005.

Baroness Morgan of Huyton, Non-Executive Director

Baroness Morgan of Huyton became a Non-Executive Director of the Company in June 2006. A former teacher, Baroness Morgan worked as a senior aide to the British Prime Minister from 1997 to 2005. In 2001, she was made a peer and served as Minister in the Cabinet Office. From 2001 to 2005, she was Director of Government Relations, Downing Street, working closely with the Prime Minister. Baroness Morgan is now working as an adviser to a children's charity, serving on the board of the Olympic Delivery Authority and is a non-executive director of Carphone Warehouse PLC.

Christopher Fisher, Non-Executive Director

Christopher Fisher was appointed a Non-Executive Director of the Company in June 2006. He has since become a partner in Penfida Partners, a new firm providing independent corporate finance advice to pension fund trustees. He is also a non-executive director of Kelda Group and a trustee of the Imperial War Museum. He has spent most of his career in investment banking principally at Lazard, where he was a managing director until 2003, and subsequently at KPMG, where he served as vice chairman, corporate finance, until taking up his appointment with Penfida.

Directors' Report

The Directors present their report and the audited financial statements for the 52-week period ended 1 October 2006.

Activities of the Group

The Group's principal activities are the development and operation of care homes for the elderly and the provision of specialist services for people with physical and/or learning disabilities.

A detailed review of the Group's activities, development of its business and future developments are provided in the Business Review.

Results and dividends

The consolidated income statement, showing the results for the period, is set out on page 36. A detailed review of the Group's results is provided in the Financial Review.

The Directors recommend that a final dividend of 1.1p (2005 – Nil) per ordinary share be paid on 9 February 2007 to those Shareholders on the register of members at the close of business on 12 January 2007. No interim dividends have been paid.

International Financial Reporting Standards (IFRS)

The consolidated financial statements included within this Annual Report are the first the Group has prepared under IFRS. The impact, upon the Group's consolidated income statement and balance sheet, of translation from UK Generally Accepted Accounting Principles to IFRS is included in note 37 to the consolidated financial statements.

The financial statements of the Company continue to be prepared under UK Generally Accepted Accounting Principles.

Directors

The names and biographical details of the Directors who currently hold office are given on pages 22 and 23.

The beneficial interests of Directors in the shares of the Company, details of service contracts and remuneration are shown in the report of the Remuneration Committee on pages 30 to 33.

Acquisitions

Details of acquisitions in the period are given in note 29 to the consolidated financial statements.

Issue of Shares

Details of the changes to the ordinary share capital during the period are given in note 25 to the consolidated financial statements.

Employment

The Group gives full and fair consideration to applications for employment from disabled persons, with regard to their particular aptitudes and abilities. Efforts are made to continue the employment of those who become disabled during their employment. The Group seeks to recruit, develop and employ throughout the organisation, suitably qualified, capable and experienced people, irrespective of age, race, religion or sexual orientation.

Supplier Payment Policy

It is Group policy to pay suppliers in accordance with agreed terms and conditions, provided that suppliers also comply with all relevant terms and conditions. At 1 October 2006 the Group's supplier payment period was 45 days (2005 – 60 days). The Company is a holding company and does not have trade suppliers.

Financial Instruments

Information on the Group's financial risk management objectives and policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in note 23 to the consolidated financial statements.

Substantial Shareholdings

At 16 November 2006 the Company had been notified of the following interests which exceed 3% of the Company's issued share capital:

	%
Blackstone Capital Partners	43.12
Landsdowne Partners Limited	4.73
Legal and General Group plc	4.19

Charitable and Political Donations

During the period the Group made donations to charities totalling £50,000 (2005 – £57,000), no political donations were made.

Annual General Meeting

The notice convening the Annual General Meeting of the Company together with explanatory resolutions is included in a separate document sent to shareholders. The meeting will be held at 11am on 30 January 2007 at the offices of our advisers, UBS, 1 Finsbury Avenue, London EC2M 2PP.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as Auditors to the Company, and authorising the Directors to determine their remuneration, will be made at the Annual General Meeting.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of the affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for the financial period.

The Directors consider that in preparing the consolidated financial statements and the Company financial statements, the Group and Company have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

Each person who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234 ZA of the Companies Act 1985.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy the financial position of the Company and the Group 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 Group and Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report will also be published on the Company's website. The Directors are responsible for the maintenance and integrity of the Company's website, the work performed by the Auditors does not include consideration of these matters. 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.

Legislation in the UK concerning the preparation and publication of financial statements may differ from legislation in other jurisdictions.

Corporate Governance

The Board supports the principles of corporate governance set out in the Combined Code on Corporate Governance issued by the Financial Reporting Standards Council in July 2003 ("the Combined Code"). This statement describes how the principles of the Combined Code have been applied to the Group.

The Group was admitted onto the London Stock Exchange on 12 July 2006. Prior to this date the Group was privately held and operated a corporate governance system that the Directors considered to be appropriate for a privately-held Group. As part of the process of preparing for admission onto the London Stock Exchange the Group commenced a rigorous and continuous corporate governance project, using the provisions of the Combined Code. The information below details how the principals of the Combined Code have been applied from the date of admission up to the period ended 1 October 2006, the "Post-Admission Period".

The Board

The Board currently comprises four Non-Executive and three Executive Directors, in addition to the Non-Executive Chairman. As Joseph Barratta is nominated by the Blackstone Shareholders, the most significant Shareholder, he is not regarded as "independent" for the purposes of the Combined Code.

Accordingly, independent Non-Executive Directors, excluding the Chairman, make up less than half of the Board. It is the Board's opinion, however, that the current Board membership is the most appropriate to the circumstances and that no individual, or small group of individuals can dominate the Board's decision making.

The roles of the Chairman and Chief Executive Officer are clearly defined, approved by the Board and separate. The Chairman is responsible for leading the Board in determining the Group's strategy, achieving its objectives and organising the business of the Board. The Chief Executive Officer is responsible for the executive management of the Group's operations and day-to-day activities.

The Board meets, formally, bi-monthly and additional meetings are arranged as necessary to consider urgent business. The Chairman also holds meetings with the Non-Executive Directors.

The table below summarises the total number of Board, Audit Committee, Nomination Committee and Remuneration Committee meetings during the Post-Admission Period and the attendance by each Director.

	Board	Audit	Nomination	Remuneration
Total number of meetings	2	2	~	2
Meetings attendance				
William Colvin	2		~	
Philip Scott	2			
Graham Sizer	2	2		
John Murphy	2			
Ray Miles	2	2	~	2
Joseph Baratta	2			2
Baroness Morgan of Huyton	1	1	~	
Christopher Fisher	2	2		2

The Board is responsible for setting the Group's strategy, assessing and managing risk and monitoring the financial performance of the Group. To assist in the effective running of the Board a comprehensive set of documents, including financial performance, operational issues, reports on developments and acquisitions and compliance matters are provided to the Board on a timely basis. The Board has a formal schedule of matters reserved for its approval, these matters include approval of the annual strategic plan and budgets and the review of overall corporate governance arrangements.

The Chairman has responsibility for the induction process in respect of new Directors. The process includes industry specific presentations from third parties and management presentations. Directors can take independent advice on matters relating to their duties, at the expense of the Company, and have access to the advice and services of the Company Secretary. The removal from office of the Company Secretary is a matter reserved for the whole Board.

The Board is committed to the principle that there should be an annual evaluation of its own performance and of individual Directors. The Non-Executive Directors, led by the senior independent Non-Executive Director are responsible for evaluating the performance of the Chairman and the executive members of the Board.

Committees of the Board

The Board has Audit, Remuneration and Nomination Committees, the roles and terms of reference of each are summarised below.

Audit Committee

During the period the Board has established a formal Audit Committee, comprised of three independent Non-Executive Directors (namely Christopher Fisher, Ray Miles and Baroness Morgan of Huyton). Mr Christopher Fisher, the Committee's Chairman, was formerly Vice Chairman of Corporate Finance at KPMG and a Managing Director of Lazard and brings financial expertise to the committee.

The committee meets formally at least three times a year and otherwise as required. The external Auditors, Group Finance Director and Group Financial Controller are invited to attend the Audit Committee meetings. Part of each meeting is held in private between the Non-Executive Directors and the external Auditors.

The committee has clearly defined terms of reference; these are set out on the Group's website. Its responsibilities include: assisting the Board in the effective discharge of its duties in respect of Corporate Governance; financial reporting; risk management and internal control.

The independence and objectivity of the external Auditors is reviewed by the Audit Committee, with specific consideration of the level of non-audit fees. Information on non-audit fees is given in note 6 to the consolidated financial statements. During the period the Auditors provided significant services in respect of the listing of the Company's shares on the London Stock Exchange. The committee does not consider the non-audit fees paid to the external Auditors to have affected their independence or objectivity.

The committee also receives an annual independence confirmation from the external Auditors.

The committee is responsible for making recommendations to the Board in relation to the appointment, reappointment and any matters of resignation or dismissal of the external Auditors as well as the approval of fees for external Auditors.

The committee also has responsibility for reviewing the Group's procedures by which employees may, in confidence, raise concerns about improprieties in matters of financial reporting or other matters and to ensure these arrangements allow for independent investigation and appropriate follow up.

Remuneration Committee

During the period the Board has established a Remuneration Committee comprised of three Non-Executive Directors (namely Ray Miles, Christopher Fisher and Joseph Baratta). The Chairman of the committee is Ray Miles.

The Combined Code suggests that the Remuneration Committee should consist of at least three Directors who are all independent Non-Executive Directors. As Joseph Baratta is not considered to be independent the Group does not comply with provision B2.1 of the Combined Code. It is the Board's opinion that, as the nominee of the Blackstones Shareholders, Joseph Baratta's views are desirable to assist the Remuneration Committee to assess the remuneration packages for the senior executives.

Corporate Governance

Remuneration Committee continued

The composition and role of the Remuneration Committee are set out in the report of the Remuneration Committee on pages 30 to 33. Full details of Directors' remuneration and shareholdings are also given in the report.

Nominations Committee

During the period the Board has established a Nominations Committee comprised of three independent Non-Executive Directors (namely William Colvin, Ray Miles and Baroness Morgan of Huyton). The Chairman of the committee is William Colvin. The committee meets formally at least twice a year and otherwise as required.

The committee assists the Board in discharging its responsibilities relating to the composition and make up of the Board. It is responsible for evaluating the balance of skills, knowledge and experience on the Board, identifying potential candidates to be appointed as Directors, as the need may arise, and determining succession planning for the Chairman and Chief Executive. External executive recruitment agencies are used to assist in the identification of suitable candidates.

The committee's terms of reference are set out on the Group's website.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal controls and risk management. The system includes an ongoing process for identifying, evaluating and managing significant risks faced by the Group. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. As with, any system of internal control it can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The key elements of the Group's system of internal control are:

Risk Management

The Board is responsible for risk assessment and management within the Group. During the period the Board has established the Group Risk Management Committee ("GRMC") and has delegated the responsibility to this committee. Included within the GRMC's responsibilities are setting Group policy and strategy for risk management, identifying, assessing and managing risks facing the Group and communicating, educating and training employees on the risks facing the Group.

The GRMC has representatives from finance, operations, legal, human resources, estates, health and safety and compliance. It meets on a bi-monthly basis and reports into the Board, via the Audit Committee.

The Board has put in place a documented organisational structure with clearly defined and understood roles and responsibilities. There are also established and documented policies and procedures at the home level, and the Group is in the process of implementing documented policies and procedures for the head office finance function.

Management Information Systems

The Group has a comprehensive management information system for regular and timely reporting into the Board. The monthly financial reporting system includes period and period to date results compared to budget, details of key performance indicators against budget, working capital movements and detailed cash flow information. The monthly management reporting system includes information on internal and external, regulatory and compliance audits, health and safety and other operational matters.

Effectiveness of Internal Controls

The Board confirms that it has reviewed the effectiveness of the system of internal controls, in accordance with the Turnbull Guidance, and is satisfied that the Group complies with that guidance.

Investor Relations

The Board supports the view that effective communications with its Shareholders, stakeholders and the wider market is a critical element of corporate governance. The Chairman has overall responsibility for ensuring effective communication with the Group's stakeholders and to ensure the Board develops an understanding of the views of key stakeholders.

The Group's Annual and Interim Reports will be the primary method by which information is communicated to our stakeholders. In addition there is also regular dialogue with individual institutional Shareholders and general meetings will be held after the announcement of interim and preliminary results. It is the intention of the Senior Independent Director to be present at these meetings.

The Group's Annual General Meeting shall be used as an opportunity to communicate with private investors and to give all ordinary Shareholders the opportunity to ask questions of the Directors.

In an effort to communicate more readily with an audience of stakeholders, the Group's website has been developed so as to incorporate an investor relations page. A Group profile, statutory financial statements, all announcements and regular corporate news are included.

Internal Audit

Throughout the period, the Regional Administrator and Operational Manager groups have performed financial and operational compliance work at the home level. To help ensure compliance, the Group has a quality assurance department that assists in training both groups on internal compliance techniques and also ensures a uniform approach is adopted across the Group.

The Board is satisfied that the work performed by the external Auditors in preparation for Admission together with the current internal compliance structure of the Group was sufficient for the period under review. However, the Board will be reviewing the internal audit requirements of the Group in the year ahead.

Going Concern

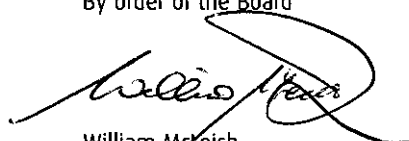
After making enquiries the Directors have a reasonable expectation that the Group and Company have adequate resources to continue operations for the foreseeable future. For this reason the financial statements continue to be prepared on the going-concern basis.

Compliance Statement

The Board confirms that for the period since the Company's shares were listed on the London Stock Exchange (being 12 July 2006 to 1 October 2006), it has been in compliance with the provisions set out in Section 1 of the Combined Code, except that:

- i) During this period, the Remuneration Committee membership was not made up entirely of independent Non-Executive Directors; and
- ii) During this period, independent Non-Executive Directors, excluding the Chairman, did not make up half of the Board.

By order of the Board



William McTeish
Company Secretary
Southgate House
Archer Street
Darlington
County Durham
DL3 6AH

Remuneration Report

Introduction

The Remuneration Committee presents its report and information on Directors' remuneration. This report is un-audited except for those parts which are stated as being audited.

The Remuneration Committee and its Role

The Remuneration Committee comprises of three Non-Executive Directors (namely Ray Miles, Christopher Fisher and Joseph Baratta). The Chairman of the committee is Ray Miles. The committee meets formally at least twice a year and otherwise as required.

The committee has clearly defined terms of reference; these are set out on the Group's website. Its responsibilities include making recommendations to the Board on the Group's framework of remuneration for executive management, reviewing the ongoing appropriateness and relevance of the remuneration policy and determining, on behalf of the Board, specific remuneration packages for each of the Executive Directors and the Chairman of the Board.

During the period the committee has taken advice from New Bridge Street Consultants and Deloitte & Touche. Advice was taken on a wide range of issues, including the current market positioning of the Group's executive remuneration with regard to other listed groups.

Remuneration Policy

This report sets out the Company's policy on Directors' remuneration for the financial year 2006 and, so far as practical, for future years. Any changes in policy for future years will be described in future Remuneration Reports. The Company's overall policy on remuneration is to attract, develop, motivate and retain individuals at all levels, pay competitive salaries and align remuneration arrangements with the Group's strategy and objectives.

As part of the process of preparing for Admission onto the London Stock Exchange, and using the expertise of third party consultants, a comprehensive review of Executive remuneration was undertaken. Following this the Board's policy on Executive remuneration is to:

- pay basic salaries that are competitive with other companies of similar size and standing;
- to have a significant part of remuneration linked to the achievement of performance targets;
- to have performance-related remuneration aligned to the interests of shareholders; and
- encourage executives to hold shares in the Company.

In establishing these policies, the Board has given full consideration to the requirements of the Combined Code.

Executive Remuneration Packages

Executive remuneration packages for the current period comprised basic salary and benefits, annual performance-related bonus, long-term share incentives and pension benefits. Further details of each element are given below:

Basic Salary and Benefits

The Committee reviews basic salary and benefits each year, taking into consideration Group financial performance, individual responsibilities, skills and experience. Consideration is also given to the salaries and benefits paid to Executives by other companies of similar size and standing. The last such review took place during the process of preparing for Admission onto the London Stock Exchange.

Basic salaries for the Executive Directors are a fixed annual sum payable monthly in cash. The value of benefits for Executive Directors is included in the remuneration table on page 32 and consists of car allowance and life and health insurance.

Annual Performance-related Bonus

During the period from 3 October 2005 to 12 July 2006 (Admission date) each Executive Director participated in the Southern Cross Healthcare Group Limited bonus scheme, all awards were entirely discretionary and decided upon by the Board at that time.

During the period from Admission to 1 October 2006, eligibility to receive a bonus was at the discretion of the Remuneration Committee. In respect of the financial year 2007 Directors are entitled to receive a bonus of up to 50% of basic salary, subject to attainment of certain performance targets based on the Group's earnings before interest tax, depreciation and amortisation. The Directors are also eligible to receive a further bonus equal to 20% of basic salary, subject to the discretion of the Remuneration Committee and approval by the Board.

Performance Share Plan

The Southern Cross Healthcare Group 2006 Performance Share Plan ("the PSP") was adopted by the Company in June 2006. Awards under the PSP are on an annual allocation of notional ordinary shares equivalent in value to a maximum of 100% of annual basic salary as at the award date, unless the Remuneration Committee decides that exceptional circumstances exist in relation to the recruitment or retention of an employee, in which case the limit will be 200% of annual basic salary.

On 4 September 2006, 2,365,332 awards were granted with an exercise price of £Nil. A summary of the vesting conditions are included below.

Vesting of awards made under the PSP takes place at the expiry of the three-year performance period of the plan and are subject to attainment of agreed performance targets. 70% of the award will vest on attainment of a performance target based on Earnings Per Share ("EPS"). For the purposes of calculating the EPS condition, net income is defined as profit after taxation before deduction of future minimum rental increases, goodwill impairment, annual bonuses paid to participants in the PSP and the cost of share options charged to the income statement under the PSP. The remaining 30% will vest on attainment of a performance target based on Total Shareholder Return ("TSR").

In respect of the EPS performance target, 100% of the award will vest if the PSP EPS for the 2008 financial period exceeds 23.13p per share and no awards will vest if PSP EPS is below 18.61p per share, with straight-line vesting between these two points. The remaining 30% will vest subject to TSR performance measured against the constituents of the FTSE 250 Index, excluding investment trusts. 100% of the award will vest if the Company's TSR growth is in the upper quartile and 40% will vest if growth is at the median, with straight-line vesting between the two points. If the Company's growth is below the median then no awards shall vest.

The calculation below shows how the Group has performed against the PSP EPS earnings per share measure, during the year.

	52 weeks ended 2 October 2006	
	Earnings £m	Per share amount p
Loss attributable to ordinary shareholders	(12.1)	(9.35)
Charge for future minimum rental increases	30.7	23.82
Goodwill impairment	–	–
Annual bonuses paid to individuals within the PSP	2.3	1.81
Charge in respect of share options/taxation	0.1	0.11
Taxation impact of the above	(10.0)	(7.76)
Profit for the purposes of calculating earnings per share under the PSP	11.0	8.63

The Remuneration Committee considers the targets to be appropriate and will review targets for future awards on an annual basis.

Pension Benefits

All Executive Directors are entitled to money purchase benefits equal to 15% of annual salary. Bonuses and awards made under the PSP are not pensionable.

Service Contracts

Upon Admission the Executive Directors entered into new service agreements with the Company. The Executive Director service agreements provide that the notice required to terminate their employment is 12 months given either by the Director or the Company. The Company also has the right to terminate the employment of an Executive Director without notice or with less than 12 months notice by making a payment in lieu of notice equal to the base salary and contractual benefits the Executive Director would be entitled to receive during any un-expired part of the notice period.

Under the terms of the Executive Directors' new service agreements, Philip Scott is entitled to receive a basic salary of £335,000 per annum, whilst John Murphy and Graham Sizer are both entitled to receive basic salaries of £300,000 per annum. Each Executive Director is also entitled to a car allowance and life and healthcare insurance.

Remuneration Report

A summary of the specific terms of the Executive Directors' service contracts is included in the table below:

Director	Date of contract	Effective date	Un-expired term	Notice period
P Scott	12 July 2006	1 July 2006	Indefinite	12 months
J Murphy	12 July 2006	1 July 2006	Indefinite	12 months
G Sizer	12 July 2006	1 July 2006	Indefinite	12 months

Non-Executives

Upon Admission the Non-Executive Directors entered into letters of appointment with the Company. The terms of the letters of appointment for the Non-Executive Directors are subject to the provisions of the Articles. All such appointments are for an initial term of three years.

Fees payable to the Non-Executive Directors are set by the Board, as a whole, with recommendations made by the Remuneration Committee. Under the current letters of appointment, the Chairman receives an annual fee of £125,000. All other Non-Executive Directors, receive an annual fee of £45,000. With the exception of the chairman of the Nomination Committee, the Non-Executive Directors receive an annual fee of £7,500 for each committee of the Board which they chair. All Non-Executive Directors receive reimbursement of business expenses incurred in the proper performance of their duties. The fees payable in respect of the services provided by Joseph Baratta are paid to Blackstone Management Partners IV LLC.

The appointment of each of the Non-Executive Directors is terminable on one month's notice, is subject to the retirement by rotation provisions in the Articles and does not give rise to any entitlement to compensation in respect of their termination.

Under the terms of an agreement with Blackstone Management Partners IV LLC, they are entitled to nominate one Non-Executive Director to the Board whilst the Blackstone shareholding remains above 10%. The current nominee is Joseph Baratta (see above).

Directors' Remuneration (audited)

	Salary or fees £'000	Pre-IPO salary or fees £'000	Post-IPO salary or fees £'000	Annual bonus £'000	Pre-IPO bonus £'000	Post-IPO bonus £'000	Compensation for loss of office £'000	Benefits in kind £'000	Total emoluments		Pension contributions	
									2006 £'000	2005 £'000	2006 £'000	2005 £'000
Executive												
P Scott	332	247	85	253	85	168	-	16	601	230	-	-
J Murphy	285	210	75	235	85	150	-	16	536	175	43	19
G Sizer	240	165	75	235	85	150	-	16	491	175	36	19
C Rutter**	147	147	-	15	15	-	177	15	354	110	-	-
Non-Executive												
W Colvin	125	94	31	50	50	-	-	5	180	-	-	-
J Baratta†	-	-	-	-	-	-	-	-	-	-	-	-
R Miles*	13	-	13	-	-	-	-	-	13	-	-	-
C Fisher*	13	-	13	-	-	-	-	-	13	-	-	-
Baroness Morgan of Huyton*	11	-	11	-	-	-	-	-	11	-	-	-
C Pike**†	-	-	-	-	-	-	-	-	-	-	-	-
A Wilson**	18	18	-	-	-	-	30	-	48	44	-	-
D Blitzer**†	-	-	-	-	-	-	-	-	-	-	-	-
M Tooth**†	-	-	-	-	-	-	-	-	-	-	-	-
	1,184	881	303	788	320	468	207	68	2,247	734	79	38

Note: Remuneration for 2005 is in respect of the 28-week period ended 2 October 2005.

* Appointed to the Board on 27 June 2006.

** Resigned from the Board on 5 June 2006.

† Blackstone Shareholders' representative.

In addition to the above, fees of £750,000 (2005 - £500,000) per annum and expenses were payable to Blackstone Management Partners IV LLC under the terms of a monitoring agreement. The total charged to the profit and loss account in the period was £565,861 (2005 - £250,000). The agreement was terminated on 12 July 2006 and there are no further amounts due as at the balance sheet date.

Directors' Interests (audited)

The Directors of the Company had the following shareholdings in the Company at each of the balance sheet dates:

	2006 Number of ordinary shares of 1p each	2005 Number of ordinary shares of 1p each
P Scott	2,019,120	11,218
J Murphy	1,851,840	11,022
G Sizer	1,434,000	7,967
W Colvin	1,202,400	6,680
J Baratta	—	—
R Miles	44,444	n/a
C Fisher	22,222	n/a
Baroness Morgan of Huyton	2,222	n/a

A bonus issue representing 240 ordinary shares to every ordinary share held, was made on 5 July 2006 (note 25). Upon listing on the London Stock Exchange the Directors were entitled to sell up to 25% of their holdings in the ordinary share capital of the Company.

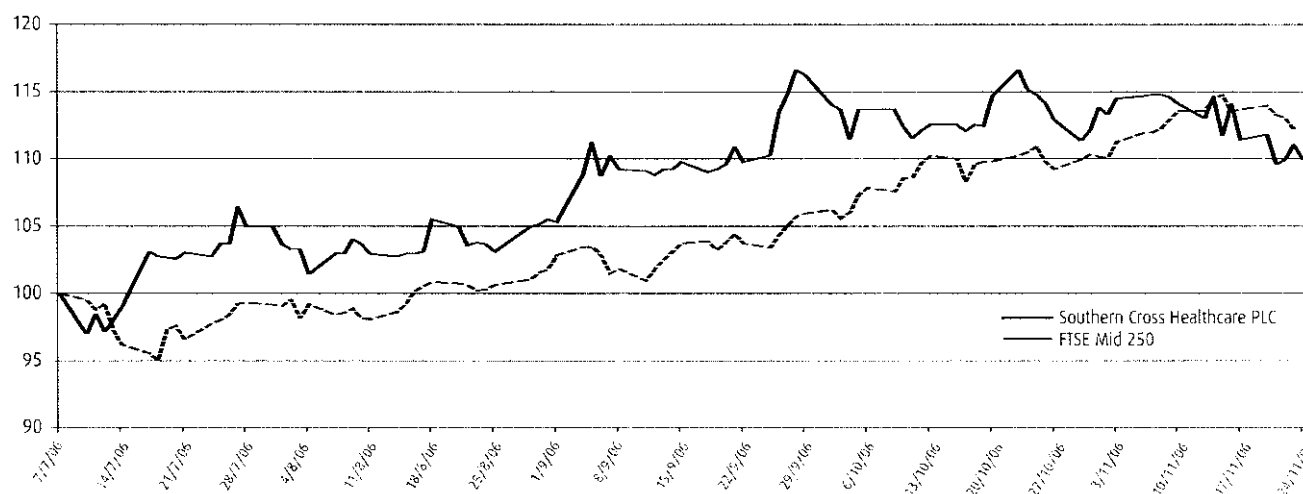
Performance Share Plan (audited)

Interests of Directors in the plan are:

	At 3 October 2005 Number	Awarded on 12 September 2006 Number	Market price at date of award Pence	Vested Number	Lapsed Number	At 1 October 2006 Number	End of performance period Date
P Scott	—	148,889	294.0	—	—	148,889	12 September 2009
J Murphy	—	150,000	294.0	—	—	150,000	12 September 2009
G Sizer	—	133,333	294.0	—	—	133,333	12 September 2009

The Company's closing share price on 1 October 2006 was 314.0p, whilst the highest and lowest, during the period, was 315.0p and 225.0p, respectively.

TSR Graph



R Miles

Chairman of the Remuneration Committee
11 December 2006

Independent Auditors' Report to the Members of Southern Cross Healthcare Group PLC

We have audited the Group financial statements (the "financial statements") of Southern Cross Healthcare Group PLC for the 52 week period ended 1 October 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of change in shareholders' equity/(deficit) and the related notes. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Southern Cross Healthcare Group PLC for the 52 week period ended 1 October 2006 and on the information in the remuneration report that is described as having been audited.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the business review and financial review that is cross referred from the business review section of the Directors' report. We also report to you if, in our opinion, 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 review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the unaudited part of the remuneration report, the Chairman's statement, the business review and the financial review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

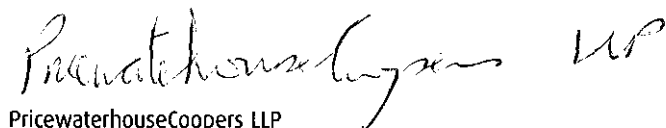
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 1 October 2006 and of its loss and cash flows for the 52 week period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

11 December 2006

Consolidated Income Statement – IFRS

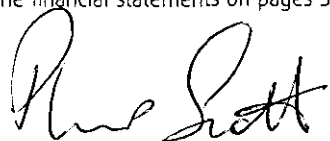
	Note	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Revenue	3	610.9	188.2
Home payroll costs	3	(343.0)	(104.8)
Home running costs	3	(78.3)	(23.2)
Home EBITDAR before central costs	3	189.6	60.2
Rent			
Charge for rental amounts currently payable		(116.1)	(36.5)
Charge for future minimum rental increases		(30.7)	(4.0)
Total rent	3	(146.8)	(40.5)
Home EBITDA before central costs		42.8	19.7
Central costs		(30.8)	(9.7)
Other operating income		0.9	0.6
Adjusted EBITDA before exceptional central costs and charge for future minimum rental increases	3	48.8	15.7
Exceptional central costs	4	(5.2)	(1.1)
Charge for future minimum rental increases		(30.7)	(4.0)
EBITDA		12.9	10.6
Profit on disposal of property, plant and equipment and subsidiary undertakings	5	0.4	0.4
Depreciation	11	(10.1)	(2.6)
Amortisation	13	(1.6)	(0.9)
Operating income	6	1.6	7.5
Finance costs	7	(19.3)	(9.9)
Finance income	7	0.3	-
Loss before taxation		(17.4)	(2.4)
Taxation	8	5.3	(1.0)
Loss attributable to ordinary shareholders	26	(12.1)	(3.4)
	Note	Pence per share	Pence per share
Loss per share attributable to equity shareholders			
Basic	10	(9.35)	(0.05)
Diluted	10	(9.35)	(0.05)

All of the above activities relate to continuing operations.


Consolidated Balance Sheet – IFRS

	Note	As at 1 October 2006 £'m	As at 2 October 2005 £'m
ASSETS			
Non-current assets			
Property, plant and equipment	11	96.3	38.9
Goodwill	12	196.0	136.3
Other intangible assets	13	2.4	4.0
Deferred tax assets	24	12.9	4.0
Other non-current assets	14	2.5	0.1
Total non-current assets		310.1	183.3
Current assets			
Cash and cash equivalents	15	21.9	4.2
Accounts receivable	16	28.8	22.3
Inventories	17	1.1	0.4
Other current assets	16	12.8	8.1
Total current assets		64.6	35.0
Total assets		374.7	218.3
LIABILITIES			
Current liabilities			
Short-term financial liabilities	20	(25.9)	(33.8)
Trade and other payables	18	(65.4)	(37.2)
Total current liabilities		(91.3)	(71.0)
Non-current liabilities			
Long-term financial liabilities	20	(63.6)	(129.0)
Provisions and similar obligations	21	(8.1)	(1.1)
Future minimum rental payable	21	(63.7)	(20.6)
Total non-current liabilities		(135.4)	(150.7)
Total liabilities		(226.7)	(221.7)
Net assets/(liabilities)		148.0	(3.4)
Shareholders' equity/(deficit)			
Ordinary shares	25	1.9	–
Share premium	26	161.5	–
Retained deficit	26	(15.4)	(3.4)
Shareholders' equity/(deficit)	27	148.0	(3.4)

The financial statements on pages 36 to 80 were approved by the Board of Directors on 11 December 2006:



P Scott Chief Executive



G Sizer Finance Director

Consolidated Cash Flow Statement – IFRS

	Note	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Cash flows from operating activities			
Cash flows from operations	28	50.6	15.0
Interest received		0.3	–
Interest and bank loan arrangement fees paid		(27.4)	(5.7)
Tax paid		(1.6)	(1.3)
Net cash from operating activities		21.9	8.0
Cash flows from investing activities			
Purchase of subsidiary undertakings net of cash acquired	29	(94.8)	(51.2)
Sales of subsidiary undertakings	5	47.9	0.4
Proceeds from sale of freehold properties	11	–	93.9
Purchase of property, plant and equipment	11	(29.1)	(15.7)
Receipts from the sale of property, plant and equipment		4.0	3.0
Net cash (used)/generated (in) from investing activities		(72.0)	30.4
Cash flows from financing activities			
Repayment of borrowings		(332.2)	(197.5)
New borrowings		236.4	163.4
Capital element of finance leases		(0.2)	(0.1)
Proceeds from share issues	25	163.8	–
Net cash generated/(used) from/(in) financing activities		67.8	(34.2)
Net increase in cash and cash equivalents		17.7	4.2
Opening cash and cash equivalents		4.2	–
Closing cash and cash equivalents	15	21.9	4.2

Note: Included within the purchase of property, plant and equipment are purchase of freehold properties totalling £6.1m (2005 – £10.0m) and development expenditure on new properties totalling £7.1m (2005 – £1.8m).

Consolidated Statement of Changes in Shareholders' Equity/(Deficit) – IFRS

	Share capital £'m	Share premium account £'m	Profit and loss account £'m	Total equity £'m
Group				
Issue of ordinary share capital	–	–	–	–
Loss attributable to ordinary shareholders	–	–	(3.4)	(3.4)
At 2 October 2005			(3.4)	(3.4)
Issue of ordinary share capital	1.9	173.1	–	175.0
Share-based payments	–	–	0.1	0.1
Costs incurred in respect of issuance of ordinary share capital	–	(11.6)	–	(11.6)
Loss attributable to ordinary shareholders	–	–	(12.1)	(12.1)
At 1 October 2006	1.9	161.5	(15.4)	148.0

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

1 Basis of Preparation

Following admission to the Official List, the Group is required to prepare statutory consolidated financial statements which comply with IFRS as adopted for use in the EU for the period ended 1 October 2006 (the "2006 financial statements") and subsequently.

The Group's principal activities are the development and operation of care homes for the elderly and the provision of specialist services for people with physical and/or learning disabilities.

This financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) (and IFRIC interpretations) endorsed by the EU and with those parts of the Companies Act, 1985, applicable to companies reporting under IFRS. The financial information has been prepared under the historical cost convention, with the exception of certain financial instruments, which are recognised at fair value.

This is the Group's first consolidated financial information prepared in accordance with IFRS. Accordingly, IFRS 1, "First Time Adoption of IFRS" (revised 2004) has been applied. IFRS 1 permits companies adopting IFRS for the first time to take exemptions from applying the full requirements of IFRS to certain items. In preparing this financial information, the Group has applied the following:

- As permitted, the implementation of IAS 32, "Financial Instruments: Disclosure and Presentation", and IAS 39, "Financial Instruments: Recognition and Measurement", has been applied from 10 January 2005.

At the period end, the following standards and interpretations relevant to the Group, but which have not yet been adopted, were in issue but not yet effective:

IFRS 7	"Financial Instruments Disclosure"
IAS 1	"Presentation of Financial Statements" (amended)
IAS 19	"Employee benefits"
IAS 39	"Financial Instruments: Recognition and Measurement" (amended)
IFRIC 4	"Determining Whether an Arrangement contains a Lease"
IFRIC 9	"Reassessment of Embedded Derivatives" (yet to be adopted by the EU)

The Group does not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements on adoption.

The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The financial information presented is for the 28 weeks ended 2 October 2005 (the "financial period ended 2 October 2005") and the 52 weeks ended 1 October 2006 (the "financial year ended 1 October 2006"). The Group prepares its financial information for the financial year ending on the nearest Sunday to 30 September of a given calendar year.

Development of the Group

The Company was incorporated on 10 January 2005. On 23 March 2005, through a Group reconstruction, Southern Cross Healthcare Group Limited acquired the entire share capital of Southern Cross Bidco Limited through its subsidiary undertaking Southern Cross Healthcare Investments No. 2 Limited.

On 8 April 2005, Southern Cross Bidco Limited acquired the Highfield Care ("Highfield") trading business from funds controlled by the Blackstone Group.

On 30 October 2005, Southern Cross Bidco Limited acquired the entire share capital of Cannon Capital Ventures Limited ("Ashbourne").

On 13 June 2006, the Company re-registered as a PLC.

On 12 July 2006, the Company's ordinary shares were admitted to the London Stock Exchange through an Initial Public Offering.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

1 Basis of Preparation continued

Development of the Group continued

Further details of the above acquisitions and other acquisitions are given in note 29. The consolidated financial information of the Group represents the following:

28 weeks ended 2 October 2005

The consolidated financial information of Southern Cross Healthcare Group Limited, incorporating the effects of the Group reconstruction on 23 March 2005, and including:

- the consolidated financial information of Southern Cross Healthcare Group Limited and its subsidiaries for the period from 10 January 2005 to 2 October 2005; and
- the consolidated financial information of Highfield from 9 April 2005 to 2 October 2005.

52 weeks ended 1 October 2006

The consolidated financial information of Southern Cross Healthcare Group PLC, including:

- the consolidated financial information of Southern Cross Healthcare Group PLC and its subsidiaries for the period from 3 October 2005 to 1 October 2006; and
- the consolidated financial information of Ashbourne from 31 October 2005 to 1 October 2006.

The principal companies within the Group are disclosed in note 36.

2 Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the financial periods presented unless otherwise stated.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 2 October 2005 and 1 October 2006. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Intangible assets in acquired companies which concern resident contracts are recognised and amortised over periods of up to three years. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is capitalised as goodwill. Goodwill is not amortised; instead impairment tests are made annually, and any impairment is charged to the income statement. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to the income statement in the period of acquisition.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue Recognition

Revenue comprises the fair value of fee income relating to the provision of care services, net of price reductions directly related to sales. Fee income comprises care home fees which are recognised when delivery of service is completed. Fees invoiced in advance are included as deferred income until service is completed.

2 Accounting Policies continued

Home Payroll Costs

Home payroll costs represent payroll costs directly incurred at home level, including costs incurred in respect of the use of agency labour.

Home Running Costs

Home running costs represent costs of items directly incurred at home level, including food and kitchen supplies, medical supplies, utilities, maintenance and other running costs of the home.

Home EBITDAR before Central Costs

Home EBITDAR before central costs represents profitability at a home level after taking account of home payroll and home running costs, but before rental charges on operating leases, central costs and depreciation on home assets.

Home EBITDA before Central Costs

Home EBITDA before central costs represents profitability at a home level after taking account of home payroll and home running costs and rental charges in operating leases, but before central costs and depreciation on home assets.

Central Costs

Central costs represent costs of head office support functions, including central payroll costs, other costs not directly attributable to a home level and certain other payroll costs.

EBITDA and Adjusted EBITDA

EBITDA represents earnings before depreciation, amortisation and profit on disposal of property, plant and equipment. Adjusted EBITDA represents EBITDA after adding back exceptional central costs and the charge for future minimum rental increases.

The Group believes that EBITDA and Adjusted EBITDA (and measures derived therefrom including Home EBITDAR before central costs and Home EBITDA before central costs) facilitate operating performance comparisons from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting finance income and costs), tax positions, the age and book depreciation of property, plant and equipment (affecting relative depreciation expense) and intangible assets identified (affecting amortisation expense).

Exceptional Items

Exceptional items are events or transactions that fall within the activities of the Group and which, by virtue of their size or incidence, have been disclosed in order to improve a reader's understanding of the financial information.

Use of Boxes in Income Statement

Boxes have been used in the income statement to provide sub-analyses of items in order to improve a reader's understanding of the financial information.

Segmental Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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.

Other Income

Other income relates to management income received in respect of a portfolio of homes operated by the Group on behalf of a third party, as well as other operating income. Income is recognised on completion of the management service on an accruals basis.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

2 Accounting Policies continued

Share-based Payments

Equity-settled Transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Financial Instruments

Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective position is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs.

Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to the income statement.

Leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at inception of the lease, with a corresponding liability being recognised for the value of the leased asset or, if lower, the present value of the minimum lease payments. Assets held under finance leases are depreciated over the shorter of the estimated useful economic life or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight-line basis over the lease term where property lease contracts contain guaranteed minimum incremental rental payments, the total committed cost is determined and is calculated and amortised on a straight-line basis over the lease term. The charge for rentals currently payable is the actual amount payable, in the period, by the Group for its operating leases. The charge for future minimum rental increases reflects the impact of recognising future-fixed committed rental increases on a straight-line basis over the lease term.

2 Accounting Policies continued

Onerous Leases

Provision is made for future operating lease payments of vacant care homes for the full remaining lease term or up to the expected point at which the lease is expected to be sublet.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such losses include costs directly attributable to making the asset capable of operating as intended. Borrowing costs attributable to assets under construction are recognised as an expense as incurred.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the balance sheet date, of each asset evenly over its estimated useful life as follows:

- Freehold buildings – 2% per annum
- Short leasehold property – over life of lease
- Motor vehicles – 25% per annum
- Fixtures and fittings – 14% per annum
- Computer equipment – 33% per annum

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Gains and losses on the sale of property, plant and equipment are recognised under central costs, unless they are so material as to be disclosed separately.

Intangibles

Goodwill

Business combinations completed on or after 10 January 2005 are accounted for under IFRS 3 using the purchase method. Any excess of cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the costs of investment, a gain is recognised immediately in the income statement.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash generating units monitored by management, at the segment level. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

Other Intangibles

Intangible assets are carried at cost less accumulated amortisation and impairment losses.

An intangible asset acquired as part of a business combination is recognised outside of goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives, as follows:

- Resident contracts – three years

The carrying value of intangibles is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

2 Accounting Policies continued

Employee Benefit Costs

Staff costs comprise salaries, wages and pensions for the Group's staff as well as other staff costs. The Group operates defined contribution pension plans, which are plans under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions are recognised as employee benefit expenses as they fall due.

Inventories

Inventories are stated at the lower of cost and net realisable value. Where necessary, impairment is made for obsolete, slow moving and defective stocks.

Taxation including Deferred Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available against which the temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to reserves, in which case the deferred tax is also dealt with in reserves.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and balances in accounts at no or short notice. Bank overdrafts are shown within borrowings in current liabilities; however they are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Finance Costs

Financial costs include interest and amortisation of loan arrangement fees. Loan arrangement fees are amortised evenly over the term of the associated loan instrument.

Finance Income

Finance income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

2 Accounting Policies continued

Receivables

Trade receivables defined in accordance with IAS 39 are recorded initially at fair value and subsequently measured at amortised cost using the effective interest method for any doubtful amounts. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of future cash flows discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

Any other trade receivables are recognised at their original amount less an allowance for any doubtful amounts. An allowance is made when collection of the full amount is no longer considered probable.

Other Liabilities

Other liabilities primarily comprise holiday pay liabilities, income taxes, other taxes and interest payable, which are measured at the best estimate of the expenditure required to settle the obligation. Other liabilities also comprise the fair value of derivative financial instruments.

Financial Risk Management

The Group's activities expose it primarily to the financial risks of changes in interest rates and liquidity risk. The Board reviews and agrees policies for managing each of these risks, and others and they are summarised below.

Interest Rate Risk

The Group's interest rate risk arises from long-term borrowings which are issued at variable rates that expose the Group to cash flow interest rate risk.

The interest exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. The Group aims to reduce exposure to the effect of interest rate movements by hedging an appropriate amount of interest rate exposure. The impact of movements in interest rates is managed, where considered appropriate, through the use of fixed and floating rate debt and interest rate swaps.

Fair Value Estimates

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. The fair value of long-term borrowings approximate to the carrying value reported in the balance sheet, as the majority are fixed rate borrowings and interest rate fluctuations have been minimal during the period.

Liquidity Risk

As regards liquidity, the policy of the Group has throughout the year been to maintain a mix of short and long-term borrowings with short term flexibility achieved through overdraft facilities.

Credit Risk

The Group has no significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential residents before services commence.

3 Segmental Analysis

Revenue, earnings before taxation and total equity of the Group are wholly attributable to the operation of care homes and arise solely within the United Kingdom. The Group is unable to analyse income statement items below Home EBITDA before central costs. The Group's financial reporting systems allow for the Balance Sheet to be prepared by legal entity only. Individual legal entities often have both segments included, the financial reporting systems do not allow further analysis. As such, the Group is unable to analyse assets or liabilities between the two operating segments.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

3 Segmental Analysis continued

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

52-week period ended 1 October 2006

	Elderly Care Number	Specialist Number	Total Number
Available beds			
Acquisitions	10,606	206	10,812
Continuing operations	15,503	693	16,196
Segment available beds	26,109	899	27,008
Occupied beds			
Acquisitions	9,590	146	9,736
Continuing operations	14,209	631	14,840
Segment occupied beds	23,799	777	24,576
	Elderly Care %	Specialist %	Total %
Occupancy			
Acquisitions	90.4	70.7	90.1
Continuing operations	91.7	91.0	91.6
Segment occupancy	91.2	86.4	91.0
	£	£	£
Average weekly fee	465.1	872.6	478.0

28-week period ended 2 October 2005

	Elderly Care Number	Specialist Number	Total Number
Available beds			
Acquisitions	15,874	701	16,575
Continuing operations	–	–	–
Segment available beds	15,874	701	16,575
Occupied beds			
Acquisitions	14,568	619	15,187
Continuing operations	–	–	–
Segment occupied beds	14,568	619	15,187
	Elderly Care %	Specialist %	Total %
Occupancy			
Acquisitions	91.8	88.3	91.6
Continuing operations	n/a	n/a	n/a
Segment occupancy	91.8	88.3	91.6
	£	£	£
Average weekly fee	423.8	911.6	442.6

3 Segmental Analysis continued

Primary Reporting Format – Business Segments

The following tables present income statement and balance sheet information regarding the Group's business segments for the 28-week period ended 2 October 2005 and the 52-week period ended 1 October 2006.

52-week period ended 1 October 2006

	Elderly Care £'m	Specialist £'m	Total £'m
Revenue			
Acquisitions	218.8	6.5	225.3
Continuing operations	356.8	28.8	385.6
Segment Revenue	575.6	35.3	610.9
Home payroll costs			
Acquisitions	(124.6)	(4.6)	(129.2)
Continuing operations	(197.3)	(16.5)	(213.8)
Segment Home payroll costs	(321.9)	(21.1)	(343.0)
Home running costs			
Acquisitions	(29.2)	(1.6)	(30.8)
Continuing operations	(43.5)	(4.0)	(47.5)
Segment Home running costs	(72.7)	(5.6)	(78.3)
Home EBITDAR before central costs			
Acquisitions	65.0	0.3	65.3
Continuing operations	116.0	8.3	124.3
Segment Home EBITDAR before central costs	181.0	8.6	189.6
Home EBITDAR before central costs (%)			
Acquisitions	29.7	4.6	29.0
Continuing operations	32.5	28.8	32.2
Segment Home EBITDAR before central costs (%)	31.4	24.4	31.0
Total rent			
Acquisitions	(54.8)	(1.0)	(55.8)
Continuing operations	(84.0)	(7.0)	(91.0)
Segment Rent	(138.8)	(8.0)	(146.8)
Home EBITDA before central costs			
Acquisitions	10.2	(0.7)	9.5
Continuing operations	32.0	1.3	33.3
Segment Home EBITDA before central costs	42.2	0.6	42.8
Unallocated expenses			(42.5)
Unallocated income			1.3
Operating income			1.6
Assets and liabilities			
Unallocated assets			374.7
Total assets			374.7
Unallocated liabilities			(226.7)
Total liabilities			(226.7)
Other segment information			
Amortisation – all Elderly Care (note 13)			(1.6)
Release of provision for vacant properties (recognised as Rent) – all Elderly Care (note 22)			1.4

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

3 Segmental Analysis continued

28-week period ended 2 October 2005

	Elderly Care £'m	Specialist £'m	Total £'m
Revenue			
Acquisitions	172.9	15.3	188.2
Continuing operations	–	–	–
Segment Revenue	172.9	15.3	188.2
Home payroll costs			
Acquisitions	(96.5)	(8.3)	(104.8)
Continuing operations	–	–	–
Segment Home payroll costs	(96.5)	(8.3)	(104.8)
Home running costs			
Acquisitions	(21.3)	(1.9)	(23.2)
Continuing operations	–	–	–
Segment Home running costs	(21.3)	(1.9)	(23.2)
Home EBITDAR before central costs			
Acquisitions	55.1	5.1	60.2
Continuing operations	–	–	–
Segment Home EBITDAR before central costs	55.1	5.1	60.2
Segment Home EBITDAR before central costs (%)	31.8	33.3	31.9
Total rent			
Acquisitions	(36.9)	(3.6)	(40.5)
Continuing operations	–	–	–
Segment Rent	(36.9)	(3.6)	(40.5)
Home EBITDA before central costs			
Acquisitions	18.2	1.5	19.7
Continuing operations	–	–	–
Segment Home EBITDA before central costs	18.2	1.5	19.7
Unallocated expenses			(13.2)
Unallocated income			1.0
Operating income			7.5
Assets and liabilities			
Unallocated assets			218.3
Total assets			218.3
Unallocated liabilities			(221.7)
Total liabilities			(221.7)
Other segment information			
Amortisation – all Elderly Care (note 13)			(0.9)
Release of provision for vacant properties – all Elderly Care (note 22)			0.5

4 Exceptional Central Costs

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Flotation costs	3.1	–
Restructuring and integration costs	1.8	0.9
Other	0.3	0.2
Total	5.2	1.1

Flotation costs are legal and professional costs incurred in association with the Company's Initial Public Offering, on 12 July 2006, to the extent they have not been charged to the Share Premium account.

Following the acquisition of Cannon Capital Ventures Limited ("Ashbourne") (see note 29), the Group incurred redundancy costs of £0.6m as part of integrating the senior operational management teams of Southern Cross and Ashbourne. On 10 January 2006, the Group announced its decision to relocate the finance department of Ashbourne to its head office. The project has been completed. The total cost of this integration project, including redundancy costs, charged to the profit and loss account is £1.2m.

5 Sale of Subsidiary Undertakings

On 2 November 2005, the Group sold its investment in Southern Cross (Crown Holdings) Limited for cash consideration of £8.3m and realised a loss on disposal of £0.1m.

On 18 January 2006, the Group sold its investment in Southern Cross Propco 1 Limited for cash consideration of £4.2m and realised a loss on disposal of £0.1m.

On 8 February 2006, the Group sold its investment in Moorpark Propco Limited for cash consideration of £5.1m and realised a profit on disposal of £Nil.

On 8 February 2006, the Group sold its investment in Southern Cross Propco 2 Limited for cash consideration of £24m and realised a loss on disposal of £0.2m.

On 30 June 2006, the Group sold its investment in CC Care Propco Limited for cash consideration of £0.1m and realised a profit on disposal of £Nil.

On 26 September 2006, the Group sold its investment in Bon Accord Limited for cash consideration of £2.0m and realised a profit on disposal of £Nil.

On 11 September 2006, the Group sold its investment in Property Acqco Limited for cash consideration of £4.2m and realised a profit on disposal of £0.5m.

During the year the Group disposed of property, plant and equipment for a cash consideration totalling £4.0m. The related assets had a net book value of £3.7m, resulting in a profit on disposal of £0.3m.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

6 Operating Income

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
The following items have been included in arriving at operating income:		
Staff costs (note 30)	341.6	110.5
Operating lease rentals	146.8	40.5
Depreciation of property, plant and equipment – owned assets (note 11)	10.1	2.6
Depreciation of property, plant and equipment – leased assets	–	–
Amortisation of intangibles (note 13)	1.6	0.9
Other operating income	(0.9)	(0.6)

Services Provided by the Group's Auditor

During the year, the Group obtained the following services from the Group's Auditor at costs as detailed below:

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Audit service		
– statutory audit	0.2	0.1
Services relating to corporate finance and acquisitions	1.8	0.2

Non-audit services of £1.8m, include £1.6m in relation to the Company's Initial Public Offering and have been included within the Share Premium Account and £0.2m in respect of due diligence services, which were capitalised as part of acquisition costs.

Other operating income relates to management fees receivable in relation to a portfolio of homes owned by a third party and other operating income.

7 Finance Costs and Finance Income

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Interest payable on bank borrowings	6.2	3.8
Deep discount bond amortisation	7.0	2.9
Interest payable on loan notes	2.4	–
Amortisation of loan arrangement fees	3.1	0.2
Other finance costs	0.6	1.3
Fair value of financial instruments	–	1.7
	19.3	9.9
Bank interest receivable	(0.3)	–
Finance costs – net	19.0	9.9

8 Taxation

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Current tax		
- current period	(0.3)	1.0
- prior period	0.1	-
Deferred tax (note 24)		
- current period	(4.2)	-
- prior period	(0.9)	-
Taxation	(5.3)	1.0

The tax for the period is in line with the standard rate of corporation tax in the United Kingdom (30%).

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Loss before taxation	(17.4)	(2.4)
Loss before taxation multiplied by the standard rate of corporation tax in the United Kingdom of 30%	(5.2)	(0.7)
Effects of:		
Amortisation of intangibles	0.4	0.3
Expenses not deductible for tax purposes	0.4	1.4
Other	(0.9)	-
Tax (credit)/charge for the period	(5.3)	1.0

The tax charge is expected to be lower than the standard rate in future periods, as the impact of non-deductible intangibles and depreciation is expected to be outweighed by benefits from the use of tax assets, including brought-forward losses and capital allowance pools.

9 Dividends Paid and Proposed

No dividends were declared or paid during the periods.

The Directors have proposed a final dividend of 1.1p per share, totalling £2.1m, in respect of the 52 week period ended 1 October 2006. These financial statements do not reflect this proposed dividend.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

10 Earnings per Ordinary Share

Basic earnings 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 earnings 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.

The following reflects the share data used in the basic and diluted earnings per share calculations and incorporates the impact of the bonus issue made to all shareholders on 5 July 2006. Further details of which are given in note 25.

	52 weeks ended 1 October 2006 Number	28 weeks ended 2 October 2005 Number
Basic weighted average number of shares (excluding treasury shares)	128,879,343	74,043,101
Dilutive potential ordinary shares:		
Employee share options	–	–
Diluted weighted average number of shares	128,879,343	74,043,101

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:

	52 weeks ended 1 October 2006			28 weeks ended 2 October 2005		
	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	(12.1)	(9.35)	(9.35)	(3.4)	(0.05)	(0.05)
Charge for future minimum rental increases	30.7	23.82	23.82	4.0	0.05	0.05
Exceptional central costs:						
– Flotation costs	3.1	2.37	2.37	–	–	–
– Restructuring and integration costs	1.8	1.37	1.37	0.9	0.02	0.02
– Other	0.3	0.27	0.27	0.2	–	–
Taxation impact of above	(10.8)	(8.39)	(8.39)	(1.5)	(0.02)	(0.02)
Profit attributable to ordinary shareholders before charges for future minimum rental increases and exceptional central costs and taxation impact thereof	13.0	10.04	10.04	0.2	–	–

11 Tangibles Fixed Assets

Property, Plant and Equipment

	Freehold properties £'m	Fixtures, fittings and equipment £'m	Short leasehold property £'m	Motor vehicles £'m	Assets under construction £'m	Total £'m
Cost						
On acquisition	9.5	12.0	4.8	1.5	0.6	28.4
Additions	10.0	4.0	0.2	0.1	1.8	16.1
Disposals	(3.0)	–	–	–	–	(3.0)
At 2 October 2005	16.5	16.0	5.0	1.6	2.4	41.5
Additions	6.1	13.9	0.8	0.6	8.4	29.8
Acquisitions (note 29)	79.4	17.1	6.9	0.1	–	103.5
Transfers	2.9	0.3	2.4	–	(5.6)	–
Disposals	(65.1)	(0.3)	(0.5)	(0.1)	–	(66.0)
At 1 October 2006	39.8	47.0	14.6	2.2	5.2	108.8
Accumulated depreciation						
Charge for the period	0.1	2.1	0.1	0.3	–	2.6
At 2 October 2005	0.1	2.1	0.1	0.3	–	2.6
Charge for the period	0.2	8.7	0.6	0.6	–	10.1
Disposals	–	(0.2)	–	–	–	(0.2)
At 1 October 2006	0.3	10.6	0.7	0.9	–	12.5
Net book amount						
At 1 October 2006	39.5	36.4	13.9	1.3	5.2	96.3
At 2 October 2005	16.4	13.9	4.9	1.3	2.4	38.9

Assets held under finance leases totalled £0.3m at 2 October 2005 and £0.5m at 1 October 2006.

During the period ended 1 October 2006, freehold properties with a net book value of £3.7m were disposed of for a consideration totalling £4.0m, realising a profit on disposal of £0.3m.

Included within freehold properties as at 1 October 2006 are ten properties, with a cost of £27.9m. The Group expects to dispose of these properties during the 2007 financial year.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

12 Goodwill

Group	£'m
Cost	
On incorporation	–
Acquisition of Southern Cross Bidco Limited and subsidiary undertakings	78.6
Acquisition of Highfield	54.6
Other acquisitions	3.1
At 2 October 2005	136.3
Acquisition of Cannon Capital Ventures Limited (note 29)	59.2
Other acquisitions (note 29)	0.5
At 1 October 2006	196.0

Impairment Test for Goodwill

Goodwill arising on acquisitions, as noted above, is not being amortised but tested annually for impairment.

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 ten-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 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 2 October 2005 and 1 October 2006, no impairment charge to goodwill has been required.

13 Other Intangible Fixed Assets

Group	Resident Contracts £'m
Other intangible assets	
Cost	
On incorporation	–
Acquisition of Southern Cross Bidco Limited and subsidiary undertakings	4.9
At 2 October 2005 and 1 October 2006	4.9
Accumulated amortisation	
On incorporation	–
Charge for the period	(0.9)
At 2 October 2005	(0.9)
Charge for the period	(1.6)
At 1 October 2006	(2.5)
Net book amount	
At 1 October 2006	2.4
At 2 October 2005	4.0

Resident contracts relate to intangible assets acquired through business combinations and represent the value of resident contracts, in place, at the time of acquisition. The intangibles are measured using the income model, incorporating the expected cash flows to be generated from residents as at the date of acquisition.

14 Other Non-Current Assets

Other non-current assets relate to landlord rental security deposits which will not be contractually released within 20 years.

15 Cash and Cash Equivalents

	1 October 2006 £'m	2 October 2005 £'m
Cash and cash equivalents		
Cash at bank and in hand	21.9	4.2
	21.9	4.2

16 Trade and other Current Assets

	1 October 2006 £'m	2 October 2005 £'m
Trade receivables	34.0	26.2
Less: provision for impairment of receivables	(5.2)	(3.9)
Trade receivables – net	28.8	22.3
Other receivables	1.1	2.7
Income taxes (note 19)	1.4	–
Prepayments and accrued income	10.3	5.4
Other current assets	12.8	8.1

17 Inventories

	1 October 2006 £'m	2 October 2005 £'m
Consumables	1.1	0.4

The replacement cost of inventory does not differ materially from the costs stated above. There were no write-downs of inventory in the 52 weeks ended 1 October 2006 or the 28 weeks ended 2 October 2005.

18 Trade and Other Payables – Current

	1 October 2006 £'m	2 October 2005 £'m
Trade payables	14.6	7.9
Other tax and social security payable	6.2	5.0
Other payables	9.4	8.7
Income taxes	–	0.1
Accruals	35.2	15.5
	65.4	37.2

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

19 Income Tax (Receivable)/Payable

	1 October 2006 £'m	2 October 2005 £'m
Current tax	(1.4)	0.1

20 Financial Liabilities – Borrowings

a) Short-term Borrowings

	1 October 2006 £'m	2 October 2005 £'m
Bank loans (secured) – net of arrangement fees totalling £0.2m (2005 – £Nil)	23.9	14.0
Obligations under finance leases	0.1	0.1
Loan notes (guaranteed)	1.9	1.9
Other (note 35)	–	13.9
Financial instruments	–	3.9
	25.9	33.8

The guarantee is provided by Barclays Bank PLC as part of the facilities agreement.

b) Long-term Borrowings

	1 October 2006 £'m	2 October 2005 £'m
Bank loans (secured) – net of arrangement fees totalling £1.8m (2005 – £1.9m)	58.5	69.1
Obligations under finance leases	0.3	0.1
Loan notes 2015	4.8	2.2
Deep discounted bonds	–	57.6
	63.6	129.0

Bank loans

The bank loans are secured by a fixed and floating charge over all of the assets of the Company and certain of its subsidiaries. Interest on the bank loans is currently charged at a margin of 1.75% above LIBOR.

On 4 November 2005, the Group renegotiated its existing banking facility and increased its term loans by £38.7m as part of the funding for the acquisition of Ashbourne (see Note 29). Arrangement fees amounting to £1.2m were paid in relation to the bank loan finance and were subsequently capitalised as part of the financial instruments. Throughout the year, the Group utilised its short-term development facility to fund other acquisitions. On 12 July 2006, as part of the Company's Initial Public Offering, the Company negotiated new banking facilities and repaid all of its outstanding bank indebtedness from the proceeds of the public offering plus £67.2m of new bank loans drawn. Unamortised arrangement fees of £3.1m, including fees paid as part of the financing for Ashbourne, were consequently charged to the profit and loss account as part of the redemption of bank loans on 12 July 2006.

Arrangement fees and professional costs amounting to £2.2m were paid in relation to the bank loan finance raised on 12 July 2006 and have consequently been capitalised as part of the financial instruments at amortised cost. As at the year end, £0.2m of these fees had been amortised and charged to the profit and loss account.

Of the total bank loans falling due within one year, £5.8m relates to term loans and £18.1m relates to short-term facilities drawn to fund acquisitions.

20 Financial Liabilities – Borrowings continued

Bank loans continued

On 4 May 2005, the Group entered into a three-year interest swap agreement at a fixed interest rate of 5.14% on £56.2m of debt. On 3 March 2006, the Group entered into an eight-year interest swap agreement at a fixed interest rate of 5.94% on £57.1m of debt. Under the terms of the agreements the notional amount reduces at each repayment date to hedge 100% of total-term bank debt. On 26 July 2006, the Group redeemed the existing interest rate swap at a cost of £5.26m. On the same day, the Group entered into a three-year interest rate swap agreement at a fixed rate of 5.09% on £30m of debt.

Loan Notes

Loan notes due within one year are redeemable in 2007, are unsecured and bear interest at a rate of 0.75% below LIBOR.

Loan Notes 2015

The Loan Notes 2015 are unsecured bonds and are redeemable by 2015 and bear interest at a rate of 0.75% below LIBOR.

Deep Discount Bonds

Under the terms of an instrument dated 4 November 2005, the wholly-owned subsidiary, Southern Cross Investments No. 1 Limited, issued £84.8m of Unsecured Deep Discount Bonds 2015 at an initial discount price of £32.3m. The redemption date was 2015.

Under the terms of an instrument dated 3 March 2006, the wholly-owned subsidiary, Southern Cross Investments No. 1 Limited, issued a further £27.7m of Unsecured Deep Discount Bonds 2015 at an initial discount price of £13.7m. The redemption date was 2015.

On 3 March 2006, the wholly-owned subsidiary, Southern Cross Investments No. 1 Limited, redeemed £4.9m of deep discount bonds including accrued interest of £0.2m.

On 12 July 2006, the wholly-owned subsidiary, Southern Cross Investments No. 1 Limited, redeemed £107.1m of deep discount bonds including accrued interest of £11.0m.

Arrangement fees of £0.3m relating to the deep discount bonds were initially capitalised at cost. During the period these costs have been released to the income statement, following redemption of the instrument on 12 July 2006.

21 Other Non-Current Liabilities

	1 October 2006 £'m	2 October 2005 £'m
Provisions (note 22)	8.1	1.1
Future minimum rental increases	63.7	20.6
	71.8	21.7

Future minimum rental increases represent the cumulative difference, between operating lease charges under IFRS and the amounts actually paid during the period (note 37).

An analysis of the movement during the period is given below:

	1 October 2006 £'m	2 October 2005 £'m
Opening balance	20.6	–
On acquisition (note 29)	12.4	16.6
Charged to income statement	30.7	4.0
Closing balance	63.7	20.6

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

22 Provisions for Liabilities and Charges

	Vacant properties £'m
On acquisition	1.6
Utilised in the period	(0.5)
At 2 October 2005	1.1
On acquisition (note 29)	8.4
Utilised in the period	(1.4)
At 1 October 2006	8.1

Provision for vacant properties relates to rents payable on leased properties acquired as part of the acquisitions of Southern Cross Bidco Limited and Cannon Capital Ventures Limited (see note 29) and their respective subsidiary undertakings. The longest lease expiry is April 2018 and in the opinion of the directors the re-letting of these properties is extremely unlikely.

23 Financial Instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies relating to risk management.

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", management has reviewed contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. No such embedded derivatives were found.

Financial Instruments

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items such as trade receivables and trade payables, that arise directly from its operations. The main purpose of these financial instruments is to manage the finance for the Group's operations. The Group also enters into derivative transactions (principally interest rate swaps). The purpose of such transactions is to manage the interest rate risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies remained unchanged throughout the periods presented.

Interest Rate Risk

The Group finances its operations through a mixture of retained profits and bank borrowings. The Group borrows in sterling at both fixed and floating rates of interest and then uses interest rate swaps to manage the Group's exposure to interest rate fluctuations.

Liquidity Rate Risk

As regards liquidity, the Group's policy throughout the periods presented has been to maintain a mix of short, medium and long-term borrowings with a number of banks and institutions. Short-term flexibility is achieved by overdraft facilities. It is, in addition, the Group's policy to maintain borrowing facilities with a syndicate of banks.

Currency Risks

The Group is based in the United Kingdom, with its operations entirely within the United Kingdom. It does not hold any investment in overseas operations and consequently the balance sheet is not exposed to movements in currency exchange rates. The Group does not have sales or purchase transactions in currencies other than the unit's functional currency and consequently does not have transactional currency exposures.

23 Financial Instruments continued

Numerical Disclosures

Interest Rate Risk Profile of Financial Liabilities

After taking into account interest rate swaps entered into by the Group, the interest rate and currency profile of the Group's financial liabilities is:

At 1 October 2006

Sterling	Fixed rate financial liabilities £'m	Floating rate financial liabilities £'m	Total £'m
Bank borrowings	30.0	54.4	84.4
Finance leases	–	0.4	0.4
Trade and other payables (no interest paid)	65.4	–	65.4
Loan notes	–	6.7	6.7
Onerous lease provisions (no interest paid)	8.1	–	8.1
	103.5	61.5	165.0
Fixed rate weighted average interest rate, excluding no interest-paid items (%)	5.09%		
Fixed rate weighted average interest period, excluding no interest-paid items (years)	2.80		

At 2 October 2005

Sterling	Fixed rate financial liabilities £'m	Floating rate financial liabilities £'m	Total £'m
Bank overdraft and borrowings	59.5	25.5	85.0
Trade and other payables (no interest paid)	37.2	–	37.2
Finance leases	0.2	–	0.2
Deep discount bonds	57.6	–	57.6
Loan notes	4.1	–	4.1
Other loans	–	13.8	13.8
Onerous lease provisions (no interest paid)	1.1	–	1.1
	159.7	39.3	199.0
Fixed rate weighted average interest rate, excluding no interest-paid items (%)	7.60		
Fixed rate weighted average interest period, excluding no interest-paid items (years)	6.40		

The floating rate financial liabilities have comprised:

- Sterling denominated bank borrowings and overdrafts that bear interest at rates between 1.75% and 3.25% above UK bank base rates.
- Sterling denominated loan notes that bear interest at between 0.75% below LIBOR and 10%.
- Sterling denominated other loans that bear interest at a rate of 2% above UK bank base rate.
- Sterling denominated deep discount bonds that bear interest at 10%.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

23 Financial Instruments continued

Interest Rate Risk of Financial Assets:

The currency profile of the Group's interest rate risk of financial assets is:

	1 October 2006 £'m	2 October 2005 £'m
Cash	21.9	4.2
Accounts receivable due within one year	29.9	25.0
Accounts receivable due in more than one year	2.5	0.1
	54.3	29.3

Interest accrues on cash balances held at floating rates and accounts receivable balances do not attract interest.

Maturity of Financial Liabilities and Undrawn Commitments:

The maturity profile of the Group's financial liabilities were as follows:

	1 October 2006 £'m	2 October 2005 £'m
Within one year	92.3	67.8
In more than one year, but less than two years	6.9	2.2
In more than two years, but less than five years	50.3	8.9
More than five years	15.5	120.1
	165.0	199.0

The Group's undrawn commitments' expiry date were as follows:

	1 October 2006 £'m	2 October 2005 £'m
Within one year	–	–
More than five years	46.8	20.9
	46.8	20.9

Currency Exposures on Monetary Assets

The Group does not have any currency exposures that give rise to net currency gains and losses to be recognised in the profit and loss account.

Fair Values of Financial Assets and Liabilities

	1 October 2006		2 October 2005	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Primary financial instruments held or issued to finance the Group's operations				
Borrowings	91.5	91.5	160.7	160.6
Other financial liabilities	73.5	73.5	38.3	38.3
Financial assets	54.3	52.2	29.3	29.2
Derivative financial instruments held to manage the interest rate profile				
Interest rate swap – liability	–	–	3.9	3.9

23 Financial Instruments continued

Interest rate swap contracts have been marked to market to produce fair value figures. All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates. For floating rate bank loans, fair values closely approximate to book values.

The fair value of short-term loans and overdrafts approximate to the fair carrying value because of the short maturity of these instruments. The fair value of long-term borrowings approximate to the carrying value reported in the balance sheet as the majority are floating rate.

Gains and Losses on Hedges

The Group enters into interest rate swaps to manage its interest rate exposure. Currently the Group does not apply hedge accounting.

24 Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005 – 30%)

The movement on the deferred tax account is as shown below:

	1 October 2006 £'m	2 October 2005 £'m
Opening balance	(4.0)	–
Income and expense credit	(5.1)	–
On acquisition	(3.8)	(4.0)
Closing balance	(12.9)	(4.0)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered. Deferred tax assets of £8.4m (2005 – £0.0m) were not recognised in respect of losses that can be carried forward against future taxable income.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS12) during the period are shown below.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred Tax Assets

	Operating leases £'m	Accelerated tax depreciation £'m	Other £'m	Total £'m
On incorporation	–	–	–	–
Income and expense charge/(credit)	(1.2)	1.2	–	–
Acquisition of subsidiary	(5.0)	1.6	(0.6)	(4.0)
At 2 October 2005	(6.2)	2.8	(0.6)	(4.0)
Income and expense (credit)/charge	(9.2)	2.7	1.4	(5.1)
Acquisition of subsidiary	(3.7)	(0.1)	–	(3.8)
At 1 October 2006	(19.1)	5.4	0.8	(12.9)

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

25 Called Up Equity Share Capital

	1 October 2006 Number	2 October 2005 Number
Authorised:		
Ordinary shares of 1p each	300,000,000	1,000,000
	£'m	£'m
Ordinary shares of 1p each	3	-
	Number	Number
Allotted, called up and fully paid:		
Ordinary shares of 1p each	188,067,377	459,540
	£'m	£'m
Ordinary shares of 1p each	1.9	-

On 13 June 2006, the authorised share capital of the Company was increased from £10,000 to £55,405 by the creation of 45,405 redeemable shares of £1 each. On 6 July 2006, the Company held an Extraordinary General Meeting, and passed resolutions to increase the authorised share capital of the Company from £55,405 to £3,045,405 by the creation of 299,000,000 ordinary shares of 1p each and to authorise the Directors to issue ordinary shares with an aggregate nominal amount of £1,307,037.

On 13 June 2006, the Company issued 45,405 redeemable shares of £1 each for cash. On Admission to the London Stock Exchange on 7 July 2006, the Company allotted and issued 77,777,777 ordinary shares of 1p at 225p per share for cash and made a bonus issue of 109,830,060 ordinary shares of 1p. A bonus issue was made to all shareholders included on the register of members at 5pm on 5 July 2006 and represents a holding of 240 ordinary shares to every ordinary share held as at 5pm on 5 July 2006. The Company also redeemed and cancelled 45,405 redeemable shares of £1 each.

26 Reserves

Group	Share premium account £'m	Profit and loss account £'m
On incorporation	-	-
Loss attributable to ordinary shareholders	-	(3.4)
At 2 October 2005	-	(3.4)
Loss attributable to ordinary shareholders	-	(12.1)
Share-based payments	-	0.1
Issue of ordinary share capital	173.1	-
Costs incurred in relation to issuance of ordinary share capital	(11.6)	-
At 1 October 2006	161.5	(15.4)

27 Shareholders' Funds and Statement of Changes in Shareholders' (Deficit)/Equity

Group	Share capital £'m	Share premium account £'m	Profit and loss equity £'m	Total £'m
On incorporation	-	-	-	-
Loss attributable to ordinary shareholders	-	-	(3.4)	(3.4)
At 2 October 2005	-	-	(3.4)	(3.4)
Loss attributable to ordinary shareholders	-	-	(12.1)	(12.1)
Share-based payments	-	-	0.1	0.1
Issue of ordinary share capital	1.9	173.1	-	175.0
Costs incurred in relation to issuance of ordinary share capital	-	(11.6)	-	(11.6)
At 1 October 2006	1.9	161.5	(15.4)	148.0

28 Cash Flows from Operating Activities

Reconciliation of loss before taxation to net cash flow from operating activities:

	1 October 2006 £'m	2 October 2005 £'m
Loss before taxation	(17.4)	(2.4)
Adjustments for:		
Profit on disposal of property, plant and equipment and subsidiary undertakings	(0.4)	(0.4)
Depreciation	10.1	2.6
Amortisation	1.6	0.9
Finance costs	19.3	9.9
Finance income	(0.3)	-
Changes in working capital (excluding effects of acquisitions of subsidiaries)		
Increase in inventories	0.4	-
Decrease/(increase) in trade and other receivables	1.3	(6.0)
Increase in payables	6.5	6.9
Increase in provision for future minimum rental payable	30.7	4.0
Decrease in provisions	(1.2)	(0.5)
Cash generated from operations	50.6	15.0

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

29 Acquisitions

Acquisition of Cannon Capital ("Ashbourne")

On 4 November 2005 (effective date 30 October 2005), the Group acquired the entire share capital of Cannon Capital Ventures Limited ("Ashbourne") at an enterprise value of £54.3m, being consideration of £54.3m. In calculating the goodwill arising on acquisition, the fair value of Ashbourne has been assessed and adjustments from book value have been made where necessary. The acquired business contributed revenues of £208.4m and profit after taxation of £5.2m to the Group for the period from 30 October 2005 to 1 October 2006. If the acquisition had occurred on 3 October 2005, Group revenue would have been £628.1m.

The residual excess over the net assets acquired is recognised as goodwill in the financial statements. The fair value adjustments are summarised in the following table:

Ashbourne	Carrying value pre acquisition £'m	Fair value £'m
Property, plant and equipment	40.1	40.1
Inventories	1.1	1.0
Receivables	13.6	12.5
Payables	(24.3)	(25.2)
Provisions	(3.5)	(8.2)
Future minimum rental increases	(12.4)	(12.4)
Taxation		
– Deferred	3.8	3.8
Cash and cash equivalents	10.7	10.7
Minority interests	0.2	0.2
Loans	(27.4)	(27.4)
Net liabilities acquired	1.9	(4.9)
Goodwill		59.2
Consideration		54.3
Consideration satisfied by:		
Cash		54.3
		54.3
		£'m
Cash consideration		(54.3)
Cash acquired		10.7
		(43.6)

The fair value adjustments are as follows:

	£'m
Provision for onerous leases	4.7
Provision for inventories	0.1
Provision for doubtful debts	1.1
Liabilities not recorded	0.9
	6.8

No intangible assets were acquired as part of the acquisition of Ashbourne.

29 Acquisitions continued

Other Acquisitions

On 11 October 2005, the Group acquired the entire share capital of St Oswald's Limited at a share consideration of £1.5m, being cash consideration.

On 1 November 2005, the Group acquired the entire share capital of Rozelle Healthcare Limited at an enterprise value of £18.3m, being cash consideration.

On 19 January 2006, the Group acquired the entire share capital of Downing (Bon Accord) Limited at an enterprise value of £1.9m, being cash consideration.

On 8 March 2006, the Group acquired the entire share capital of CC Care Limited at an enterprise value of £8.4m, being cash consideration.

On 9 August 2006, the Group acquired the entire share capital of YCH No.1 Limited at an enterprise value of £18.2m, being cash consideration.

The acquired businesses contributed revenues of £11.4m and earnings after taxation of £0.4m to the Group for the period from acquisition to 1 October 2006.

It is not possible to determine the pre-acquisition profit or loss of the above acquisitions. As such, performance on a stand alone basis, for the 52 weeks ended 1 October 2006, has not been reported by the Group.

In calculating the goodwill arising on these acquisitions, the provisional fair values of the assets acquired have been assessed and adjustments from book value have been made where necessary. These adjustments are summarised in the following table:

	Book value £'m	Adjustments £'m	Provisional fair value to the Group £'m
Tangible fixed assets	40.3	23.1	63.4
Stock	–	–	–
Debtors	0.5	(0.1)	0.4
Cash			
Total assets			
Creditors	(0.8)	–	(0.8)
Overdrafts	(0.3)	–	(0.3)
Long term loans	(12.6)	–	(12.6)
Provisions for liabilities and charges	(0.4)	–	(0.4)
Total liabilities			
Net assets	26.7	23.0	49.7
Cost of acquisition			50.2
Goodwill arising on acquisition			0.5

The provisional fair value adjustments relate to the valuation of freehold property to market value and provision for bad and doubtful debts. In the opinion of the Directors, these acquisitions are not material to the Group and consequently no further profit and loss disclosures have been provided.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

30 Employees and Directors

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Staff costs for the Group during the period		
Wages and salaries	321.8	102.9
Social security costs	25.5	7.4
Other pension costs	0.5	0.2
	347.8	110.5
Staff costs for the Group by function		
Home payroll costs – excluding agency and other staff-related costs	331.8	99.8
Central payroll costs	16.0	10.7
	347.8	110.5

Home payroll costs, as disclosed on the face of the income statement include agency and other staff-related costs. Agency and other staff-related costs totalled £11.2m and £5.0m for the periods ended 1 October 2006 and 2 October 2005 respectively.

Average monthly number of people (including executive directors) employed:

	52 weeks ended 1 October 2006 Number	28 weeks ended 2 October 2005 Number
By activity		
Care and ancillary	21,119	13,645
Management and administration	1,242	828
	22,361	14,473

Directors' Remuneration

A detailed analysis of Directors' remuneration, including salaries, performance-related bonuses and share option schemes is provided in the remuneration report on pages 30 to 33 under the heading Directors' remuneration, which form part of these financial statements.

The total remuneration of the Directors comprises:

	2006 £'m	2005 £'m
Aggregate emoluments	2.0	0.7
Compensation for loss of office	0.2	–
Company contributions to money purchase pension schemes	0.1	–
	2.3	0.7

Details of the highest-paid Director are given in the remuneration report under the heading Directors' remuneration.

The key management of the Group are deemed to be the Board of Directors who have authority and responsibility for planning and controlling all significant activities of the Group.

31 Pension Charge

Pension costs for defined contribution schemes are as follows:

	52 weeks ended 1 October 2006 £'m	28 weeks ended 2 October 2005 £'m
Defined contribution schemes	0.5	0.2

32 Contingent Liabilities

The Group has provided guarantees to certain of the Group's landlords and holders of loan notes. As at 1 October 2006 these guarantees totalled £15.1m.

33 Financial Commitments

At 2 October 2005 and 1 October 2006 the Group and Company had commitments under non-cancellable operating leases expiring as follows:

	1 October 2006 £'m	2 October 2005 £'m
Within one year	161.3	146.8
Within one to three years	322.6	293.6
Within three to five years	322.6	293.6
Over five years	3,011.2	1,753.1
	3,817.7	2,487.1

The majority of operating leases provide for fixed annual increases at 2.5% or 2.75%, or annual rent increases based on the retail price index, subject to negotiated caps and collars.

Financial commitments, due within one year, under non-cancellable operating leases and analysed by nature of lease terms is included below.

	1 October 2006 £'m	2 October 2005 £'m
Annual rental increases based on RPI subject to cap and collar arrangement	41.6	37.9
Fixed annual rental increases	101.9	92.7
Five-yearly, fixed, rental increases	8.9	8.1
Annual rental increases based on RPI	8.9	8.1
	161.3	146.8

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

34 Share-based Payments

The total charge for share-based payments was £147,797 (2005 – £Nil) all of which relates to equity settled transactions. After deferred tax, the total charge was £103,458 (2005 – £Nil).

Performance Share Plan

The Southern Cross Healthcare Group 2006 Performance Share Plan (the "PSP") is available to Executive Directors and approximately 100 members of senior management. Annual grants are made under the PSP with a value of up to 100% of an individual's salary. Vesting of options is subject to performance conditions based on earnings per share and total shareholder return. Further details of the vesting conditions are given in the remuneration report on page 4.

A reconciliation of option movements during the period is given below:

	52 weeks ended 1 October 2006		28 weeks ended 2 October 2005	
	Number '000	Weighted average exercise price p	Number '000	Weighted average exercise price p
Outstanding: Beginning of period	–	n/a	–	n/a
Granted	2,365	£Nil	–	n/a
End of period	2,365	£Nil	–	n/a

The fair value of Company's options granted in the period ended 1 October 2006 and the assumptions used in the calculation are as follows:

	52 weeks ended 1 October 2006
Grant date	4 September 2006
Share price at grant date	£2.94
Exercise price	£Nil
Number granted	2,365,332
Option pricing model	Monte Carlo
Vesting period (years)	3
Expected volatility	26.00%
Contracted life (years)	3
Risk free rate	5.02%
Dividend yield	0.00%
Fair value per option	£2.94

Expected volatility is based on historical volatility of shares in the same sector over the last ten years. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with assumed option life.

The weighted average remaining contractual life of options outstanding at the end of the period was 2.9 years.

35 Ultimate Parent Undertaking and Related Party Transactions

The Group presents details of transactions with related parties. Note (a) details transactions with Directors, and note (b) details transactions with entities controlled by the Blackstones Group.

a) Transactions with Directors and Management

Unsecured loan notes issued by Southern Cross Healthcare Investments No. 2 Limited:

	P Scott £'m	C Rutter £'m	G Sizer £'m	J Murphy £'m	W Colvin £'m
On incorporation	–	–	–	–	–
Purchase of unsecured 10% interest-bearing bonds 2015 (nominal amount)	0.8	0.4	0.6	0.1	0.2
Discount accrued during period	–	–	–	–	–
Balance at 2 October 2005	0.8	0.4	0.6	0.1	0.2
Discount accrued during period	–	–	–	–	–
Redeemed	(0.8)	(0.4)	(0.6)	(0.1)	(0.2)
Balance at 1 October 2006	–	–	–	–	–

Unsecured Loan Notes issued by TBG Careco Investments No. 1 Limited:

	P Scott £'m	C Rutter £'m	G Sizer £'m	J Murphy £'m	W Colvin £'m
On incorporation	–	–	–	–	–
Purchase of unsecured 10% interest-bearing unsecured bonds 2015 (nominal amount)	0.4	0.2	–	0.2	0.4
Discount accrued during period	–	–	–	–	–
Balance at 2 October 2005	0.4	0.2	–	0.2	0.4
Discount accrued during period	–	–	–	–	–
Redeemed	(0.4)	(0.2)	–	(0.2)	(0.4)
Balance at 1 October 2006	–	–	–	–	–

b) Transactions with Shareholders

In addition, unsecured deep discount bonds were issued by Southern Cross Healthcare Investments No. 1 Limited, to the following shareholders:

Entity	Total £'m	Nominal £'m	Interest £'m
BCP (Cayman) IV LP			
Balance at incorporation	–	–	–
Issue of DDBs	38.6	38.6	–
Accrued discount	1.6	–	1.6
Redeemed	(7.8)	(7.6)	(0.2)
Balance at 2 October 2005	32.4	31.0	1.4
Issue of DDBs	26.8	25.9	0.9
Accrued discount	3.9	–	3.9
Redeemed	(63.1)	(56.9)	(6.2)
Balance at 1 October 2006	–	–	–

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

35 Ultimate Parent Undertaking and Related Party Transactions continued

b) Transactions with Shareholders continued

Entity	Total £'m	Nominal £'m	Interest £'m
BCP (Cayman) IV A LP			
Balance at incorporation	-	-	-
Issue of DDBs	0.7	0.7	-
Redeemed	(0.1)	(0.1)	-
Balance at 2 October 2005	0.6	0.6	-
Issue of DDBs	0.5	0.5	-
Accrued discount	0.1	-	0.1
Redeemed	(1.2)	(1.1)	(0.1)
Balance at 1 October 2006	-	-	-
BFI (Cayman) IV A			
Balance at incorporation	-	-	-
Issue of DDBs	1.8	1.8	-
Accrued discount	0.1	-	0.1
Redeemed	(0.4)	(0.4)	-
Balance at 2 October 2005	1.5	1.4	0.1
Issue of DDBs	1.2	1.2	-
Accrued discount	0.2	-	0.2
Redeemed	(2.9)	(2.6)	(0.3)
Balance at 1 October 2006	-	-	-
BPP (Cayman) IV LP			
Balance at incorporation	-	-	-
Issue of DDBs	0.1	0.1	-
Balance at 2 October 2005	0.1	0.1	-
Issue of DDBs	0.1	0.1	-
Accrued discount	-	-	-
Redeemed	(0.2)	(0.2)	-
Balance at 1 October 2006	-	-	-
BREP (Alberta) IV LP			
Balance at incorporation	-	-	-
Issue of DDBs	3.5	3.5	-
Accrued discount	0.2	-	0.2
Redeemed	(0.7)	(0.7)	-
Balance at 2 October 2005	3.0	2.8	0.2
Issue of DDBs	2.5	2.4	0.1
Accrued discount	0.4	-	0.4
Redeemed	(5.9)	(5.2)	(0.7)
Balance at 1 October 2006	-	-	-

35 Ultimate Parent Undertaking and Related Party Transactions continued

b) Transactions with Shareholders continued

Entity	Total £'m	Nominal £'m	Interest £'m
BREP (Alberta) IV TE 1 LP			
Balance at incorporation	-	-	-
Issue of DDBs	1.2	1.2	-
Accrued discount	0.1	-	0.1
Redeemed	(0.2)	(0.2)	-
Balance at 2 October 2005	1.1	1.0	0.1
Issue of DDBs	0.8	0.8	-
Accrued discount	0.1	-	0.1
Redeemed	(2.0)	(1.8)	(0.2)
Balance at 1 October 2006	-	-	-
BREP (Alberta) IV TE 2 LP			
Balance at incorporation	-	-	-
Issue of DDBs	2.3	2.3	-
Accrued discount	0.1	-	0.1
Redeemed	(0.5)	(0.5)	-
Balance at 2 October 2005	1.9	1.8	0.1
Issue of DDBs	1.6	1.6	-
Accrued discount	0.2	-	0.2
Redeemed	(3.7)	(3.4)	(0.3)
Balance at 1 October 2006	-	-	-
BREP (Alberta) IV TE 3 A LP			
Balance at incorporation	-	-	-
Issue of DDBs	2.0	2.0	-
Accrued discount	0.1	-	0.1
Redeemed	(0.4)	(0.4)	-
Balance at 2 October 2005	1.7	1.6	0.1
Issue of DDBs	1.4	1.4	-
Accrued discount	0.2	-	0.2
Redeemed	(3.3)	(3.0)	(0.3)
Balance at 1 October 2006	-	-	-
BREP (Alberta) IV F LP			
Balance at incorporation	-	-	-
Issue of DDBs	1.2	1.2	-
Accrued discount	0.1	-	0.1
Redeemed	(0.3)	(0.3)	-
Balance at 2 October 2005	1.0	0.9	0.1
Issue of DDBs	0.9	0.9	-
Accrued discount	0.1	-	0.1
Redeemed	(2.0)	(1.8)	(0.2)
Balance at 1 October 2006	-	-	-

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

35 Ultimate Parent Undertaking and Related Party Transactions continued

b) Transactions with Shareholders continued:

Entity	Total £'m	Nominal £'m	Interest £'m
BREP (Alberta) IV LP			
Balance at incorporation	-	-	-
Issue of DDBs	0.6	0.6	-
Redeemed	(0.1)	(0.1)	-
Balance at 2 October 2005	0.5	0.5	-
Issue of DDBs	0.4	0.4	-
Accrued discount	0.1	-	0.1
Redeemed	(1.0)	(0.9)	(0.1)
Balance at 1 October 2006	-	-	-
BREP International IE LP			
Balance at incorporation	-	-	-
Issue of DDBs	7.7	7.7	-
Accrued discount	0.3	-	0.3
Redeemed	(1.5)	(1.5)	-
Balance at 2 October 2005	6.5	6.2	0.3
Issue of DDBs	5.3	5.1	0.2
Accrued discount	0.8	-	0.8
Redeemed	(12.6)	(11.3)	(1.3)
Balance at 1 October 2006	-	-	-
BREP International ID LP			
Balance at incorporation	-	-	-
Issue of DDBs	3.6	3.6	-
Accrued discount	0.1	-	0.1
Redeemed	(0.7)	(0.7)	-
Balance at 2 October 2005	3.0	2.9	0.1
Issue of DDBs	2.5	2.4	0.1
Accrued discount	0.4	-	0.4
Redeemed	(5.9)	(5.3)	(0.6)
Balance at 1 October 2006	-	-	-
BREP International ID 2 LP			
Balance at incorporation	-	-	-
Issue of DDBs	4.2	4.2	-
Accrued discount	0.2	-	0.2
Redeemed	(0.9)	(0.9)	-
Balance at 2 October 2005	3.5	3.3	0.2
Issue of DDBs	2.9	2.8	0.1
Accrued discount	0.4	-	0.4
Redeemed	(6.8)	(6.1)	(0.7)
Balance at 1 October 2006	-	-	-

35 Ultimate Parent Undertaking and Related Party Transactions continued

b) Transactions with Shareholders continued:

Entity	Total £'m	Nominal £'m	Interest £'m
BREP International A LP			
Balance at incorporation	-	-	-
Issue of DDBs	0.7	0.7	-
Redeemed	(0.1)	(0.1)	-
Balance at 2 October 2005	0.6	0.6	-
Issue of DDBs	0.5	0.5	-
Accrued discount	0.1	-	0.1
Redeemed	(1.2)	(1.1)	(0.1)
Balance at 1 October 2006	-	-	-
BREP International B LP			
Balance at incorporation	-	-	-
Issue of DDBs	0.2	0.2	-
Balance at 2 October 2005	0.2	0.2	-
Issue of DDBs	0.1	0.1	-
Redeemed	(0.3)	(0.3)	-
Balance at 1 October 2006	-	-	-
Total			
Balance at incorporation	-	-	-
Issue of DDBs	68.5	68.5	-
Accrued discount	2.9	-	2.9
Redeemed	(13.9)	(13.6)	(0.3)
Balance at 2 October 2005	57.5	54.9	2.6
Issue of DDBs	47.5	46.0	1.5
Accrued discount	6.9	-	6.9
Redeemed	(111.9)	(100.9)	(11.0)
Balance at 1 October 2006	-	-	-

During the period 8 April 2005 to 3 March 2006, TBG Careco Holdings Limited and its subsidiary undertakings were deemed related parties of the Group by virtue of common control.

As part of the reconstruction of the business in April 2005, NHP Limited (formerly NHP plc, one of the Group's principal landlords), a subsidiary of TBG Careco Holdings Limited, provided funding to the Group of £13,767,000. Interest was charged on the balance at 2% over Bank of England base rate and the loan was repaid on 3 March 2006. The balance outstanding at 2 October 2005 was £13,837,417. Total interest charged in the period ended 2 October 2005 was £0.1m and in the period ended 1 October 2006 was £0.4m.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

35 Ultimate Parent Undertaking and Related Party Transactions continued

b) Transactions with Shareholders continued

In addition, rent and insurance premiums were paid to NHP Limited during the period. These transactions are summarised in the table below:

	Rent payable £'m	Insurance premiums payable £'m	Total amounts payable £'m	Rent prepaid at balance sheet date £'m
Period ended 2 October 2005	30.9	0.3	31.2	1.7
Period ended 1 October 2006	67.0	0.6	67.6	2.4

All transactions between the Group and NHP Limited have been undertaken on an arm's length basis and on normal commercial terms.

Transactions with Blackstone Management Partners IV LLC are disclosed within the remuneration report.

36 Principal Subsidiary Undertakings

The principal subsidiary undertakings as at 1 October 2006, all of which are registered in England and Wales (unless otherwise stated:

SC = registered in Scotland; NI = registered in Northern Ireland) and have been consolidated in the Group financial information, are as follows:

Care home operating companies

Abbeycourt Care Limited (SC)	Southern Cross (RZ) Limited
Active Care Partnerships (Broadoaks) Limited	Southern Cross Care Centres Limited
Active Care Partnerships (Churchfields) Limited	Southern Cross Care Homes No.2 Limited
Active Care Partnerships (Drummond) Limited	Southern Cross Care Homes No.3 Limited
Active Care Partnerships (Fryers) Limited	Southern Cross Cymru Limited
Active Care Partnerships (InterCare) Limited	Southern Cross Healthcare (Cheshire) Limited
Active Care Partnerships (Lombardy) Limited	Southern Cross Healthcare (Clyde) Limited
Active Care Partnerships Limited	Southern Cross Healthcare (Kent) Limited
APTA Healthcare (UK) Limited	Southern Cross Healthcare (South East) Limited
Ashbourne (Eton) Limited	Southern Cross Healthcare (West) Limited
Ashbourne Boss Limited	Southern Cross Healthcare Centres Limited
Ashbourne Care Homes (Bucks) Limited	Southern Cross Healthcare Facilities Limited
Ashbourne Group Europe Limited	Southern Cross Healthcare Services Limited
Ashbourne Group UK Limited (SC)	Southern Cross Home Properties (Perth) Limited (SC)
Ashbourne Homes Limited (SC)	Southern Cross Home Properties Limited
Ashbourne Life Limited	Southern Cross Management Limited
Atlas Healthcare (South West) Limited	Southern Cross Operations (No.2) Limited
CC Care Limited	Southern Cross Operations Limited
Chiltern Care Homes Limited	Southern Cross (ATA) Limited
Dunlurg Home Limited (NI)	Southern Cross (Hamilton) Limited
Exceler Health Care Group Limited	Standford Homes Limited
Exceler Healthcare Services Leasing Limited	Trinity Care (Brookfield) Limited
Exceler Healthcare Services Limited	Trinity Care (Hove) Limited
Exceler Ireland Limited	Trinity Care (Whitchurch) Limited
Longfield Care Limited (NI)	Trinity Care Homes Limited
Modelfuture Limited	Trinity Care Limited
Moorpark Kilbirnie Limited	Trinity Care (Crown) Limited
Networked Living Limited	YCH (No.1) Limited
Networking Care Partnerships (South West) Limited	West Regent Limited
Nightingale Private Nursing Home Limited (NI)	

36 Principal Subsidiary Undertakings continued

Dormant companies

Ashbourne Healthcare Limited
 Ashbourne Homes (Developments) Limited (SC)
 Ashbourne Leasing Limited
 Cairncroft Limited
 Care (Wookey Hole) Limited
 Careerstaff Limited (SC)
 CCSX Developments Limited
 CCSX Investments Limited
 CCSX Jersey General Partner Limited
 Networking Care Partnerships (Devon)
 CCSX Minster Limited
 CCSX Properties Limited
 CCSX West Limited
 Community Care Management Services Limited
 Dalnair Estate Development Limited (SC)
 Doncaster Care Developments Limited
 Elders Pharmacies Limited (SC)
 Ely Care Home Limited
 Firmprior Limited
 Gradeindex Limited
 Greatmagic Limited
 Kingsclear Homes Limited

Intermediate holding companies

Active Care Partnerships (Holdings) Limited
 APTA Healthcare Limited
 Ashbourne Holdings Limited
 Ashbourne Limited
 CCSX (DL) Limited
 CCSX Holdings Limited
 United Propco Limited
 CCSX Limited
 CCSX Ventures Limited
 Networking Care Holdings Limited

Care home development companies

Southern Cross Healthcare Developments Limited
 Networking Care Properties Limited
 Southern Cross (Armagh) Limited
 Southern Cross (Crown Propco) Limited
 Southern Cross (Kings Gate Propco) Limited
 Southern Cross Ratho Street Limited
 Southern Cross (Meiklewood) Limited
 Southern Cross (Stepps) Limited

Investment holding companies

CCSX Ventures Investments Limited
 Southern Cross Debtco Limited
 Southern Cross Loanco Limited
 Southern Cross SLBco Limited

Larstrike Limited
 Lartenant Limited
 Noblerevel Limited
 P.F. Young Limited
 Pentland Healthcare Limited (SC)
 Prizemagic Limited
 Sedbury Park Limited
 Southern Cross Care Management Limited
 Southern Cross Healthcare Properties Limited
 Southern Cross Leasing 1999 Limited (SC)
 Southern Cross Projects Limited
 Stoneyford Park Limited
 Sunchoice Group Limited
 Sunchoice Services Limited
 Sunchoice Trading Limited
 Sunchoice UK Limited
 The CCSX Jersey Limited Partnership
 Trinity Care (Southampton) Limited
 Trinity Care Management Limited
 West Regent Homes Limited
 West Regent Healthcare Limited
 Woodleigh Property (Dormant) Limited

Southern Cross (Highfield Holdco) Limited
 Southern Cross (SX Holdco) Limited
 Southern Cross Bidco Limited
 Southern Cross Care Homes Holdings Limited
 Southern Cross Care Homes Limited
 Southern Cross Finance Limited
 Southern Cross Healthcare Holdings Limited
 Southern Cross Healthcare Investments No.1 Limited
 Southern Cross Healthcare Investments No.2 Limited
 Southern Cross Healthcare Limited

Southern Cross (Tornadee) Limited
 Southern Cross Healthcare (Enniskillen) Limited
 Southern Cross Propco 3 Limited
 Southern Cross Propco 5 Limited
 Southern Cross Propco 6 Limited
 Southern Cross (Nerston) Limited
 Southern Cross (Thames) Limited
 Southern Cross RZ Properties Limited

Miscellaneous

CCSX Management Limited
 Southern Cross Care Limited
 Sunchoice Europe Limited

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

37 Reconciliation of Net Assets and Profit under UK GAAP to IFRS

Southern Cross Healthcare Group reported under UK GAAP in its financial information for the period ended 2 October 2005. The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at each balance sheet date to the revised net assets and profit under IFRS as reported in these financial statements.

The IFRS transition date for this Company was 10 January 2005. As there were no differences at that date in the companies financial statements, between IFRS and UK GAAP, no reconciliation has been presented.

Reconciliation of profit before tax

	1 October 2006 £'m	2 October 2005 £'m
Profit before tax reported under UK GAAP	2.1	1.2
Operating lease rentals	(30.7)	(4.0)
Amortisation of goodwill under UK GAAP	8.9	3.1
Amortisation of intangibles under IFRS	(1.6)	(0.9)
Fair value of financial instruments	3.9	(1.8)
Loss before taxation reported under IFRS	(17.4)	(2.4)

Reconciliation of balance sheet at 1 October 2006

	Previous UK GAAP £'m	Effect of transition to IFRS £'m	IFRS £'m
Plant, property & equipment	96.3	-	96.3
Goodwill	167.1	28.9	196.0
Other intangible assets, net	-	2.4	2.4
Deferred tax assets	-	12.9	12.9
Other non current assets	2.5	-	2.5
Total non-current assets	265.9	44.2	310.1
Cash and cash equivalents	21.9	-	21.9
Accounts receivable	28.8	-	28.8
Inventories	1.1	-	1.1
Other current assets	12.8	-	12.8
Total current assets	64.6	-	64.6
Total assets	330.5	44.2	374.7
Short-term borrowings	(25.9)	-	(25.9)
Trade and other payables	(65.4)	-	(65.4)
Total current liabilities	(91.3)	-	(91.3)
Long-term borrowings	(63.6)	-	(63.6)
Provisions and similar obligations	(8.1)	-	(8.1)
Deferred tax liabilities	(3.6)	3.6	-
Future minimum rental payable	-	(63.7)	(63.7)
Total non-current liabilities	(75.3)	(60.1)	(135.4)
Total liabilities	(166.6)	(60.1)	(226.7)
Net assets	163.9	(15.9)	148.0

37 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

Reconciliation of Balance Sheet at 2 October 2005

	Previous UK GAAP £'m	Effect of transition to IFRS £'m	IFRS 2005 £'m
ASSETS			
Non-current assets			
Property, plant and equipment	38.9	–	38.9
Goodwill	124.9	11.4	136.3
Other intangible assets	–	4.0	4.0
Deferred tax assets	–	4.0	4.0
Other non-current assets	0.1	–	0.1
Total non-current assets	163.9	19.4	183.3
Current assets			
Cash and cash equivalents	4.2	–	4.2
Accounts receivable	22.3	–	22.3
Inventories	0.4	–	0.4
Other current assets	8.1	–	8.1
Total current assets	35.0	–	35.0
Total assets	198.9	19.4	218.3
LIABILITIES			
Current liabilities			
Short-term financial liabilities	(29.9)	(3.9)	(33.8)
Trade and other payables	(35.3)	(1.9)	(37.2)
Total current liabilities	(65.2)	(5.8)	(71.0)
Non-current liabilities			
Long-term borrowings	(129.0)	–	(129.0)
Provisions and similar obligations	(1.1)	–	(1.1)
Deferred tax liabilities	(3.4)	3.4	–
Future minimum rental payable	–	(20.6)	(20.6)
Total non-current liabilities	(133.5)	(17.2)	(150.7)
Total liabilities	(198.7)	(23.0)	(221.7)
Shareholders' deficit	0.2	(3.6)	(3.4)

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

37 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

Reconciliation of profit for the 52 weeks ended 2 October 2006

	Previous GAAP £'m	Effect of transition to IFRS £'m	IFRS £'m
Revenue	610.9	-	610.9
Home payroll costs	(343.0)	-	(343.0)
Home running costs	(78.3)	-	(78.3)
Home EBITDAR before central costs	189.6	-	189.6
Rent			
Charge for rental amounts currently payable	(116.1)	-	(116.1)
Charge for future minimum rental increases	-	(30.7)	(30.7)
Total rent	(116.1)	(30.7)	(146.8)
Home EBITDA before central costs	73.5	-	42.8
Central costs	(30.8)	-	(30.8)
Other operating income	0.9	-	0.9
Adjusted EBITDA before exceptional central costs and charge for future minimum rental increases	48.8	-	48.8
Exceptional central costs	(5.2)	-	(5.2)
Charge for future minimum rental increases	-	(30.7)	(30.7)
EBITDA	43.6	(30.7)	12.9
Profit on disposal of property, plant and equipment and subsidiary undertakings	0.4	-	0.4
Depreciation	(10.1)	-	(10.1)
Amortisation	(8.9)	7.3	(1.6)
Operating income	25.0	(23.4)	1.6
Finance costs	(23.2)	3.9	(19.3)
Finance income	0.3	-	0.3
Earnings before taxation	2.1	(19.5)	(17.4)
Taxation	(2.8)	8.1	5.3
Profit attributable to ordinary shareholders	(0.7)	(11.4)	(12.1)

37 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

Reconciliation of Profit for the 28 weeks ended 2 October 2005

	Previous GAAP £'m	Effect of transition to IFRS £'m	IFRS £'m
Revenue	188.2	–	188.2
Home payroll costs	(104.8)	–	(104.8)
Home running costs	(23.2)	–	(23.2)
Home EBITDAR before central costs	60.2	–	60.2
Rent			
Charge for rental amounts currently payable	(36.5)	–	(36.5)
Charge for future minimum rental increases	–	(4.0)	(4.0)
Total rent	(36.5)	(4.0)	(40.5)
Home EBITDA before central costs	23.7	(4.0)	19.7
Central costs	(9.7)	–	(9.7)
Other operating income	0.6	–	0.6
Adjusted EBITDA before exceptional central costs and charge for future minimum rental increases	15.7	–	15.7
Exceptional central cost	(1.1)	–	(1.1)
Charge for future minimum rental increases	–	(4.0)	(4.0)
EBITDA	14.6	(4.0)	10.6
Profit/(loss) on disposal of property, plant and equipment and subsidiary undertakings	0.4	–	0.4
Depreciation	(2.6)	–	(2.6)
Amortisation	(3.1)	2.2	(0.9)
Operating income	9.3	(1.8)	7.5
Finance cost	(8.1)	(1.8)	(9.9)
Finance income	–	–	–
Earnings before taxation	1.2	(3.6)	(2.4)
Taxation	(2.8)	1.8	(1.0)
Earnings attributable to ordinary shareholders	(1.6)	(1.8)	(3.4)

Operating lease rentals

General practice, under UK GAAP, has been for operating lease rentals to be charged, as an expense, in accordance with the contractual payments made under the lease. IFRS requires the minimum guaranteed lease payments made under operating leases to be recognised, as an expense, on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Consequently, rental charges included in the income statement have increased by £30.7m and £4.0m in the periods to 1 October 2006 and 2 October 2005, respectively. Related deferred tax assets of £9.3m and £1.2m have been recognised in the Group balance sheets as at 1 October 2006 and 2 October 2005.

Goodwill amortisation

Under UK GAAP, the Group amortises goodwill over its estimated useful economic life of 20 years. IFRS 3 requires that goodwill is not amortised but is subject to an annual impairment review instead. As required by IFRS 1 an impairment test was carried out on the date of transition to IFRS and annually thereafter. No impairment was recognised and no other adjustments to the carrying value of goodwill were made. Goodwill amortisation charged under UK GAAP, totalling £8.9m and £3.1m in the periods to 1 October 2006 and 2 October 2005, respectively, have been reversed.

Notes to the IFRS Financial Information

For the 52 weeks ended 1 October 2006

37 Reconciliation of Net Assets and Profit under UK GAAP to IFRS continued

Business Combinations

IFRS requires that the cost of investment is allocated to the acquired entity's assets and liabilities and contingent liabilities assumed based on fair values to the acquirer at the date of acquisition. IFRS prescribes the allocation of the excess consideration to more categories of intangible assets (such as resident contracts) with goodwill being a residual asset. Intangible assets associated with resident's contracts totalling £4.9m have been recognised upon the acquisition of Southern Cross Equityco Limited.

Amortisation on resident contracts totalling £1.6m and £0.9m has been recognised as an expense, for the periods to 1 October 2006 and 2 October 2005, respectively.

Financial Instruments

Under UK GAAP, gains and losses from derivative financial instruments used for hedging purposes are not recognised in earnings or as adjustments to carrying amounts until the underlying hedged transaction matures or occurs. IAS 39 requires all derivatives to be recognised at fair value in the balance sheet. Consequently, interest rate swaps with a negative fair value of £Nil and £3.9m have been recognised in the Group balance sheets at 1 October 2006 and 2 October 2005 respectively. Related deferred tax assets of £Nil and £1.2m have been recognised in the Group balance sheets.

Independent Auditors' Report to the Members of Southern Cross Healthcare Group PLC

We have audited the parent company financial statements of Southern Cross Healthcare Group PLC for the 52 week period ended 1 October 2006 which comprise the Company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Southern Cross Healthcare Group PLC for the year ended 1 October 2006.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the remuneration report and the parent company 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 parent company financial statements and the part of the Directors' remuneration report to be audited 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 parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the remuneration report to be audited have been 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 parent company financial statements. The information given in the Directors' Report includes that specific information presented in the business review and the financial review that is cross referred from the business review section of the Directors' report. 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 other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report, the unaudited part of the remuneration report, the Chairman's statement and the business review and the financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

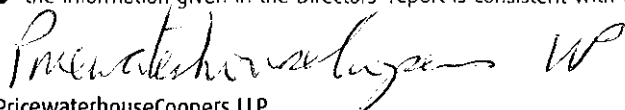
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company 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 parent company financial statements and the part of the remuneration report to be audited 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 parent company financial statements and the part of the remuneration report to be audited.

Opinion

In our opinion:

- the parent company 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;
- the parent company financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
11 December 2006

Company Balance Sheet

	Note	2 October 2006 £'000	1 October 2005 £'000
Fixed assets			
Investments	2	3	3
		3	3
Current assets			
Debtors – due after more than one year	3	266,577	2
Creditors – amounts due within one year	4	(26,074)	–
Net current assets		240,503	2
Total assets less current liabilities		240,506	5
Creditors – amounts due within one year	5	(52,090)	–
Net assets		188,416	5
Capital and reserves			
Called up share capital	6	1,881	5
Share premium account		161,522	–
Profit and loss account	7	25,013	–
Equity shareholders' funds		188,416	5

The financial statements on pages 82 to 87 were approved by the Board of Directors on 11 December 2006 and signed on their behalf by:


P Scott Chief Executive


S Sizer Finance Director

Statement of Accounting Policies

Basis of Preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and comply with the Companies Act 1985. No profit and loss account has been presented for the Company as permitted by Section 230 Companies Act 1985.

The Company is included in the financial statements of Southern Cross Healthcare Group, which are publicly available. Consequently the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 "Cash Flow Statements (Revised 1996)". The Company is also exempt under the terms of FRS8 "Related Party Transactions" from disclosing related party transactions with entities that are part of the same group.

Turnover

Turnover represents fees charged (excluding VAT) by the Group for services provided relating to its principal activities. Turnover is recognised when the services are provided in full.

Fixed Asset Investments

Fixed asset investments are included at cost, less amounts written off in respect of diminution in value.

Deferred Taxation

The Group accounts for taxation, which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax liabilities and assets are not discounted.

Finance Costs

Finance costs are charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Financial Instruments and Derivatives

The Group's accounting policy for derivatives is to defer and only recognise in the Group profit and loss account gains and losses on hedges of revenues, operating payments and capital expenditure to match the underlying transactions.

Interest rate cap agreements taken out are recorded at cost in the balance sheet and amortised over the period of the agreements. Amounts payable or receivable in respect of interest rate cap agreements are recognised in the net interest payable charge on an accruals basis.

Debt Instruments

Debt instruments are stated at the amount of net proceeds adjusted to amortise the issue cost of debt evenly over the term of the debt.

Notes to the Financial Statements

For the period ended 1 October 2006

1 Profit and Loss Account

Southern Cross Healthcare Group PLC has not presented its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The profit after taxation for the financial period dealt with in the accounts of the Company is £25,013,324.

The audit fee in respect of the Company was £Nil. The Company has no employees. Directors are remunerated by other Group companies.

2 Investments

Company

£'000

Cost	
On incorporation	-
Additions	3
At 2 October 2005 and 1 October 2006	3

The wholly-owned subsidiary undertakings at the balance sheet date, all of which are registered in England and Wales (unless otherwise stated: SC = registered in Scotland; NI = registered in Northern Ireland) and have been consolidated in the group financial statements, are as follows:

Care home operating companies

Abbeycourt Care Limited (SC)	Southern Cross (RZ) Limited
Active Care Partnerships (Broadoaks) Limited	Southern Cross Care Centres Limited
Active Care Partnerships (Churchfields) Limited	Southern Cross Care Homes No.2 Limited
Active Care Partnerships (Drummond) Limited	Southern Cross Care Homes No.3 Limited
Active Care Partnerships (Fryers) Limited	Southern Cross Cymru Limited
Active Care Partnerships (InterCare) Limited	Southern Cross Healthcare (Cheshire) Limited
Active Care Partnerships (Lombardy) Limited	Southern Cross Healthcare (Clyde) Limited
Active Care Partnerships Limited	Southern Cross Healthcare (Kent) Limited
APTA HealthCare (UK) Limited	Southern Cross Healthcare (South East) Limited
Ashbourne (Eton) Limited	Southern Cross Healthcare (West) Limited
Ashbourne Boss Limited	Southern Cross Healthcare Centres Limited
Ashbourne Care Homes (Bucks) Limited	Southern Cross Healthcare Facilities Limited
Ashbourne Group Europe Limited	Southern Cross Healthcare Services Limited
Ashbourne Group UK Limited (SC)	Southern Cross Home Properties (Perth) Limited (SC)
Ashbourne Homes Limited (SC)	Southern Cross Home Properties Limited
Ashbourne Life Limited	Southern Cross Management Limited
Atlas HealthCare (South West) Limited	Southern Cross Operations (No.2) Limited
CC Care Limited	Southern Cross Operations Limited
Chiltern Care Homes Limited	Southern Cross (ATA) Limited
Dunlary Home Limited (NI)	Southern Cross (Hamilton) Limited
Exceler Health Care Group Limited	Standford Homes Limited
Exceler HealthCare Services Leasing Limited	Trinity Care (Brookfield) Limited
Exceler HealthCare Services Limited	Trinity Care (Hove) Limited
Exceler Ireland Limited	Trinity Care (Whitchurch) Limited
Longfield Care Limited (NI)	Trinity Care Homes Limited
Modelfuture Limited	Trinity Care Limited
Moorpark Kilbirnie Limited	Trinity Care (Crown) Limited
Networked Living Limited	YCH (No.1) Limited
Networking Care Partnerships (South West) Limited	West Regent Limited
Nightingale Private Nursing Home Limited (NI)	

2 Investments continued

Dormant companies

Ashbourne Healthcare Limited
 Ashbourne Homes (Developments) Limited (SC)
 Ashbourne Leasing Limited
 Cairncroft Limited
 Care (Wookey Hole) Limited
 Careerstaff Limited (SC)
 CCSX Developments Limited
 CCSX Investments Limited
 CCSX Jersey General Partner Limited
 Networking Care Partnerships (Devon)
 CCSX Minster Limited
 CCSX Properties Limited
 CCSX West Limited
 Community Care Management Services Limited
 Dalnair Estate Development Limited (SC)
 Doncaster Care Developments Limited
 Elders Pharmacies Limited (SC)
 Ely Care Home Limited
 Firmprior Limited
 Gradeindex Limited
 Greatmagic Limited
 Kingsclear Homes Limited

Intermediate holding companies

Active Care Partnerships (Holdings) Limited
 APTA HealthCare Limited
 Ashbourne Holdings Limited
 Ashbourne Limited
 CCSX (DL) Limited
 CCSX Holdings Limited
 United Propco Limited
 CCSX Limited
 CCSX Ventures Limited
 Networking Care Holdings Limited

Care home development companies

Southern Cross Healthcare Developments Limited
 Networking Care Properties Limited
 Southern Cross (Armagh) Limited
 Southern Cross (Crown Propco) Limited
 Southern Cross (Kings Gate Propco) Limited
 Southern Cross Ratho Street Limited
 Southern Cross (Meiklewood) Limited
 Southern Cross (Stepps) Limited

Investment holding companies

CCSX Ventures Investments Limited
 Southern Cross Debtco Limited
 Southern Cross Loanco Limited
 Southern Cross SLBCo Limited

Larstrike Limited
 Lartenant Limited
 Noblierevel Limited
 P.F. Young Limited
 Pentland HealthCare Limited (SC)
 Prizemagic Limited
 Sedbury Park Limited
 Southern Cross Care Management Limited
 Southern Cross Healthcare Properties Limited
 Southern Cross Leasing 1999 Limited (SC)
 Southern Cross Projects Limited
 Stoneyford Park Limited
 Sunchoice Group Limited
 Sunchoice Services Limited
 Sunchoice Trading Limited
 Sunchoice UK Limited
 The CCSX Jersey Limited Partnership
 Trinity Care (Southampton) Limited
 Trinity Care Management Limited
 West Regent Homes Limited
 West Regent Healthcare Limited
 Woodleigh Property (Dormant) Limited

Southern Cross (Highfield Holdco) Limited
 Southern Cross (SX Holdco) Limited
 Southern Cross Bidco Limited
 Southern Cross Care Homes Holdings Limited
 Southern Cross Care Homes Limited
 Southern Cross Finance Limited
 Southern Cross Healthcare Holdings Limited
 Southern Cross Healthcare Investments No.1 Limited
 Southern Cross Healthcare Investments No.2 Limited
 Southern Cross Healthcare Limited

Southern Cross (Tornadee) Limited
 Southern Cross Healthcare (Enniskillen) Limited
 Southern Cross Propco 3 Limited
 Southern Cross Propco 5 Limited
 Southern Cross Propco 6 Limited
 Southern Cross (Nerston) Limited
 Southern Cross (Thames) Limited
 Southern Cross R2 Properties Limited

Miscellaneous

CCSX Management Limited
 Southern Cross Care Limited
 Sunchoice Europe Limited

All investments are held indirectly via the intermediate holding company, Southern Cross Bidco Limited, with the exception of Southern Cross Healthcare Investments No.1 Limited and Southern Cross Healthcare Investments No.2 Limited.

Notes to the Financial Statements

For the period ended 1 October 2006

3 Debtors

Amounts receivable after more than one year:

	1 October 2006 £'000	2 October 2005 £'000
Amounts due from subsidiary undertakings	266,577	2
	266,577	2

4 Creditors – amounts due within one year

	1 October 2006 £'000	2 October 2005 £'000
Bank loans (secured)	23,897	–
Corporation tax	1,759	–
Accruals	418	–
	26,074	–

5 Creditors – amounts due after one year

	1 October 2006 £'000	2 October 2005 £'000
Bank loans (secured)	52,090	–

The bank loans are secured by a fixed and floating charge over all of the assets of the Company and certain subsidiaries. Interest on the bank loans is currently charged at a margin of 1.75% above LIBOR.

6 Share Capital

	Authorised 1 October 2006 Number	Allotted, called up and fully paid 1 October 2006 Number
Ordinary shares of 1p each	300,000,000	1,000,000
	£'000	£'000
Ordinary shares of 1p each	3,000	10

6 Share Capital continued

	Authorised 2 October 2005 Number	Allotted, called up and fully paid 2 October 2005 Number
Ordinary shares of 1p each	188,067,377	459,540
	£'000	£'000
Ordinary shares of 1p each	1,881	5

On 13 June 2006, the authorised share capital of the Company was increased from £10,000 to £55,405 by the creation of 45,405 redeemable shares of £1 each. On 6 July 2006, the Company held an Extraordinary General Meeting, and passed resolutions to increase the authorised share capital of the Company from £55,405 to £3,045,405 by the creation of 299,000,000 ordinary shares of 1p each and to authorise the Directors to issue ordinary shares with an aggregate nominal amount of £1,307,037.

On 13 June 2006, the Company issued 45,405 redeemable shares of £1 each for cash. On Admission to the London Stock Exchange on 7 July 2006, the Company allotted and issued 77,777,777 ordinary shares of 1p and made a bonus issue of 109,830,060 ordinary shares of 1p. A bonus issue was made to all shareholders included on the register of members at 5pm on 5 July 2006 and represents a holding of 240 ordinary shares to every ordinary share held as at 5pm on 5 July 2006. The Company also redeemed and cancelled 45,405 redeemable shares of £1 each.

7 Reserves

Company

	Share premium account £'000	Profit and loss account £'000
At 3 October 2005	-	-
Result for the financial period	-	25,013
Issue of ordinary share capital	173,169	-
Costs incurred in relation to issuance of ordinary share capital	(11,602)	-
Redemption and cancellation of shares	(45)	-
At 1 October 2006	161,522	25,013

8 Dividends Paid and Proposed

No dividends were declared or paid during the periods.

The Directors have proposed a final dividend of 1.1p per share totalling £2.1m, in respect of the 52 week period ended 1 October 2006. These financial statements do not reflect this proposed dividend.

Five-year Record

The following table shows the latest available five year record under UK GAAP:

	52 week period ended 2 April 2006 £'000	52 week period ended 27 March 2005 £'000	52 week period ended 27 March 2004 £'000	32 week period ended 29 March 2003* £'000	52 week period ended 30 March 2002 £'000
Turnover					
Continuing operations	200,082	171,980	157,809	~	69,517
Acquired operations	274,760	11,464	-	90,350	34,096
Group turnover	474,842	183,444	157,809	90,350	103,613
Cost of sales	(304,677)	(118,183)	(102,279)	(61,096)	(70,182)
Gross profit	170,165	65,261	55,530	29,254	33,431
Administrative expenses					
Operating lease rentals	(92,154)	(32,450)	(28,634)	(16,787)	(23,966)
Other administrative expenses	(54,733)	(18,302)	(15,047)	(5,650)	(6,061)
Goodwill amortisation	(7,261)	(2,713)	(2,463)	(1,518)	108
Exceptional items	(3,202)	(2,927)	(670)	-	(556)
Total administrative expenses	(157,350)	(56,392)	(46,814)	(23,955)	(30,475)
Other operating income	867	26	410	-	-
Operating profit					
Continuing operations	7,770	8,003	9,126	~	2,780
Acquired operations	5,912	892	-	5,299	176
Group operating profit	13,682	8,895	9,126	5,299	2,956
Loss on disposal of subsidiary undertaking	(86)	-	-	-	-
Profit on disposal of fixed assets	136	7,615	301	-	-
Net interest payable	(20,078)	(13,155)	(7,531)	(4,678)	(284)
Profit/(loss) on ordinary activities before taxation	(6,346)	3,355	1,896	621	2,672
Taxation	(2,489)	(73)	(1,521)	178	(923)
Profit/(loss) for the financial period	(8,835)	3,282	375	799	1,749

* Consolidated, audited financial information is not available for the 20-week period from 31 March 2002 to 15 August 2002.

Number of beds	28,229	17,000	7,718	7,665	5,966
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Shareholder Information

2006/2007 financial calendar

Annual General Meeting	30 January 2007
Interim results	14 May 2007
Financial year end	30 September 2007

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Shareholder Enquiries

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