Southern Cross Healthcare Group PLC

Annual Report and Accounts 2009

Registered Number 05328138

We care

Highlights of 2009

Operating Highlights

- Available beds increased to 38,124 at year end (2008 37,425 beds)
- Number of homes operated increased to 744 at the year end (2008: 735).
- Average mature occupancy 88 4% (2008: 90.5%). Average occupancy 877% (2008. 89 5%)
- Average weekly fee increased by 4.6% to £546 (2008 £522)
- Significant progress made towards improving overall service quality, with 77% judged excellent or good, up from 71% in March 2009

Financial Highlights

- Revenue from continuing operations increased by 4 7% to £931.4m (2008. £889 4m).
- Home EBITDAR before central costs increased by 5.4% to £290 6m (2008 £275.7m)
- Home EBITDAR from continuing operations before central costs increased by 4.9% to £289.1m (2008: £275 7m)
- Adjusted EBITDA of £72.5m (2008 £78.1m)
- Home EBITDAR margin, before central costs, 31.0% (2008 31 0%).
- Cash inflow from operations £87.5m (2008: £71.4m).
- Adjusted earnings per share for the year of 17.65p (2008 19 60p)
- Net debt at year end reduced by £64.4m to £33 1m
- Announcement of dividend policy.

38,124

Available beds increased by 699 (1 9%)

744

744 Care homes across the UK

44,711

We have over 44,000 trained staff

33,026

Average number of residents

Statutory Financial Highlights

- Revenue increased by 5 4% to £9371m (2008 £889 4m)
- Operating loss £12 7m (2008 loss of £5.2m) after a non-cash charge of £51.8m (2008 £50 5m) for future minimum lease increases under IAS17 Excluding this charge, operating income was £39 1m (2008 £45 3m)
- Basic loss per share for the year of 11.75p (2008. 9 57p loss)

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

Home EBITDAR represents earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings, impairment of freehold assets held for sale and rent

Adjusted EBITDA represents earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings, impairment of freehold assets and charges for future minimum rental increases

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

Revenue £m

2009	937
2008	889
2007	732

Adjusted EPS pence

2009	17 65
2008	19 60
2007	19 04

Adjusted EBITA £m

2009	72 5
2008	78 1
2007	66 8

Available beds year end

2009	38,124
2008	37,425
2007	34,304

Our Homes

At Southern Cross, it is our aim to provide an environment in each of our homes where residents can feel comfortable, safe and valued In short, we want our reputation to be synonymous with the highest levels of affordable care available anywhere That means constantly improving the facilities in our homes for the benefit of residents and staff alike

In the last year alone, we made a capital investment of over £24 million in maintenance and improvements, a level of expenditure we are committed to continuing in the period ahead Where does this money go? Into new fixtures and fittings, such as carpets, curtains, paintwork and furniture It also goes into improved lighting, heating and insulation, as well as replacement kitchen and dining equipment

The focus for every pound spent is the direct benefit it will bring to residents, so we also invest in the fabric of the homes A number of construction projects are always underway at any given time These include extensions to our homes, perhaps providing new and larger bedroom accommodation or improved public areas, such as conservatories and lounges where residents can enjoy the company of others or find a cosy corner to themselves

Moorpark Place, Kilbirnie, North Ayrshire

Southern Cross Healthcare
Continuously striving to provide excellent affordable personalised care at the heart of the communities we serve.

Our Services
We provide an extensive range of healthcare services, including:

Nursing Care Homes
Nursing care homes offer an additional level of care to residential care homes Qualified nurses provide 24 hour specialist nursing care for a range of clinical needs Such services may involve palliative care, dementia care, post-operative care or respite care, all tailored to the needs of the individual

Residential Care Homes
Southern Cross offer a number of residential care homes, which are designed specifically to cater for the needs of those who find difficulty caring for themselves at home, but wish to retain their independence All Southern Cross care homes are staffed 24 hours a day by trained carers whose goal is to maintain the quality of life of those for whom they care

Specialist Care
Southern Cross offers care for people with a variety of special needs in both residential and nursing care homes Our aim is to provide a safe and supportive environment which is sensitive to the ever-changing needs of these residents

Scotland and Northern Ireland
121 (2) homes

Head Office Darlington

North
215 (8) homes

Central
199 (19) homes

South
162 (18) homes

Elderly Care Homes 697
Active Care Homes (47)

Chairman's Statement

Ray Miles
Non-Executive Director and Chairman

The Group is making considerable and steady progress towards our objectives and further advances will be made next year, securing our long-term leadership position within the marketplace.

Last year, I set out three strategic challenges which I believed the Group had to address if we were to achieve our goal of being recognised as the UK's premier provider of residential and nursing care home services These were to bring stability to the Group after a period of turbulence, to improve operational efficiency and, finally, to re-establish a platform for long-term growth

Underlying this new strategy is a determined drive for improved quality in everything we do across our operations, particularly in the all-important delivery of services to residents in our care homes Throughout the year, we have made good progress in each of these areas

Strategic Focus

A change in strategic focus was made necessary by events in 2008, outlined in my report last year Led by our Chief Executive, Jamie Buchan, who joined the Group in January 2009, the new management team has quickly established a new direction for the Group squarely founded on improving operational performance, improving service quality and, in due course, resuming our expansion in the market for elderly care

Our Finance Director, Richard Midmer, has led substantial improvement in the quality and timeliness of management and accounting information across the Group to equip management with the tools to improve our performance

Our group-wide change programme, New Horizons, is aimed at creating an organisation which is universally respected and trusted for the quality of its care Such a Group, we believe, will find its services in increasing demand from those who most benefit from those services – residents and their families A new simplified operating structure is being introduced through which individual care home managers are being given more responsibility for effecting improvements at a local level together with more appropriate support to achieve this Best practice improvements will be shared across all our homes, becoming a central element in our drive for higher quality service delivery Fundamental to our long-term success and growth is our ambition that our homes, in every location across the country, should be synonymous with the highest levels of care

A detailed, home by home, review of current practices was carried out early in the year The results of this, complemented by the planned introduction of new, streamlined systems designed to improve efficiency and control costs, will bring about a sharper focus on our end product – the provision of care for the elderly and those with special needs Some benefits will be immediately evident and, over time, we expect the full benefits to result in improved margins being achieved

Financials

The full year results are in line with expectations Adjusted EBITDA of £72 5m was achieved compared with £78 1m in 2008 and £66 8m in 2007 In many respects results have held up well despite the credit squeeze and recession Revenue has grown by 5 4% to £937 1m from last years £889 4m Meanwhile the Home EBITDAR margin before central costs has remained at 31 0%

The Group has made good progress in managing its finances with net debt falling by £64 4m from £97 5m to £33 1m The sale of some freehold assets, strong operating cash flow together with a one off tax repayment facilitated this At this time, the Group continues to pursue its policy of reducing its debt and therefore the Board has decided not to propose a final dividend for FY2009

I am also pleased to confirm that there have been no financing or bank covenant issues during the year In November 2009 the Group extended the repayment date for its remaining development loan facility, currently £6 2m, to 30 June 2011, being the same date as the Group's syndicated term loan and revolving credit facility

Industry

Demographic surveys repeatedly indicate that demand for high-quality care in a residential or nursing home environment will remain strong We are committed to providing accommodation which offers a safe, secure and caring environment for physically less able people in need of a helping hand – people who would otherwise be vulnerable and isolated in their own homes

The average age of people entering care is increasing Typically, our residents are highly dependent, often frail with a variety of acute needs and conditions, such as dementia We believe the care home environment Southern Cross provides offers the most appropriate level of all-round support for those in need towards the end of their lives

Private sector operators such as ourselves have a responsibility, as well as an opportunity, to support Local Authorities in their efforts to seek greater value for money through further reducing their in-house care home provision in favour of purchasing care services from the independent or voluntary sectors

Industry Developments

Whilst aware of the financial problems faced by Local Authorities, we continue to consider that fee levels paid by many of them do not meet the generally accepted true cost of care today 68% of our fee income comes from the Local Authority sector with a further 10% from Health Authorities We continue to campaign actively – through the English Community Care Association, Scottish Care and Care Forum Wales – for Local Authorities to meet the true cost of care This is a vitally important area which needs to be addressed continuously if we are to deliver ever greater service quality to an ever growing number of people across the country

We welcome the publication of the Government's Green paper, 'Shaping the Future of Care Together', and the national debate on elderly care provision it has helped engender As the country's largest operator in our sector, we are contributing positively to that debate The industry should be encouraged to invest in the development required to sustain the quantity and quality of care facilities demanded in future years Affording the rising costs resulting from new legislation, regulation and changes in minimum wage levels will continue to be a priority for all operators

People

Today, the Group employs over 44,000 staff working in 744 homes across the UK I am delighted with the way our new management team and staff in every part of the business have responded to the challenges we face They are the core of our business and their enthusiasm in finding ways to improve the quality of everything we do will help us achieve our goals as a business Their support for our new strategic focus is vital to success On behalf of the Board, may I thank all of our colleagues for their dedication and contribution to the Group as a whole

In October, we announced Kamma Foulkes' decision to step down from the Company with effect from the end of December 2009 With many years' experience working in the nursing and residential care sector, Kamma has made a significant contribution to Southern Cross We record our thanks for her six years' service and wish her well for the future

Outlook

The Group is making considerable and steady progress towards our objectives and further advances will be made next year, securing our long-term leadership position within the marketplace We are in a period of consolidation after several years of rapid growth, concentrating on what we do best and looking to organic growth through continuing improvements in service quality As the country's largest residential and nursing care home operator, we believe that securing the best reputation in the business is vital to our success Nothing else will reflect the skills and dedication of our staff in our homes up and down the country

This is the right approach for the business at this stage It is a strategy which will ultimately allow us to grow again through appropriate acquisitions as the industry continues to consolidate in the years ahead In a competitive market, Southern Cross must continue to mark itself out as the number one provider in terms of quality of care and accommodation This represents the best way of meeting the increasing demand for residential and nursing care services and securing long-term shareholder value

While remaining focused on our core elderly care operations, we also intend to respond flexibly to changing market demands and to take advantage of the opportunities presented This will include offering more specialised care – for example, in dementia, palliative and step down care Eventually, it could also involve greater levels of day care provision, outreach care in the community and short-term and respite care as Local Authorities seek to encourage people to stay in their own homes, with support, for as long as practicable

The significant reduction in debt has provided the opportunity to reconsider our dividend policy Furthermore, the Board has confidence in the future business performance and cash flow sustainability, and now anticipates working towards a dividend cover of 3x adjusted EPS over time, with dividend payments recommencing in 2010

With significant progress already made towards our corporate goals and a continuing focus on service quality and operational performance, we believe the Group is strategically well placed to capture a significant proportion of the rising demand for care services With recent difficulties now firmly behind us, we are looking forward with renewed confidence to the period ahead

Ray Miles
Chairman

Community

At the Heart of the Local Community

It's obvious when you think about it. Just because people have moved into a care home doesn't mean to say they are no longer part of the community At Southern Cross, we strongly believe our residents have a vibrant and valuable contribution to make to the life of the local community – just as they have always done

That's why we encourage our residents to remain engaged with their local community

We believe there is no better way for our residents – mostly elderly as they are – to demonstrate that they are still part of the community with something to 'give' Whether it be new kit for the local boys' football team or a donation to the special baby unit at the local hospital, we are proud of our residents' reputation for helping deserving local causes and bringing people together across the generations Funds raised by individual homes are topped up or matched centrally by Southern Cross

And it is a two-way process As well as reaching outwards into local communities, we also seek to open up our homes to local groups, such as school children, church groups and others, so that everybody in the community can see that they continue to have a responsibility for the care of elderly people in their community We see our homes and residents as playing an absolutely central role in local life and, of course, in the lives of local people and local families

Care

Questions and Answers from Jamie Buchan, our new Chief Executive

Jamie Buchan was appointed as an Executive Director of the Company on 1 January 2009.

We want Southern Cross to be clearly differentiated from other care providers. That means striving to achieve the highest levels of quality in everything we do by seeking ever better ways to do things.

1. Quality

Q. Is the quality of care for elderly people good enough in this country?

A. In all honesty, the overall answer has to be 'no, not yet' There are exceptions, of course, and it is good to see the long overdue national debate on care for the elderly, partly engendered by the government, hotting up I believe care for the elderly, including dementia sufferers, will steadily rise up the political agenda There is no doubt that the industry has come a long way in recent years, with significant investment in training as well as improvements in the quality of accommodation Hand in hand with a better understanding of the needs of elderly people and their rights as individuals to choice and dignity, this has led to much higher standards The stereotypical, impersonal, institutionalised care home is increasingly becoming a thing of the past

The current focus on improving care for people in their own homes is something we support but we mustn't forget that for very many people residential care will continue to represent the most appropriate choice So, as the elderly population continues to grow in size, we need vision and leadership not just from the care profession itself, but from national and local politicians to make sure we get the funding structures and support mechanisms in place to allow the investment needed to bring service quality up to the levels we all want to see I believe the scale of the public sector deficit needs innovative solutions and this will lead to opportunities for private sector providers

2. Service

Q. You say service quality is the top priority at Southern Cross. How do you measure progress in this area?

A. If you can't look your clients in the eye and be proud of the level of service you are giving them, then what are you doing in business? So, yes, service quality does lie at the heart of everything we do at Southern Cross and we actively measure it in a number of ways

First of all, we regularly survey our residents and their families asking for their views on our performance and suggestions for improvements Similarly, we survey our staff, seeking to gain from their frontline experience and gather valuable ideas on things we could do better or more effectively The results of these internal surveys are closely monitored to ensure that we are making progress on all fronts A priority is to make sure that best practice is shared across all our homes

Then there are our regular internal inspections augmented by those undertaken externally by the four Care Quality Commissions in the UK These are rigorous, home by home examinations of every aspect of the way we carry out our business and we are absolutely determined that the results will show continuous improvement in the levels of service provided to our residents

3. Demand

Q. What is the key to increasing demand for the residential care you provide?

A To my mind, it is all about the overall resident experience, including care And it is also about enriching people's lives We want Southern Cross to be synonymous in the public's mind with levels of service which unequivocally put the well-being of the individual resident centre stage We want Southern Cross to be clearly differentiated from other care providers That means striving to achieve the highest levels of quality in everything we do by seeking ever better ways to do things

We believe our homes are a crucial element in local community life In most cases, people choose a residential care home on the basis of its own particular reputation, not the reputation of the parent company Our care home managers ensure their individual homes play a full part in the local community and are free to market themselves to local people as the premier provider of high-quality, affordable care in their area

Any Questions?

4. Responsibility

Q. How does your responsibility to Shareholders sit with your commitment to your residents and their families?

A. I believe the two sit very comfortably together Of course, we are a business and therefore rely on sound finances if we are to flourish and go on providing valuable services to the people who need them We aim to be the best in the business and to demonstrate our commitment to our residents by raising affordable residential care standards to new levels in this country If we succeed, then increased demand for what we offer will follow This will allow further growth to meet demographic trends, which indicate a significant increase in demand for residential care services in the years ahead In this way, the interests of shareholders and residents alike are very closely aligned

5. Growth

Q. Looking beyond the current period of consolidation after years of rapid growth, where will future growth come from? Are there areas of the country where you want a stronger presence?

A. We are always looking at opportunities to grow the business, take the Southern Cross values forward and offer them to more and more people who need them Although we currently have a slight northern bias, opportunities are examined on their merits, not on any particular geographical basis

Growth will come through a number of avenues Some will come organically through extending the range of services provided in our existing homes and I have no doubt that some will come from greater participation in outreach care services But further growth will also come through acquisition, as it has in the past, and through a greater degree of specialisation within the overall care sector – for example, in catering for the specific needs of dementia sufferers But it is about more than just adding new homes – it is about doing what we do better and better, at the same time enhancing our overall reputation for excellence in care provision

6. National/Local

Q. Isn't there a contradiction between being a large, national, publicly listed Group and your wish to be seen as a local care home operator?

A. Not at all In fact, it is our very size that gives us the resources and breadth of experience necessary to offer outstanding personal and affordable care based in high- quality homes firmly rooted in their local communities The role of Southern Cross is to provide support to the management teams in our homes – clinical knowledge, access to training and development, best practice and so on Our strategy is all about delivering high-quality services at a local level with individual homes being positively empowered and challenged to respond to local needs and priorities

Chief Executive's Statement

Jamie Buchan
Chief Executive

I am privileged to be associated with a Group whose core purpose is to provide excellent affordable personalised care to vulnerable members of the many communities which we serve across the UK.

Overview

Following four years of rapid, acquisition-led growth, our focus in 2009 has been to begin the process of establishing a well managed Group with a clear strategy, capable of fulfilling its obligations to all stakeholders as the country's leading provider of residential and nursing care home services

We believe the recent acquisitions were not fully integrated, hence symptoms emerged which hampered business performance These symptoms included inconsistency of quality in our service delivery, duplication in management roles and a lack of understanding of the business fundamentals, all of which led to an underlying decline in operating margin During the first quarter of 2009, the new management team carried out a comprehensive, home by home and function by function review of the business, aimed at addressing these related issues and re-focusing the business on becoming the acknowledged best in its sector From this review, we identified what needs to be done to fully integrate recent acquisitions, achieve consistent service quality and get the best possible performance out of each of our care homes Against an encouraging demographic background, it became clear that a programme of business transformation was required at Southern Cross

New Horizons

Our diagnosis of the business has led us to launch a major change management initiative, internally known as the New Horizons programme This programme, which we expect to complete during 2011, is aimed at changing the way we operate such that Southern Cross can provide a care experience which is the most trusted and sought after in the UK The principal areas of focus of New Horizons are as follows

- organisational effectiveness and service quality
- estate segmentation and brand development
- cost re-engineering
- management systems
- new business streams

New Horizons is about investing in our people, investing in new and better systems and investing in the fabric of our existing properties In changing the way we do things our home managers will become empowered to deliver the level of care each of us would expect for our own family members To that end each home will be supported by regionally based specialists in quality of care, people development, estate management and such other disciplines as are required

In the medium term, specific quality targets have been established for the business in order to reduce the number of underperforming homes in the portfolio Our homes are situated in the middle of local communities and are used by individuals with varying levels of need If our performance falls short, word soon gets out and demand falls off, particularly so given that the star rating system (applied by the regulator across most of the Group's portfolio) is publicly available As a consequence, service quality must be – and is – our number one priority and nothing will get in the way of our determination to raise our quality standards to the best in the business I believe that it is our home managers who are best placed to deliver the improvements we seek by responding to local needs in their own particular areas with fresh thinking, new initiatives and personal relationships Management has a crucial role to play in ensuring that systems exist through which best practice can be shared and adopted throughout our entire portfolio

When we published our 2009 Interim Report, we said that 71% of our homes were judged by the Care Quality Commission in England (which accounts for 75% of the Group's estate) to be in the top two categories of their star rating system and were therefore rated as 'good' or 'excellent' We lagged behind the industry as a whole which had about 80% of homes in these categories Similar challenges exist in Scotland, Wales and Northern Ireland This is not an acceptable position and our New Horizons programme is targeted at improving these results over the period ahead Assessments by the four UK Care Commissions are undertaken at intervals of between 6 months and 3 years, so quantifiable steps in the right direction take time to have an impact on operating margin, however, we remain committed to raising the proportion of our homes in the good or excellent category to a minimum of 80% by May 2011 I'm pleased to report that some progress has already been made and that by the year end the number of our homes judged to be good or excellent had improved to 77%

CQC Scoring	SCH 2009 Interim (Actual)	SCH 2009 Full (Actual)	SCH 2011 Interim (Target)
Good/Excellent	71%	77%	80%
Poor/Adequate	29%	23%	20%

NB The Group has a target of zero homes in the CQC 'Poor' category or equivalent During FY 2009 the number of homes in this category reduced from 24 to 13

Giving our home management teams the responsibility they deserve and the flexibility they need to succeed in their local area will require the development of commercial and people management skills supported by appropriate training The New Horizons programme commits us to making that vital investment in our people, not just for local management but for all our care staff, who are the Group's main point of contact with our residents By improving staff engagement, we expect this investment to significantly reduce staff turnover rates which are a major causal factor in inferior service quality

Each of our homes is now actively implementing an agreed action plan covering quality of service, team development and local marketing, all of which affect the reputation of our homes and, therefore, impact positively on operating margin We want Southern Cross, a nationwide group, to be synonymous with local, high-quality, personalised care for valued individuals in the community, delivered by appropriately trained, motivated and dedicated staff Within the media, care homes are often referred to as 'institutions' and their residents characterised as somehow on the fringes of society At Southern Cross we work hard to ensure our homes are an integral part of the community and that is why we encourage individual homes to support local community initiatives and forge links with other local bodies and organisations

Personal Dignity

No society can call itself truly civilised unless it treats its elderly citizens with respect and dignity Hand in hand with our desire to improve service quality is our determination to champion the dignity of our residents at all times That means respecting their right to as much independence as possible, to privacy and to choice. We fully support the Government's 'Dignity in Care' campaign We already have over 750 registered Dignity Champions in our homes, responsible for ensuring the highest levels of individual dignity We plan to have a permanent Dignity Champion in every single home in the Group and believe we lead the market in giving this commitment

During the year, the Group entered into a partnership with Action on Elder Abuse, a highly respected charity focused on the dignity of elderly people Southern Cross has a policy of zero tolerance to any form of abuse and wholeheartedly supports the work of this charity Our partnership investment provides a telephone 'hotline' service allowing anyone with a concern about abuse in any of our homes to contact them on an independent and confidential basis

Portfolio

Southern Cross operates 744 homes across the UK Bed numbers have increased from 37,425 at the end of the last financial year to 38,124 this year end, an increase of 1 9%, giving the Group around 10 4% of the UK market for independently provided residential care (Source Lang & Buisson)

This year, total capital expenditure was £46 9m of which the major components were £19 4m spent on in-house development projects and £24 1m on home capex Following our review of the estate we believe that the level of investment will need to increase by up to £10m per year over the next two years in support of our New Horizons programme objectives

Our Strategy

The Company has a clear strategy to deliver continued growth through:

- Improving the performance of the existing care home portfolio through service enhancement, brand differentiation, investment and portfolio management;
- Pursuing growth in elderly care provision through organic development and making acquisitions in attractive market segments,
- Growing the Company's market share in the provision of dementia care and in the self-pay market.

Chief Executive's Statement
continued

Looking ahead, we expect growth in our network to come principally from the acquisition of homes through agreements to lease.

Notwithstanding the current focus on consolidating the business and improving our existing service quality standards, the business has continued to grow, if at a deliberately more measured pace During the year, eight new developments were completed (five own developments, three externally developed), adding 531 beds and providing accommodation of exceptional quality both in terms of design and specification

In March 2009, we acquired the leasehold of six existing homes from Britannia Leased Homes Limited, adding a further 311 beds As stated at the time of our Interim Results, these properties were acquired at zero cost to the Group, the deal being structured to provide appropriate investment and levels of rent cover

Looking ahead, we expect growth in our network to come principally from the acquisition of homes through agreements to lease We remain operators of residential care homes rather than property owners Subsequent to the year end a further five freehold properties, with a value of £17 7m, have been sold and we continue to be in discussions with potential purchasers in respect of the remaining freehold homes owned by the Group

Our Brands

Southern Cross

With 600 homes and 31,941 beds, Southern Cross is the principal brand within the Group Its core proposition is to provide a range of residential services to customers whose primary funding comes from Local Authorities In the year under review, the brand generated revenue of £758 4m (2008 £718 8m), an increase of 5 5% It attracted average weekly fees of £522 (2008 £500)

Ashbourne Senior Living

The Ashbourne brand is positioned to provide residential services for customers whose primary funding comes from their own resources The self-funded sector is one which the Group believes will expand considerably over time and therefore represents an important growth opportunity In the year under review, the brand generated revenue of £134 9m (2008 £125 9m), an increase of 71% It attracted average weekly fees of £598 (2008 £572)

		Number of available beds			
	Number of homes	Acquired	Developed	Closed	Total
At 29 September 2008	735				37,425
New developments opened	8		531		531
Acquisitions	6	311			311
Closed	(5)			(143)	(143)
At 27 September 2009	744	311	531	(143)	38,124

Active Care

Active Care is one of the country's largest independent mental health and learning disability care providers, operating 47 homes and 930 beds During the year, the Group conducted a strategic review of the business which concluded that, for the majority of homes, shareholder interest would be best served under its continued operatorship In the year under review, the brand generated revenue of £43 8m (2008 £44 7m) a decrease of 2 0% It attracted average weekly fees of £1,097 (2008 £952)

Operating Performance

This year, occupancy once again followed the normal seasonal pattern Together with other predictable factors such as the timing of pay and fee reviews this meant that the pattern of trading was similar to previous years

Average weekly fees outstripped inflation, increasing by 4 6%, home payroll costs increased by 6 6%, while home running costs (excluding payroll costs) fell year on year However results were negatively impacted by falling occupancy Average occupancy in mature homes fell by 2 1% to 88 4%, although the market generally also fell The net effect was that margin was unchanged at 31 0%

UK bed capacity grew by circa 1 5% in the year and eligibility criteria for local authority placement continued to become more demanding Nevertheless the Group accepts that lower service quality in certain homes led to a reduction in market share together with reputational erosion in parts of the country We believe that the initiatives being progressed under our New Horizons Programme will, in time, impact positively on occupancy and on the Group's reputation

The operating performance is summarised below

	H1 2009 £'m	H2 2009 £'m	Total 2009 £'m
Revenue	460.8	476.3	937 1
Home EBITDAR before central costs	134 9	155.7	290 6
Margin %	29.3%	32.7%	31 0%
Rent – charge for amounts currently payable	92.4	94.9	187.3
Rent cover – times	1 46	1.64	1.55
Adjusted EBITDA	28.5	44 0	72.5
Adjusted EBITDA profile	39.3%	60.7%	100%
Average mature occupancy %	88.8%	87 9%	88.4%

Fee Rates

In the year under review, the Group achieved an increase in average weekly fee rates of 4 6% to £546 (2008 £522) Fees charged to private clients were reviewed and an overall increase of 8 0% was agreed, effective from February 2009 Over the period, Local Authority fee rate increases differed from Authority to Authority In England, an average increase of 3 0% was achieved, while in Scotland and Northern Ireland it was 3 2% The corresponding figure for Wales was 4 9%

A growing number of Local Authorities now pay Quality Premiums' and the Group has benefitted from these due to the continued improvement in the standards of care achieved across our entire portfolio The effect of these premiums is reflected in the percentage fee rate increase achieved

Improving staff retention is a key priority for the Group and depends on our identifying the root cause of the high levels of staff turnover.

Chief Executive's Statement continued

We are proud to be investing in our people. Such investment will improve job satisfaction levels and reduce staff turnover rates, leading directly to better quality service delivery.

People

You can't deliver the highest levels of care without having a fantastic team of dedicated people As I go round the business, I am constantly struck, and humbled, by the professionalism and enthusiasm of colleagues everywhere Our people – home managers, carers, nurses, chefs, housekeepers, administrators and maintenance staff – take the lead in fostering long-term relations with our residents, their families and the local community They are vital to our success That is why we are committed to rapidly increasing staff engagement through the training and personal development programmes outlined below I am delighted to express my thanks to them, in addition to the regional and head office teams

Personal Development & Training

Improving staff retention is a key priority for the Group and depends on our identifying the root cause of the high levels of staff turnover, currently in excess of 30% per year, which the Group experiences We believe improving and widening the range of training opportunities open to staff is critical to success in this area To that end, we have further developed our range of staff training and development programmes with encouraging results For example, the revised Vocational Training course has seen its successful completion rate rise to 93% In addition, the number of candidates dropping out of courses has decreased significantly The Home Manager and Care Staff induction programme has been comprehensively revised to reflect the changing demands placed on staff Resultant feedback demonstrates that staff have been able to integrate into their working environments more quickly, allowing them to carry out their roles more effectively and efficiently and boosting job satisfaction levels

We are committed to attracting young people into the health and social care sector Our new Youth Development Scheme offers 16-18 year olds an opportunity to progress into a rewarding career within the health care professions The Southern Cross Apprenticeship scheme is designed to combine vocational training with the Business & Technology Education Council (BTEC) certificate This provides young people with a range of qualifications with which to progress into a career within health and social care

We have recently introduced the Southern Cross Diploma course in conjunction with a leading training consortium The diploma is open to all staff and consists of 12 specialist modules, validated by the Northern Council for Further Education (NCFE) The course provides staff with a new level of personal development and is an ideal way for them to build on their current S/NVQ qualifications

We are proud to be investing in our people Such investment will improve job satisfaction levels and reduce staff turnover rates, leading directly to better quality service delivery

Costs

This year, hourly paid staff received effective pay increases of 5 5% This was driven by both the national minimum wage (NMW) and working time directive (WTD) legislation The NMW increased in October 2008 by 3 8% while the additional four days' holiday entitlement under the WTD increased staff costs by 1 7% The Group works with the GMB Union to agree on pay levels and has continued to maintain its pay rates above NMW for all staff groups for the sixth consecutive year We also continue to reward staff achieving a National Vocational Qualification

During the year, we continued to recruit staff from overseas The percentage of our workforce from non-EU countries has risen to 9 7%, while the number of migrant workers from the European Economic Area has declined compared to previous years Our experience over many years is that migrant workers are extremely dedicated and industrious with good communication skills The impact of the changes implemented by the Border and Immigration Authority (BIA), which revised the qualifying criteria, were not as detrimental as previously expected, with the majority of staff hours lost due to the changes offset by the planned increase in the number of overseas students engaged in Vocational Training Programmes In light of this, we have adjusted our strategy from one of overseas recruitment to one of overseas training Upon commencement of a National Vocational Qualification, staff are able to stay in the UK for a period of up to two years Once completed, they can apply for team leader positions which attract the rates of pay required to meet the BIA qualifying criteria

Outlook

Our market is continuing to mature This, together with the anticipated pressures on public sector funding, will ensure that things will remain both dynamic and challenging

The burden of regulation is growing and the case for consistent national assessment and regulation has never been more compelling As Local Authorities and Primary Care Trusts take a more active commissioning and monitoring role, a major overlap has emerged between their responsibilities and those of the four national Regulators In addition, the Group continues to experience significant variations in the quality of commissioning exercised by, and fee rates paid by, Local Authorities for similar services – this is what has become known as the 'postcode lottery' of elderly care provision Furthermore, many Local Authority taxpayers continue to subsidise the operation of Local Authority-owned facilities, which are typically operated at cost levels far in excess of the prices paid for equivalent services to independent operators

The Group will continue to take a leading role in constructively lobbying for higher standards of commissioning and for the elimination of cost inefficiencies in the provision of services by both Local Authorities and PCTs We remain keen supporters of the important work undertaken by national care commissioners and recognise our obligations to lead the industry in the provision of standards of care which meet the expectations of society

Despite the anticipated headwinds from uncertainty over public expenditure we remain confident that we can improve operating margins across our portfolio by driving through our current programme of improvements Indeed we believe that spending pressures will open up opportunities for low cost, high service quality operators such as Southern Cross Equally, we believe the opportunity exists to capture an increased share of the growing, high value private pay market where the Group is currently under-represented We continue to build on our position as the UK market leader, while the scale of our operations means we are already well placed to respond in the years ahead to the increasing demand for care services predicted by demographic studies

We have clear plans in place to take the business forward and early benefits are already becoming evident as we set about creating a Group fit for purpose There are undoubtedly challenges ahead but I do not believe any Group in the sector is better placed than ours to meet them head on We are looking ahead with confidence and with a sense of determination which, I hope, comes across clearly in this report

Jamie Buchan
Chief Executive

Despite the anticipated headwinds from uncertainty over public expenditure we remain confident that we can improve operating margins.

Personal

Caring for Individuals

We never forget that, for our residents, the accommodation we provide is, in fact, their home Our aim is to make it, to as great a degree as possible, a home from home That is what our concept of personalised care is all about – making sure that our residents can carry on normal life as far as possible just as if they were still living in their own homes. That means treating everyone for who they are – individuals – with rights to privacy, dignity and choice in all aspects of their lives

The first thing that happens when one of our residents arrives with us is that they are assigned a dedicated, named carer who works with them to draw up a comprehensive 'personalised care plan' which is then used to guide staff on all aspects of how the individual wishes to lead their life in the home The intention is to help new residents settle in as quickly as possible by tailoring our services at all times towards their specific preferences The plan includes details on personal needs as well as setting out each person's likes and dislikes in terms of such things as food and drink, whether meals are to be taken in the dining room or in the resident's own room, how they wish to be addressed, personal interests and hobbies, how they would like their room arranged and so on An important aspect of our way of doing things is our close liaison with family members We also consult with medical and other professional colleagues to ensure that all aspects of a resident's needs are catered for

More and more of our homes have a permanent Dignity Champion whose role is to ensure that the rights of everyone living in one of our homes are respected at all times This involves listening to people to gain an understanding of their needs and wants As far as possible we try to maintain our residents' independence by allowing them to decide about aspects of their care and respecting their right to privacy We seek at all times to provide a safe environment and maintain a zero tolerance of any form of abuse Our commitment is to offer a personalised service to each resident

Care

Business Review

Financial Review

Richard Midmer
Group Finance Director

Revenue increased by £47.7m to £937.1m (2008: £889.4m), an increase of 5.4%. The key driver of revenue growth was the increase in average weekly fee.

Revenue Statement

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

	2009 £'m	2008 £ m	Growth/ (decline) %
Revenue	**937 1**	889 4	5 4
Home EBITDAR	**290 6**	275 7	5 4
Home EBITDAR margin (%)	**31 0**	31 0	–
Adjusted EBITDA	**72.5**	78 1	(7 2)
Operating loss	**(12.7)**	(5 2)	–
Loss before taxation	**(19.8)**	(22 9)	–
Average number of available beds	**37,664**	36 626	2 8
Cash generated from operating activities	**87.5**	71 4	22 5

Revenue

As at the year end, the Group had increased the number of available beds by 699 (1 9%) to 38,124 (2008 37,425) The growth was driven by the acquisition of six leasehold homes (311 beds) from Britannia Leased Homes Limited, the acquisition of a further three leasehold homes (192 beds) and the completion of five in-house developments (339 beds) The opening of our Torrwood home, in Wells, Somerset, allowed for the planned closure of two homes (79 beds), with all residents being successfully relocated to Torrwood Also, during the year the Group continued to review its portfolio of homes resulting in the closure of three homes (64 beds) that the Group did not consider fit for purpose

The average number of available beds increased by 1,038 (2 8%) during the year from 36,626 in 2008 to 37,664

Revenue increased by £47 7m to £937 1m (2008 £889 4m), an increase of 5 4%
The key driver of revenue growth was the increase in average weekly fee across the Group's entire portfolio, the average weekly fee increased by 4 6% from £522 to £546 which, along with the full year impact of acquisitions completed in the prior year, equated to £42 0m Acquisitions completed in the current year contributed a further £5 7m of revenue

Home Operating Costs

Home payroll costs increased £33 1m (6 6%) from £500 6m to £533 7m, of which £4 0m (0 8%) was due to acquisitions A further 4 1% was attributable to an increase in payroll costs driven by a 3 8% increase in the National Minimum Wage, which directly involved approximately 50% of staff, and an increase of 1 7% in annual leave entitlement set by the Working Time Directive which affected the majority of staff Staff not directly impacted by the National Minimum Wage received pay rises below 3 8% The additional increase of 1 7% is a result of the full year impact of acquisitions completed in the previous year and reduced occupancy

Home running costs for the current year were 12 0% of revenue (2008 12 7%)

Rent

The rent charge for the year amounted to £239 1m (2008 £221 6m) Excluding the non-cash charge of £51 8m (2008 £50 5m) under IAS 17, for leases with fixed or minimum annual increases, the rental charge for the year was £187 3m (2008 £171 1m) Included within the current year rent charge is £8 6m in respect of new leases entered into by the Group through either freehold disposals or leasehold acquisitions The Group's rent cover defined as Home EBITDAR before central costs divided by rent currently payable was 1 55 times (2008 1 61 times)

The cash rental charge per average available bed for the year was £4,973 per annum (2008 £4,672), an increase of 6 4% During the year, the Group was subject to a number of five yearly rent increases, whereby rental increases are applied in the current year covering the previous five years They will remain at the increased level for the next five years The rental charge per available bed also reflects the impact of higher rents being paid under leases recently entered into Excluding the

5.4%

Increase in revenue

£72.5m

Adjusted EBITDA

impact of five yearly increases and new leases entered into during the last two years, the cash rental charge per available bed increased by 2 8% on the prior year

Central Costs

Total central costs for the year amounted to £30 8m, an increase of £4 3m (16 2%) over 2008 The increase from 2008 is principally due to payroll costs, including staff bonuses and share options totalling £2 5m (2008 £Nil) As a percentage of revenue, central costs equated to 3 3% (2008 3 0%)

Segmental Results

The Group continued to have two distinct segments within its operations, namely **Elderly Care** (which incorporates the Southern Cross Healthcare and Ashbourne Senior Living brands) and **Specialist** (being the Active Care Partnership business)

Elderly Care

Average available beds within the Elderly Care portfolio increased by 1,147 to 36,734 (2008 35,587) and included 151 beds reclassified from the Active Care Partnership business to Elderly Care The total number of available beds within the Elderly Care portfolio at the year end was 37,195 (2008 36,345)

Fee revenue in the Elderly Care segment increased by £48 6m (5 8%) to £893 3m for the year The key driver of revenue growth was the increase in average weekly fee across the Elderly Care segment, the average weekly fee increased by 4 5% from £510 to £533 equating to £38 1m Acquisitions completed in the current year contributed £5 7m of revenue, whilst the 151 beds transferred from the Active Care Partnerships portfolio added a further £4 8m of revenue

Total Home EBITDAR before central costs increased by £14 5m (5 5%) to £279 3m, the impact of acquisitions in the year being £1 5m Excluding the impact of acquisitions in the current year, total Home EBITDAR increased by £13 0m, a 4 9% increase Home EBITDAR margin before central costs for Elderly Care remained at 31 3% The comparable margin for acquisitions in the year was lower at 26 3%

Specialist Care

The Specialist segment recorded a decrease in average available beds, from 1,039 in 2008 to 930, due to the 151 beds transferred to the Elderly Care segment

During the year, revenues in the Specialist segment decreased by £0 9m (2 0%) to £43 8m (2008 £44 7m) This represented the net impact of beds transferred to the Elderly Care segment (£6 7m) and an increase in the average weekly fee of 15 2% to £1,097, increasing income by £5 8m

Due to fee rate increases and lower home running costs, on a per resident basis, Home EBITDAR before central costs for the year increased from £10 9m to £11 3m and Home EBITDAR margin increased from 24 4% to 25 8%

EBITDA

Earnings before interest, tax, depreciation and amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings and impairment of freehold assets held for sale ('EBITDA') for the Group decreased by £6 9m (25 0%) to £20 7m Excluding the impact of future minimum rental increases under IAS 17, adjusted EBITDA decreased by £5 6m (7 2%) to £72 5m

Depreciation

Depreciation has increased from £17 6m in 2008 to £21 6m in the current year, reflecting the increased number of homes operated by the Group and higher spend incurred during the prior year

Disposal of Freehold Assets

During the year, the Group disposed of freehold assets for net cash consideration totalling £16 7m The related assets had a net book value of £16 5m, resulting in a profit on disposal of £0 2m Professional costs in respect of freehold asset disposals completed in the previous year, and other provisions, were £3 3m

During the year, the Group disposed of freehold assets for net cash consideration totalling £16.7m.

Financial Review continued

The net financing costs for the year amounted to £7.1m (2008: £17.7m), representing a decrease of £10.6m.

On 3 September 2009, the Group completed the transfer of the business and certain assets of the Sunchoice division for consideration of £3 7m, realising a loss on disposal of £1 0m

As previously disclosed, the Directors reviewed the carrying value of the Group's freehold properties Following this review, a number of properties were found to have fair values lower than their carrying value As a result, the carrying value of the related freeholds has been written down by £7 7m

Finance Income and Costs

The net financing costs for the year amounted to £7 1m (2008 £17 7m), representing a decrease of £10 6m Excluding the impact of loan arrangement fees and associated costs incurred by the Group and written off in the previous year as a result of renegotiating its banking facilities, net financing costs decreased £3 7m

Included within net financing costs are interest charges of £6 0m (2008 £10 0m) in relation to interest payable on bank borrowings and amortisation of loan arrangement fees of £0 7m (2008 £0 1m) The lower charge in respect of interest payable on bank borrowings was due to average levels of debt held by the Group being 33% lower than in 2008 and lower rates of interest being charged Loan arrangement fee amortisation increased as a result of the costs associated with the Group's refinancing Interest receivable during the year rose to £0 8m (2008 £0 4m) principally as a result of interest received on the tax repayment received in the year

Taxation

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

The preparation of the subsidiary financial statements under IFRS has resulted in £157 7m of additional tax deductions at entity level This transition, along with normal prior year adjustments, have resulted in a current tax, prior year adjustment, of £24 3m (credit) and a repayment of taxes totalling £17 6m in respect of 2007 and 2008 The prior year current tax credit of £24 3m includes the realisation of tax losses totalling £21 4m and other prior period adjustments of £2 8m

During the year the Group has been subject to a prior period, deferred tax, charge of £30 5m Included within this charge is £21 4m (being equal in value to the current tax prior period credit) in respect of the realisation of taxable losses, a £9 7m deferred tax write off due to £34 6m of taxable losses where the future economic benefit cannot be measured readily and a £0 6m credit of other prior period items

The current year deferred tax credit of £3 9m represents the recognition of current year losses within the Group

The overall tax charge on earnings before taxation of £2 3m (2008 £4 9m credit) represents a headline rate of 11 6% (negative) (2008 21 4%) Both the current and deferred tax charges are significantly impacted by prior period items, relating primarily to the Group's decision to prepare its subsidiary financial statements under IFRS Furthermore, the current year tax charge was also impacted by the loss on disposal of property, plant and equipment (£4 1m), impairment charges (£7 7m) and deferred tax charges on share options (£0 4m) The reconciliation below shows the effective rate of tax after consideration of these items

31.0%

Home EBITOAR Margin

17.65p

Adjusted earnings per share

	£	Taxation (charge)/ credit £
Loss before taxation	(19 8)	(2 3)
Future minimum rental increases	51 8	(14 5)
Impairment	7 7	–
Loss on disposal of property plant and equipment and subsidiary undertakings	4 1	(0 4)
Deferred tax on share options	–	(0 3)
Impact of prior period items		6 2
	43 8	(11 3)

After consideration of the above items, the current tax charge of £11 3m represents an effective tax rate of 25 8% (2008 25 8%) before charges for future minimum rental increases, losses on disposal, impairment charges and deferred tax on share options

The Group expects the effective future tax rate to remain at or slightly below the standard rate of corporation tax in future periods

Dividends

Total dividends paid during the year amounted to £Nil (2008 £16 5m) and the Directors have decided not to recommend a final dividend for the year ended 27 September 2009

Loss per Share

The loss per share for the year was 11 75p (2008 9 57p loss) Adjusted earnings per share for the year before future minimum rental increase charges, loan arrangement fees written off and the taxation impact thereof, was 8 08p (2008 12 10p), a decrease of 33% Excluding the impact of losses recognised in respect of freehold properties, impairment charges and the write off of deferred tax assets associated with the conversion of subsidiaries to IFRS, adjusted earnings per share was 17 65p (2008 19 60p)

Balance Sheet

Non-current Assets

Property, Plant and Equipment

Property, plant and equipment decreased from £121 3m to £111 4m due to the net impact of additions to property, plant and equipment of £46 9m (including £19 4m in respect of assets under construction), offset by depreciation charges of £21 6m, £34 6m in respect of the four developments under construction and eight further freehold properties being transferred to assets held for sale, and other assets disposed of £0 6m

Goodwill

Goodwill increased by £0 7m due to the professional costs and associated fees in respect of acquisitions completed in the previous financial year

Deferred Tax

Deferred tax assets have decreased by £26 5m from £41 2m to £14 7m The movement is due to the realisation of deferred tax losses of £21 4m, a £9 7m write off relating to taxable losses where the future economic benefit cannot be measured readily (both directly as a result of the Group's decision to prepare its subsidiary financial statements under IFRS) and credits of £4 6m

Property Assets Held for Sale

At the start of the current year, the Group held 11 freehold property assets for resale with a value totalling £36 1m In respect of these 11 freeholds, 2 were disposed of with a value of £11 3m during the first half of the year, with a further disposal totalling £5 2m divested during the second half

During the year, the Group's remaining four in-house developments were completed and transferred into property assets held for resale at a value of £30 2m A further eight homes were transferred from freehold property at a value of £4 4m Following a review by the Directors of the value of all freehold assets held for sale, an impairment charge of £7 7m was made

During the year, the Group's remaining four in-house developments were completed and transferred into property assets held for resale at a value of £30.2m.

Financial Review continued

During the year, the Group's net debt reduced by £64.4m to £33.1m.

The property assets held for sale at the year end relate to 20 freehold properties amounting to £46 5m The Group is actively seeking landlords for all the freehold properties held for resale

Subsequent to the year end, the Group has sold five property assets held for sale

The sale of Taunton Care Centre completed on 10 November 2009 for a cash consideration of £4 8m, which is equal to the asset's carrying value

On 13 November 2009, the Group disposed of Southern Cross (Paisley) Propco Limited and its freehold interest for a cash consideration of £4 6m, realising a profit on disposal of £0 1m

On 13 November 2009, the Group completed the sale of Portishead Fundco Limited, Portishead Newco Limited and freehold interest for £7 4m, which was equal to its book value

On 13 November 2009, the Group exchanged contracts on Wookey Hole and Cathedral View The sale of these homes completed on 20 and 23 November 2009 respectively, for cash consideration of £0 9m, which is equal to the book value of the assets

Cash Flow

	2009 £'m	2008 £'m
Cash flows from operations	**87.5**	71 4
Net interest and taxation	**3.3**	(21 8)
Investing activities	**(25.6)**	64 7
Financing activities	**(35.6)**	(127 0)
Net increase/(decrease) in cash	**29 6**	(12 7)

Cash inflow from operations was £87 5m (2008 £71 4m), representing a cash conversion ratio compared to Adjusted EBITDA of 120 7% (2008 91 4%)

Finance charges paid during the year amounted to £13 1m (2008 £11 5m) and included £4 7m relating to loan arrangement fees and costs in respect of the renegotiation of the Group's banking facilities The remaining payments relate to standard charges incurred in accordance with the Group's banking facilities Tax receipts during the year totalled £15 6m (2008 £10 6m payment) and were principally due to a tax repayment of £17 6m received from HMRC in February 2009

Net cash outflow from investing activities amounted to £25 6m (2008 £64 7m inflow) Included within net cash outflow from investing activities are costs associated with the purchase of subsidiary undertakings from the prior year of £0 7m, purchase of property, plant and equipment totalling £45 3m and receipts from the sale of property, plant, equipment and other assets of £20 4m

Purchase of property, plant and equipment totalled £45 3m and included £18 1m of development expenditure, £21 7m of maintenance capex on the Group's mature homes, £2 4m maintenance capex in respect of immature homes, and other capital expenditure of £3 1m

The net cash used in financing activities for the year amounted to £35 6m (2008 £127 0m) and included net repayment of bank borrowings totalling £34 8m

Net Debt and Financing

During the year, the Group's net debt reduced by £64 4m to £33 1m, down from £97 5m, with bank borrowings reducing by a net £34 4m As at the year end, the Group had committed bank facilities of £113 9m, against which it had loans drawn of £64 9m and guarantees issued of £11 5m, leaving £37 5m of undrawn facilities

£87.5m

Cash inflow from operations

£64.4m

Reduction in net debt

Included within net repayments of bank borrowings is £20m in respect of term loans, comprising a scheduled £5m repayment on 30 March 2009, an acceleration of £10m in relation to the 31 July 2009 and 31 January 2010 repayments made on 8 May 2009 and a voluntary repayment of £5m, also made on 8 May 2009 On the same date, £10m of availability under the term loan was transferred to the revolving credit facility in order to provide more flexibility and reduce borrowing costs Following the above, the Group's syndicated term loan was reduced from £70m to £40m as at the year end Since the year end, the Group has reduced the borrowings under this facility to £33 5m using the proceeds from three disposals totalling £5 4m and making a voluntary repayment of £1 1m

Repayments made from disposals of freehold properties and scheduled loan amortisations under the Group's acquisition facility amounted to £17 5m, leaving an outstanding balance of £1 9m at the year end The Group has voluntarily repaid this balance subsequent to the year end

During the year borrowings under the Group's development facility grew by £11 2m to £19 8m (2008 £8 6m) The £11 2m of additional borrowings were net of a £6 2m repayment following the divestment of one of the Group's in house freehold developments Since the year end the Group has reduced the borrowings under this facility to £6 2m following the disposal of two of the developments for £12 1m and a voluntary repayment of £1 5m

On 25 November 2009, the Group agreed an extension to its development facility Under the agreement, the development facility becomes repayable on 30 June 2011, being the same date as the Group's two remaining facilities (the syndicated term loan and revolving credit facility) The extension allows the Group increased flexibility in respect of its two remaining development property freeholds

At the year end the Group had no borrowings outstanding under its revolving credit facility but had utilised £11 5m of the £46 0m available to it under this facility to issue guarantees relating to landlord rent deposits

A further review of the Group's working capital requirements will be undertaken in January, following which a further voluntary repayment of the Group's Term A loan will be considered

As part of the Group's debt refinancing at the beginning of the year the Group entered into agreements to limit its exposure to interest rate movements At the year end the Group had £21 0m of interest rate caps outstanding at 4 62%, and £21 0m of interest rate collars outstanding with cap rates of 4 50% and floors of 2 57% The notional amount hedged under these agreements reduces over their term and both expire on 30 June 2011

International Financial Reporting Standards ('IFRSs')

As a listed company, the financial statements continue to be prepared in accordance with applicable IFRSs There have not been any changes to IFRSs which have had a significant effect upon the financial statements for the 52 week period ended 27 September 2009

Richard Midmer
Group Finance Director

Cash inflow from operations was £87.5m (2008: £71.4m), representing a cash conversion ratio compared to Adjusted EBITDA of 120.7% (2008: 91.4%).

Holistic

Activities

Just because somebody has moved into residential care doesn't mean they have to give up their interests and hobbies Far from it! Enabling our residents to be as physically and mentally active as they want to be is a cornerstone of our holistic approach to care Meeting residents' social needs is just one part of our approach In each of our homes a wide range of activities is available which are tailored to individual residents and their abilities Most of our care homes have access to special mini-buses which are used for outings to places of interest, including beauty spots, local shops, the theatre and even, on occasion, football matches

Outdoor activities include being involved in maintaining and improving the gardens, though many just take time out to enjoy the fresh air, shrubs and flowers – weather permitting! Indoors, popular activities include carpet bowls, armchair yoga, painting and flower arranging

We try to make our homes as much a home-from-home as possible That's why family and friends are welcome to drop in at any time to visit residents, often taking them out or joining in on some activity or other or simply catching up on all the news over a cup of tea. In other words, doing exactly what they would if their relative or friend was still living in their own home

Care

Corporate Social Responsibility

Southern Cross takes its responsibility to the residents in its care very seriously. We have a zero tolerance to any form of abuse.

The Group's CSR objective is to deliver sustainable improvements in our activities in a way that economically aligns, as far as is possible, our core business needs with the wider interests and concerns of our stakeholders The Group seeks to contribute to economic activity while improving the lives of our residents, their families, our staff and the wider local community

During the year, there was a focus on a series of initiatives which made a significant contribution to the Group's CSR agenda, as the following report details

The progress the Group has made has been recognised with our inclusion in the FTSE4Good Index

During the next year, we intend to build on the framework already created while placing additional emphasis on reducing our environmental impact

Organisation

A Community Links Committee, which has been chaired by Kamma Foulkes, Chief Operating Officer, is responsible for developing and leading the CSR Strategy

This Committee includes cross-functional representatives from within the business who seek to embed the CSR strategies into the day-to-day running of Southern Cross homes and offices This is an approach that is fully endorsed by the Board

In 2009, an Environmental Policy Group, a sub-group of Community Links was set up to further build on the progress already made on our environmental practices and procedures

Marketplace

Care Standards and Quality of Care

Southern Cross is committed to providing a high standard of care for our residents Recognised measures of quality are the ratings that the external inspection agencies in England, Wales, Scotland and Northern Ireland award our homes

In 2009 the Group's focus has been to reduce the number of our homes classified as 'red'

Inspection rating	2007/ 2008	2008/ 2009~
Excellent (blue)	11 3%	14 6%
Good (green)	58 0%	62 2%
Adequate (amber)	26 7%	21 0%
Poor (red)	4 0%	2 2%

* 2007/2008 figures based on 584 homes in England
~ 2008/2009 figures based on 588 homes in England

The figures above, for both years, are based on the external inspection scores of our homes in England, which represent 79% of our total estate Homes in Scotland, Wales and Northern Ireland are graded on a different basis by their respective inspection agencies and therefore direct comparison is not possible However, based on our internal inspections, we would expect our homes in the remainder of the UK to achieve scores similar to our English homes

The Group is aware that homes can experience problems from time to time To counter this, all homes are inspected regularly to ensure that they are delivering the best possible outcome for our residents The Group's success in reducing the number of red homes is due, in part, to the introduction of a new, more robust internal inspection regime which has now been rolled out to all homes These new inspection arrangements, which are applied bi-monthly, give a more accurate and complete picture of the services that the home is delivering and allow the Group to take any required actions in both a timely and efficient manner The focus during the year ahead is to further reduce the number of both red and amber homes

The Board will continue to review the status of inspection quality scores at each of its meetings

The Group also continues to progress with the ISO 9001 accreditation of the homes with a further 25 homes achieving this status by 31 December 2009

	31/12/08	Target 31/12/09	Target 31/12/10
Number of homes with ISO 9001 accreditation	197	222	247

Customers

Obtaining feedback from residents, families and professionals associated with the Group's homes is very important to us

Each of the homes has in place measures to gather and act upon this feedback This includes resident and family meetings, open days and surveys

In addition, the Group has a 'stand alone' customer satisfaction unit which sits outside the operational structure and conducts satisfaction surveys amongst residents and their families During 2008/2009, the unit surveyed 162 homes

	Actual % satisfaction 2007/ 2008+	Target % satisfaction 2008/ 2009	Actual % satisfaction 2008/ 2009	Target % satisfaction 2009/ 2010
Residents	87%	90%	89%	90%
Relatives	90%	91%	86%	89%

\+ Based on a survey of 48 homes with 637 residents and 413 relatives conducted between 10/05/08 and 28/09/08
Based on a survey of 141 homes with 1 779 residents and 1 105 relatives conducted between 29/09/08 and 27/09/09

We also seek the views of professionals about our interaction with them and their views of our homes By its nature the sample size is small and therefore not considered statistically reliable for reporting purposes We do, of course, act on any feedback received

The Group has a thorough complaints procedure through which we actively monitor the nature of any complaint, and the time it takes to resolve it

Complaints, as a percentage of total beds, have increased slightly from 3% the previous year to 3 5% this year We believe that this is due, in part, to the increased transparency in our complaints process and the promotion of both our Dignity and Abuse Prevention strategies We will continue to monitor both the number and nature of complaints closely This year, both the Customer Satisfaction process and the Complaints procedure have been internally audited to ensure they continue to operate under best practice principles

Southern Cross takes its responsibility to the residents in its care very seriously We have a zero tolerance to any form of abuse In 2009 the Group launched a ground breaking initiative with Action on Elder Abuse (Registered Charity Number 1048397) to establish a confidential whistle blowing helpline This helpline is manned by the charity and is available to anyone associated with a Southern Cross home who suspects any form of abuse or inappropriateness in the delivery of a service Calls to this helpline are assessed by the charity and, if necessary, appropriate action is taken by them to resolve the situation

In the provision of care Southern Cross is also determined to preserve the dignity of the residents living in our homes We fully support the government's 'Dignity in Care Campaign' and have appointed our own 'Dignity Lead' within the organisation The Group now has 753 registered 'Dignity Champions' whose role is to ensure that the rights of individuals in our homes are respected at all times It is the Group's intention to embed the principles of dignity and respect into the culture of the organisation and our Champions will help us achieve this

Workplace

People are the Group's most valuable asset They are central to the quality of service provided so their performance is critical to the future of Southern Cross

This year the Group has made considerable progress in obtaining feedback and engaging with staff to build a better understanding of the expertise, tools and processes that they need to do their job The challenge now is to unlock the potential of our people so that they can consistently provide the quality of service that the Group's residents and their families wish This, in turn, will bring greater success to the Group

Staff Engagement

During the year the Group instigated a number of measures to improve staff feedback and engagement

Formal focus groups and interviews took place at all levels of the organisation with the objective of gaining a better understanding of the relationship the staff have with Southern Cross Particular emphasis is being placed on the role of the Home Manager, which is pivotal to the Group's future success All Home Managers were asked to take part in a survey, managed by an external agency, to identify areas where there were opportunities to make changes that would have a significant, positive impact on the care provided

The information gained through this two-way communication process will be used to inform our HR strategy in the year ahead

Key Staff Information

Measure	2006/ 2007	2007/ 2008	2008/ 2009
Staff numbers	41 344	42 845	44 711
% of workforce female	83 8%	83 9%	82 5%
% of senior management female	66 0%	68 0%	67 0%
% of workforce from non EU countries	8 2%	8 5%	9 7%
Average age of employees	39	40	40

Staff Recognition and Reward

It is important that staff feel recognised and rewarded for the work that they do

The Southern Cross Care Awards are held every two years, where excellence across the country is celebrated These awards are about recognising the work that people do, day in, day out, in the Group's homes

People are the Group's most valuable asset. They are central to the quality of service provided so their performance is critical to the future of Southern Cross.

Corporate Social Responsibility continued

By their very nature, the Group's homes are an integral part of the communities they serve. They bring, and keep, people of all generations together and are a focus for activity within their local community.

External awards are also an important source of recognition for our staff The Group is proud of the fact that our staff are often honoured in the local, regional and national Care Awards

We ensure our staff are appropriately remunerated for the work that they do We benchmark our salaries against our key competitors and the local market We estimate that 25% of our staff are members of a trade union or similar type of organisation The Recognition Agreement between Southern Cross and the GMB Union remains in place and both parties continue their commitment to working in partnership We continue to consult with employee representatives on major issues and developments within the organisation affecting remuneration, benefits and training

Staff Training

	Carers with NVQ level 2	Managers with Registered Manager Award
2006/2007	55%	52%
2007/2008	74%	62%
Target 2008/2009	75%	70%
Actual 2008/2009	73%	91%
Target 2009/2010	75%	93%

During the year we continued our emphasis on developing our skilled caring staff (see above table) Our in-house training staff delivered courses in core subjects covering everything from infection control to customer care More specialist training such as the Alzheimer's Society's 'Yesterday, Today, Tomorrow' training was delivered in our homes specialising in dementia care

During 2008/2009, 369 staff went through the Group's Apprenticeship Scheme This year a further 80 staff will take part in the scheme

Staff training will continue to be a strategic focus in the year ahead with the launch of the Southern Cross in-house Diploma programme which has been accredited by external training consultants and is supported by NVQ UK

Southern Cross is committed to supporting and developing our staff and encouraging people to use company resources such as the 'Diploma' to further develop their career with Southern Cross The Group re-confirmed its membership of the 'Skills Pledge' – making public its commitment to supporting staff in developing basic literacy and numeracy skills

Health and Safety

The Group's aim is to provide an injury-free working environment for our staff, residents and their guests This year the Group's Health and Safety function was reviewed The Board continues to lead and is committed to the Health and Safety agenda

The Chief Executive has overall responsibility for Health and Safety and has appointed a 'Link Board Director' to lead policy development and ensure that it remains on the agenda at each Board meeting

The Executive Committee, which includes amongst others the Regional Directors and the Human Resources Director, has responsibility for ensuring policy is implemented and measures performance through the integrated Risk Management arrangements and Key Performance Indicators

The Group Health and Safety Committee meets at least quarterly The minutes are cascaded down through the operational structure to each home These minutes form part of each home's Health and Safety Group agenda Any issues arising for the attention of the Group Health and Safety Committee are passed back up the operational structure This enables a full circle of clear communication within the Group

Further communication channels include 'The Weekly Briefing' which includes Hazard Alerts, guidance on areas of best practice and changes to policy Hazard Alerts are also emailed directly to the homes A quarterly newsletter summarises recent initiatives to ensure staff are well informed

This year, 670 Home Managers completed the Level 3, Health and Safety Training programme This programme is based upon the Southern Cross Health and Safety policies and procedures and is validated by the Chartered Institute of Environmental Health All members of the Executive Committee have attended training in Health and Safety as part of the requirements of the Institute of Directors Programme

Southern Cross values the well-being of its staff Analysis shows that approximately eight days per employee were lost due to absence this year Our focus next year will be to identify ways in which we can support our staff to reduce this figure

Community

By their very nature, the Group's homes are an integral part of the communities they serve They bring, and keep, people of all generations together and are a focus for activity within their local community

This important role has gained external recognition For example, this year Crossgate Care Centre in Kilmarnock won an award as part of the 'Determined to Succeed' initiative in East Ayrshire The home was nominated by the local primary school in recognition of the contribution it made in helping the school create an eco garden Similarly, Arden Court in Manchester has been involved in an innovative joint project with Age Concern in Salford and New Park High School, a school for children with special needs, to support the school's development programme These types of initiatives demonstrate the extended role the Group's homes have in their communities

The Group has a number of programmes in place to help the homes cement this position The kit sponsorship programme helps homes to support local youth teams, providing kit for a variety of sports In exchange, the teams are encouraged to work closely with the home The children make regular visits and spend time in the Group's homes This has enormous benefits in terms of greater understanding and learning between the generations in those communities

The Group also has a fund matching programme whereby the homes are encouraged to raise funds for the benefit of their residents, which the Company will then match

	No of teams/homes supported		
Programme	2007/ 2008 Actual	2008/ 2009 Target	2008/ 2009 Actual
Kit sponsorship	21	84	78
Fund Matching	103	300	280

* These figures represent a five-month period from 1/5/08 to 28/09/08

Our homes also raise money for local charities and as a Group we match funds raised for key charities The total spent by Southern Cross on kit sponsorship and matching funds in this area was £132,000

The Group continued to support a scheme to provide coaching for disadvantaged children in the UK In March of this year, the Group also supported a team of ten who took part in the Alzheimer's Society China Trek Through a combination of Southern Cross sponsorship and efforts by the team, a total of £27,135 was raised

A priority for the Group will be to put in place a full Carbon Reduction Plan, seeking external support and validation where necessary. This plan will be important in helping us meet our obligations under the Carbon Reduction Scheme which is due to come into force in April 2010.

Corporate Social Responsibility continued

Reducing the Group's energy consumption, while maintaining a consistent service for our residents, continues to be a major focus for environmental initiatives.

We are committed strongly to our partnership with Action on Elder Abuse, the principle charity we supported in 2008/2009 This year, through various local and national events, staff raised £24,300 This amount was matched by the Group so that a total of £48,600 was presented to the charity

Environment

During 2009, the Group continued to make progress with environmental initiatives As reported previously, measures have been put in place to accurately reflect the Group's impact on the environment

The Environmental Policy Group, reporting to the main Community Links Committee, will develop new initiatives during 2009/2010

A priority for the Group will be to put in place a full Carbon Reduction Plan, seeking external support and validation where necessary This plan will be important in helping us meet our obligations under the Carbon Reduction Scheme which is due to come into force in April 2010

Energy Consumption

Source of Energy	CO_2 tonnes produced 2008/2009	Target for 2009/2010
Electricity	76 720	74 802
Natural Gas	62 345	60 787
Oil	5 610	5,470
LPG	1 196	1,166
Total	145 871	142 225
Per bed equivalent figure	**3.84**	**3.74**

Reducing the Group's energy consumption, while maintaining a consistent service for our residents, continues to be a major focus for environmental initiatives

During 2008/2009, the Group installed 1,000 boiler management controls in 480 of our homes These controls ensure a more efficient usage of energy without impacting output Overall, the Group estimates that we have reduced our energy usage by 7 2% during 2008/2009 as a direct result of installing these boiler controls (based on the difference in energy usage between 2007/2008 and 2008/2009 in a sample of 70 homes)

We expect that the roll-out of the boiler management controls to all of our homes will be complete by January 2010

During the year, the Group continued to install motion detector fans in our homes, with the twin objectives of reducing energy consumption while improving safety A total of 4,281 fans were installed in 285 homes These fans are expected to reduce our electrical energy usage by approximately 10% a year once rolled out across the entire estate

We are also working on a project to replace individual pieces of office equipment in each of the offices in our homes with one multifunctional device which will perform a number of tasks This will encourage the use of printing in black and white, as opposed to colour, and double-sided printing saving both energy and reducing paper usage

Waste Management

Waste Management is important for the Group and we are making progress in our efforts to manage our waste more effectively

Absolute Figures

Type of Waste	2006/ 2007 Tonnes	2007/ 2008 Tonnes	2008/ 2009 Tonnes	Target 2009/ 2010 Tonnes
Landfill	13 313	10 543	5 079	4 750
Recycling	–	–	1,579	2 300
Clinical	12 562	13 677	11 384	11,000

Per Bed Equivalent Figures

Type of Waste	2006/ 2007 Tonnes	2007/ 2008 Tonnes	2008/ 2009 Tonnes	Target 2009/ 2010 Tonnes
Landfill	0 39	0 28	0 14	0 13
Recycling	–	–	0 04	1 00
Clinical	0.37	0 37	0 29	0 25

Clinical waste is a particular challenge and the Group ensures all sites are managed in line with statutory requirements We are keen to identify an economically viable means to reduce our clinical waste without compromising the quality of service we offer In 2009/2010, the Group will assess a new disposal system for clinical pads to decide if this is a viable opportunity for the Group as a whole

The Group continues to recycle used cooking oil and to recycle waste from our offices We have also been working with our suppliers to reduce and manage the disposal of packaging associated with deliveries

Water

During 2008/2009, the Group initiated several projects to improve our water management We have centralised all of our water billing to allow an overall review of our usage and ensure, in the deregulating market, that we are paying the correct tariffs

A pilot study of water usage in seven of our homes in Scotland was commissioned In three of these sites the Group identified potential savings

In 2009/2010, the Group will undertake further analysis of our water usage in the South of England This will cover such factors as tariffs, consumption, associated energy costs and water conservation The information gained from these projects will inform the basis of the Groups water management policy in the future

New Builds

This year we have continued our development programme Most of the highly energy efficient properties we have built are now registered and trading We will continue to monitor energy usage at these homes and once they are at mature occupancy levels we will be able to confirm their energy performance against our wider portfolio We will use this information to inform future upgrades of the estate

Suppliers

Southern Cross works closely with suppliers to ensure we obtain products and services at a competitive price, balanced with good service The Group asks that its suppliers share our commitment to environmental best practice and take measures to improve their environmental impact We review the environmental policies of our key suppliers annually In return, Southern Cross commits to honour our agreed terms of business with them

We continue to implement our eProcurement system (e-HIPO) with our high volume suppliers and will begin implementation of e-HIPO with our food suppliers in January 2010

We are also working with our key suppliers to reduce our impact on our local neighbours by minimising the number of deliveries to our homes Where practical the Group uses local suppliers for the provision of milk, fresh meat and vegetables This not only supports the local communities in which we operate, but ensures the highest standard of fresh produce is always available to our residents

Priorities for the Year Ahead

Finally, our commitment for 2009/10 is to target those issues and projects that will add value, particularly those that can provide clear benefits to our stakeholders

The Group asks that its suppliers share our commitment to environmental best practice and take measures to improve their environmental impact.

Directors and Officers

1. Ray Miles (65)

Non-Executive Director and Chairman

Ray Miles became a Non-Executive Director of the Company in June 2006 and served as the Senior Independent Director until he was appointed Chairman on 1 January 2008 Mr Miles has spent most of his career in the shipping industry From 1988 until December 2005, he was Chief Executive Officer of CP Ships Limited He was also the Senior Independent Director of Stelmar Shipping Limited from 2004 to 2005 Mr Miles is Deputy Chairman of International Personal Finance PLC which, in July 2007, demerged from Provident Financial PLC and he joined the advisory board of Stena AB in 2006 He is a Trustee of Country Holidays for Inner City Kids

2. Jamie Buchan (50)

Chief Executive

Jamie Buchan was appointed as an Executive Director of the Company on 1 January 2009 Between 2002 and May 2008, Mr Buchan, backed by a Malaysian private fund, led the successful turnaround and subsequent sale of the ExCeL Exhibition and Conference Centre in London Prior to that, Mr Buchan held leading roles in hospitality at Whitbread, in customer service and brand development at Centrica, in logistics at Ocean Group, and, for 14 years, retail service station operations in Esso, which he joined as a graduate trainee in 1981

3. Richard Midmer (55)

Group Finance Director

Richard Midmer joined the Company as Group Finance Director on 1 July 2008 He previously worked in the oil and gas sector as Finance Director of British-Borneo Oil & Gas Plc He joined NHP plc, a quoted care home company, as Group Finance Director in November 2000, where he worked until its acquisition by private equity in February 2005 He is a Non-Executive Director of Rugby Estates Investment Trust plc

4. Kamma Foulkes (59)

Group Operations Director

Kamma Foulkes was appointed as an Executive Director of the Company on 3 July 2008 A registered nurse, Kamma has worked within the residential and nursing care sector since the early 1990s She was an Operations Director for Southern Cross Healthcare from 1998-2003 In October 2003, she joined Highfield Care Limited in the position of Managing Director She returned to Southern Cross in that role in March 2005, when the Highfield Group was acquired by Southern Cross Ms Foulkes became Group Operations Director in early 2007

5. Christopher Fisher (56)

Senior Independent Non-Executive Director

Christopher Fisher joined the Board in June 2006 and became the Senior Independent Non-Executive Director in January 2008 He is a partner in Penfida, a firm providing independent financial advice to pension fund trustees, and is also President of the Council of Reading University and a Trustee of the Imperial War Museum He spent most of his career at Lazard, the investment bank, where he was a Managing Director, and has also served as Vice Chairman, Corporate Finance, at KPMG, and as a Non-Executive Director of Kelda/Yorkshire Water

6. Baroness Morgan of Huyton (50)

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 a 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, a member of the advisory board of Lloyds Pharmacy Limited and is a Non-Executive Director of Carphone Warehouse PLC

7. Nancy Hollendoner (54)

Non-Executive Director

Nancy Hollendoner joined the Board in January 2008 Ms Hollendoner is a senior adviser on the healthcare market to Hawkpoint Partners Limited She previously worked as an equities analyst specialising in the healthcare market and was employed by UBS Investment Bank between 1996 and 2002 Ms Hollendoner served as a Non-Executive Director of NHP plc between 2003 and 2005

Company Secretary

William McLeish was appointed as Company Secretary on 25 May 2006 and is a chartered accountant On 1 August 2007, he was elected an associate of the Institute of Chartered Secretaries and Administrators

Committees

Audit Committee
Nancy Hollendoner (Chairman)
Baroness Morgan of Huyton
Christopher Fisher

Nomination Committee
Ray Miles (Chairman)
Christopher Fisher
Nancy Hollendoner
Baroness Morgan of Huyton
Jamie Buchan

Remuneration Committee
Christopher Fisher (Chairman)
Baroness Morgan of Huyton
Nancy Hollendoner
Ray Miles

Quality Assurance Committee
Baroness Morgan of Huyton (Chairman)
Nancy Hollendoner
Kamma Foulkes

Notes

Philip Scott resigned as an Executive Director on 31 December 2007

Graham Sizer resigned as an Executive Director on 29 February 2008

Jason Lock was appointed as an Executive Director on 1 March 2008 and resigned on 29 June 2008

John Murphy resigned as an Executive Director on 30 September 2008

William Colvin resigned as an Executive Director on 8 October 2008

Executive Committee

1. Mark Cash (50)

Regional Director – South

Mark Cash joined the Group in September 2009 From 2004 to 2009 he was UK Operations Director for Sunrise Senior Living Ltd, overseeing its organic growth in the premium private pay assisted living and care home sector Prior to that, he held a variety of management roles within ExxonMobil, which he joined as a graduate trainee in 1981 Until 2004 he led Exxon's company owned UK and Ireland service station network

2. Pam Finnis (40)

Regional Director – Central

Pam Finnis was appointed as a Regional Director in September 2009 She has 26 years experience within the independent care sector having commenced work as a part-time care assistant She is a qualified nurse, and worked previously with Ashbourne Healthcare and Highfield Care before joining Southern Cross in 2004

3. Michael MacIntosh (35)

Regional Director – Scotland and Northern Ireland

Michael MacIntosh joined the Group in March 2009 as Managing Director of the Scottish Division, and subsequently joined the Executive Committee Mr MacIntosh joined from Four Seasons Health Care as Director of Public Private Partnerships Previously, he has worked for Barchester Healthcare, Westminster Health Care, the NHS and Highlands and Islands Enterprise

4. Janette Malham (47)

Director, New Horizons Programme

A registered nurse, Janette Malham has worked within the residential and nursing care sector since the early 1990's She was previously a Regional Manager with Quality Care Homes Ltd, then Operations Director with Tamaris Plc In March 2003 she joined Highfield Care Limited as Managing Director and continued in that role until Highfield was acquired by Southern Cross Ms Malham was appointed Group Operations Director (North) in March 2007 On 1 October 2009 she became Director of our New Horizons 'change' programme

5. David Smith (35)

Group Financial Controller

David Smith joined the Group as Group Finance Manager in March 2006 and was appointed Group Financial Controller in March 2008 He previously spent 10 years at PwC working in various roles including secondments to Riyadh, Saudi Arabia and the United States

6. Phil Whitaker (47)

Regional Director – North

Prior to his appointment to the Executive Committee Phil Whitaker was responsible for Southern Cross' North Eastern division having joined the Group in June 2007 Mr Whitaker has over 15 years experience in the independent health and social care sector and has previously held senior positions within BUPA and Takare PLC Prior to this he was a service manager at the Department of Employment

7. Patricia Williamson (56)

Group Human Resources Director

Patricia Williamson was appointed as Group HR Director on 1 July 2009 Patricia previously worked at Trader Media Group, part of the Guardian Media Group, as Group HR Director Ms Williamson has considerable experience in leading and delivering business transformation gained across banking and services industries She has held many senior positions including Chief Operating Officer for Barclays Asset & Sales Finance

Executive Directors Jamie Buchan Richard Midmer and Kamma Foulkes are also members of the Executive Committee their biographies can be seen on page 31

Directors' Report

The Directors present their report and the audited financial statements for the 52-week period ended 27 September 2009

Activities of the Group

The Group's principal activity is the operation of care homes for the elderly It is also involved in the development of new homes and the provision of specialist services for people with physical and/or learning disabilities The principal activity of the Company is a holding company

A detailed review of the Group's activities, development of its business and future plans is provided in the Chief Executive's report and in the financial review

Results and Dividends

The consolidated income statement, showing the results for the period, is set out on page 50 A detailed review of the Group's results is provided in the financial review

The Directors recommend that no final dividend (2008 £Nil) be paid The Company did not pay an interim dividend during the year (2008 3 75p per share totalling £7 1m) The Directors anticipate working towards a dividend cover of 3x adjusted EPS, commencing in 2010

Directors

The names of the Directors who held office during the year and up to the date of signing of the financial statements together with the biographical details of the current Directors are given on page 31

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 42 to 48

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 Employee involvement in the business is encouraged The Group communicates with its employees through the use of the Group's intranet and its regular newsletter and obtains employee feedback through employee surveys and formal focus groups Full and fair consideration is given to applications for employment from disabled persons, having regard to their particular aptitudes and abilities Efforts are made to continue the employment of those who become disabled during their employment Retraining of newly disabled employees is provided where appropriate and fair consideration is given to all employees in terms of their career development and promotion prospects

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 27 September 2009 the Group's supplier payment period was 42 days (2008 46 days) The Company is a holding company and does not have trade suppliers

Financial Instruments

Information on the Group's financial risk management objectives, policies and on the exposure of the Group to relevant risks in respect of financial instruments is set out in note 22 to the consolidated financial statements

Key Performance Indicators

The key performance indicators (KPIs) that are regularly used by the Group to monitor progress against its strategy are shown below and discussed in the Highlights section and the finance review on page 16 of the report

KPI	Description
Quality Outcome	The number of homes judged to be either good or excellent expressed as a percentage of total homes
Average occupancy	The average occupancy of available beds expressed as a percentage
Average weekly fee	The average weekly fee achieved per occupied bed
Home EBITDAR before central costs	Home EBITDAR (Earnings before interest, tax, depreciation, amortisation, rent and loss on disposal of property, plant and equipment and subsidiary undertakings and impairment of property assets held for resale) before central costs
Adjusted EBITDA	EBITDA (Earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings and impairment of freehold assets held for resale) after adding back the charge for future minimum rental increases
EBITDAR margin	Home EBITDAR before central costs expressed as a percentage of revenue
Rent cover	Home EBITDAR before central costs divided by the cash rent cost

Principal Risks and Uncertainties

Southern Cross, like all businesses, faces a number of operating risks and uncertainties

There are a number of risks that could impact the Group's long-term performance and steps are taken to understand and evaluate these in order to achieve our objective of creating long-term, sustainable returns for shareholders

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

The most fundamental risks faced by the Group are:
- failure to comply with regulation, possibly leading in extreme cases to the revocation of a care home's registration,
- generating severe negative publicity were a serious incident to occur at one of the Group's care homes,
- budgeted occupancy levels are not achieved with negative effects on profit,
- average weekly fees do not rise, at least in line with costs, putting profit margins under pressure,
- failure to meet bank covenants,
- failure to attract and retain nursing and other qualified staff, adversely impacting admissions, and,
- failure to attract suitable finance could impact on growth and profitability. If current conditions in the banking market continue for a prolonged period of years, a reduction in available finance at sensible margins could restrict capital expenditure and investment in acquisitions.

Takeover Directive

The Company has one class of share capital, ordinary shares. There are no special control rights in relation to the Company's shares. The rules governing the appointment and replacement of Board members and changes to the Articles of Association accord with usual English company law provisions. The Board has power to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the notice of that meeting. There are no significant agreements to which the Company is party, which take effect, alter or terminate in the event of change of control of the Company. There are no agreements providing for compensation for Directors or employees on change of control.

Events After the Balance Sheet Date

Events which happened after the balance sheet date are set out in note 33 to the financial statements.

Substantial Shareholdings

At 16 November 2009, the Company had been notified of the following interests which exceed 3% of the Company's issued share capital:

		%
Legal & General Group PLC	26,289,790	14.0
Deutsche Bank AG	17,454,198	9.3
Artemis Investment Management	9,623,299	5.1
Lloyds Banking Group PLC	9,325,487	4.9
J P Morgan Asset Management	8,840,518	4.7
Fortis Investment Management SA	7,019,998	3.7
ING Bank NV	6,310,483	3.4
Standard Life Investments Ltd	6,289,756	3.3
Credit Suisse Sec (Europe) Ltd	6,221,178	3.3

Charitable and Political Donations

During the period the Group made donations to charities totalling £156,300 (2008: £45,522). No political donations were made. Further information on the Group's charitable donations is disclosed in the corporate social responsibility report on page 27.

Directors' Indemnities

The Company maintains liability insurance for its Directors and Officers. Following shareholder approval of its Articles of Association (as amended on 16 February 2009) the Company has also provided an indemnity for its Directors and the Secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

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.

Statement of Directors' Responsibilities in Respect of the Annual Report, the Directors' Remuneration Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements the Directors are required to:
- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' Report continued

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Each of the Directors, whose names and functions are listed in the Directors and Officers section confirm that, to the best of their knowledge

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group, and
- the Directors Report together with the Chief Executive's Report and Financial Review include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

Disclosure of information to Auditors

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
- he has taken all the steps that he ought to have taken as a Director in order to make himself 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 s418 of the Companies Act 2006

By order of the Board

William McLeish
Company Secretary
8 December 2009

Corporate Governance

Southern Cross is committed to achieving the highest standards of corporate governance possible The Board's Code of Ethics, which is subscribed to by all Directors, sets the tone for corporate behaviour The principles of corporate governance set out in the Combined Code on Corporate Governance issued by the Financial Reporting Standards Council in June 2008 ('the Combined Code') are fully supported by the Board

This statement describes how the principles of the Combined Code have been applied to the Group in the current financial year

The Board
The Board currently comprises three Non-Executive and three Executive Directors, in addition to the Non-Executive Chairman During the period 8 October until 31 December 2008, the Chairman assumed executive responsibility pending the appointment of a Chief Executive on 1 January 2009 Biographical details of the current Directors are given on page 31

The roles of the Chairman and Chief Executive are clearly defined, approved by the Board and separate The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness The Chief Executive is responsible for the executive management of the Group's operations and day-to-day business activities

The Board of Southern Cross Healthcare Group PLC is collectively responsible for the success of the Group

Its role is to
- provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed,
- set the Group's strategic aims, and to ensure that the necessary financial and human resources are in place for the Group to meet its objectives,
- review annually the processes in place for monitoring and evaluating risk and the effectiveness of the Group's system of internal control, risk management and operational effectiveness, keeping in mind the importance of the Group's reputation and public image,
- ensure that appropriate operating budgets and longer term plans are in place and monitor management's performance against these,
- set the Group's values and standards and ensure that its obligations to its shareholders and other stakeholders are understood and met, including reporting to shareholders on the Board's stewardship,
- establish a culture, based on integrity, openness, trust and robust and constructive challenge, which motivates management to be successful, and
- ensure that the Group meets its objectives and consequently increases shareholder value

Specific responsibilities are reserved to the Board, certain of which may be delegated in the first instance to Board Committees The policies and procedures adopted by the Board are documented in a manual which sets out the roles and delegated authorities applying to the Board This manual is updated whenever necessary

To assist the Board in the stewardship of the Group, a comprehensive set of documents, which detail financial and operational performance, together with reports on personnel, developments, acquisitions and compliance matters, are provided to the Board The Board has a formal schedule of matters reserved for its approval, these matters include approval of
- the annual strategic plan and budgets,
- the Group's risk management and treasury policies,
- major operating and capital expenditure proposals,
- substantial contracts,
- changes to the structure, size and composition of the Board, and
- Group policies including the health and safety policy

The Company Secretary is responsible for ensuring Board procedures are complied with The removal from office of the Company Secretary is a matter reserved for the whole Board

The Board meets, formally, bi-monthly, and additional meetings are arranged as necessary to consider urgent business The Chairman also meets with the Non-Executive Directors when no Executive Directors are present The table below summarises the total number of formal Board, Audit Committee, Nomination Committee, Remuneration Committee and Quality Assurance Committee meetings held during the year and the attendance by each Director at those meetings

	Board	Audit	Nomination	Remuneration	Quality
Total number of meetings	**6**	**4**	**4**	**6**	**2**
Attendance at meetings					
Ray Miles	6	–	4	6	–
Jamie Buchan (appointed 1 January 2009)	5	–	1	5*	–
Richard Midmer	6	4*	–	1*	–
Kamma Foulkes	6	3*	–	1*	2
Baroness Morgan of Huyton	6	4	4	6	2
Christopher Fisher	6	4	4	6	–
Nancy Hollendoner	6	4	4	6	2
John Murphy (resigned 30 September 2008)	–	–	–	–	–
William Colvin (resigned 8 October 2008)	–	–	–	–	–

* By invitation

In addition to the above meetings, a number of meetings were held by telephone to deal with urgent business which arose between the formal meeting dates

On 30 September 2008, John Murphy resigned as Chief Operating Officer

On 8 October 2008, William Colvin resigned as Chief Executive At that time Ray Miles temporarily became Executive Chairman until the appointment of the new Chief Executive, on 1 January 2009, when he reverted to his role as Non-Executive Chairman

On 2 October 2009, the Company announced that Kamma Foulkes planned to retire from the Company with effect from 31 December 2009

The induction process for new Directors is the responsibility of the Chairman The process includes industry specific presentations from third parties and management presentations as well as visits to the Group's operations The process is supported with a Board induction pack which is designed to provide new Directors with background documentation about the Group It contains information on its history, operations, policies and procedures and details their duties under the Companies Act as well as explaining the additional dealing and disclosure obligations arising from the Company's stock exchange listing 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 Board considers Baroness Morgan of Huyton, Christopher Fisher and Nancy Hollendoner to be independent Non-Executive Directors In the view of the Board they are independent of management and free from any relationship, business or otherwise, which could materially interfere with the exercise of their independent judgement

One third of the Directors are subject to retirement from the Board at the Company's Annual General Meeting Details of the retiring Directors and of those individuals nominated for office are set out in the Notice calling that Meeting

Each year, the Board carries out a formal evaluation of its own performance and of individual Directors The evaluation covers all aspects of Board behaviours and processes including its composition, the performance of its committees Directors and Secretary and its interaction with its stakeholders External advisers on corporate governance, Linstock Limited, facilitate the evaluations This year's evaluation process is underway The results of the last evaluation were considered by the Board at its meeting in February The issues identified included

- defining medium-term strategy,
- building the management team, and
- improving reporting from management to the Board

The Board considers that it has made significant progress in all these areas in the course of the year

The Non-Executive Directors, led by the Senior Independent Non-Executive Director, are responsible for evaluating the performance of the Chairman and the Executive Directors Resources are available to support Directors in addressing any identified training needs that arise out of performance evaluations

Conflicts of Interest

Under the Companies Act 2006, a Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation The Companies Act 2006 allows Directors of public companies to authorise conflicts and potential conflicts where appropriate The Company's Articles contain provisions which allow the Board to authorise Directors' conflicts of interest At each Board meeting, Directors are invited to

- declare the nature and extent of their interests (direct or indirect) in any proposed or existing transaction or arrangement with the Company; and
- update any declaration of interests which has become inaccurate or incomplete

Board minutes evidence any conflicts that are authorised

Committees of the Board

The Board has constituted a number of committees, specifically Audit, Remuneration, Nomination and Quality Assurance Committees In addition it has recently formed an Executive Committee The roles and terms of reference of each committee are summarised below

Audit Committee

The Audit Committee is comprised of the three independent Non-Executive Directors Nancy Hollendoner, the committee's chairman, was previously an equity analyst specialising in the healthcare market with the investment bank UBS and is currently a senior adviser on the healthcare market to Hawkpoint Partners Limited The other members of the Committee are Christopher Fisher and Baroness Morgan of Huyton In the view of the Board both Nancy Hollendoner and Christopher Fisher bring recent and relevant financial expertise to the committee

The Committee meets formally at least four times a year and otherwise as required The External Auditors, Group Finance Director, Group Financial Controller and Head of Internal Audit are invited to attend Audit Committee meetings At each meeting, an opportunity is given for the Non-Executive Directors and the External Auditors to meet in private

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 Committee is responsible for making recommendations to the Board in relation to the appointment, reappointment and any matters relating to the resignation or dismissal of the External Auditors as well as the approval of fees for External Auditors Consideration is given to the desirability of rotating both the audit firm and partner A new audit partner, from a different office of the External Auditors, was appointed last year and therefore the Committee did not consider further change to be appropriate

The independence and objectivity of the External Auditors is reviewed by the Audit Committee, with specific consideration given to the level of non-audit fees Information on non-audit fees is given in note 5 to the consolidated financial statements In general, non-audit fees paid to the External Auditors are not allowed to exceed the audit fee The Committee approves each appointment and does not consider the non-audit fees paid to the External Auditors to have affected their independence or objectivity

The Committee receives an annual independence confirmation from the External Auditors

The Board, through its Audit Committee, received regular reports from the Internal Audit department Deloitte LLP provided support to the Internal Audit Department The work of the department was summarised in its annual report to the Committee The Audit Committee also receives regular reports from the Group Risk Management Committee on the policies and processes in place to control and mitigate risks These risks are continually reassessed The findings of the Internal Audit department and the Committee's assessment of the risks facing the Group were used to create the Group's 2010 internal audit plan which has been agreed by the Audit Committee The Committee will monitor progress against the plan

Other work of the Committee included evaluating the performance and effectiveness of both the external and internal audit functions This year, Lintstock Limited, a corporate advisory firm, assisted with the review of the internal audit function

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, matters affecting the day-to-day care of residents, or other matters, and for ensuring these arrangements allow for independent investigation and appropriate follow up In particular, the Committee approved arrangements with two external agencies for telephone 'hotlines' that staff can use to report concerns

During the year the work undertaken by the Committee included the review of
- the appropriateness of accounting policies, estimates and judgements used in the financial statements,
- the annual and half year financial reports and quarterly management statements prior to recommending same for Board approval,
- Internal Audit reports and significant findings,
- financial risks and internal controls,
- Director and Officer expenses and related party transactions,
- external and internal auditor performance,
- external and internal audit plans and the scope of audit work,
- whistle-blowing arrangements,
- business continuity plans,
- treasury functions, and
- the approval of audit fees and terms of engagement

Remuneration Committee
The composition and role of the Remuneration Committee is described in the remuneration report on pages 42 to 48 Full details of Directors' remuneration and shareholdings are also given in that report

Nomination Committee
The Nomination Committee comprises Ray Miles, Christopher Fisher, Baroness Morgan of Huyton, Nancy Hollendoner and Jamie Buchan (with effect from the date of his appointment) The chairman of the Committee is Ray Miles 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 During the year the committee met formally, four times

External advisers were engaged by the committee to assist in the successful selection of the new Chief Executive, who was appointed after an exhaustive search and a rigorous process which matched aptitudes and experience to the person specification for the role, prepared by the Committee with assistance from its advisers

At its meeting in December 2009 the Committee recommended the reappointment, for a further three-year term, of Ray Miles, Christopher Fisher and Baroness Morgan of Huyton All three were first appointed immediately prior to the Company's listing on the London Stock Exchange The Committee's recommendation was made after it had satisfied itself as to each Director's willingness to serve and their past performance

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

Corporate Governance continued

Quality Assurance Committee
The Quality Assurance Committee assists the Board in its desire to deliver the highest possible quality of care to its residents The Quality Assurance Committee's responsibilities include monitoring the Group's compliance in relation to the obligations imposed on it by statute and by the various regulatory authorities, assessing the effectiveness of internal quality reporting and of applicable internal controls, identifying any patterns or trends evident from its review of inspection reports received from regulators, monitoring staff turnover, reviewing feedback obtained from internal surveys of residents, regulators and staff and identifying appropriate corrective actions when required

The Committee comprises Baroness Morgan of Huyton, Nancy Hollendoner and Karnma Foulkes as well as senior management and is chaired by Baroness Morgan The Committee met twice this year

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

Executive Committee
The Board has recently established an Executive Committee As well as the Executive Directors, the Committee comprises Janette Malham, charged with delivering the Group's New Horizon programme (which is described elsewhere), David Smith, Group Financial Controller, Patricia Williamson, Group Human Resources Director, and the four Regional Directors, namely, Phil Whitaker, Pam Finnis, Michael MacIntosh and Mark Cash A new Care Director will join the committee when appointed

Terms of reference for the Committee have been agreed and these are set out on the Group's website The duties of the Committee include monitoring Group performance in all areas and directing improvements in efficiency, quality, and profitability The Committee will also monitor and influence Group strategy and be responsible for business planning processes In summary, its intended role is to support the strategy of the Board and direct the day-to-day business of the Group

It is intended that meetings are held monthly

Internal Control and Risk Management
The Board has overall responsibility for the Group's system of internal control 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 Board has reviewed the key risks faced by the Group and the effectiveness of the Group's internal control system for the year under review and up to the date of approval of the Annual Report and Accounts

The Group's Risk Management system is described below

Risk Management
The Board has put in place a documented organisational structure with clearly defined and understood roles and responsibilities Documented policies and procedures, at both home and head office level, have been established The Board remains responsible for the Company's system of internal control and for reviewing its effectiveness However, it has delegated day-to-day responsibility for risk management to its Group Risk Management Committee ('GRMC') The GRMC meets every three months or more frequently if circumstances dictate

The GRMC is chaired by the Group Finance Director and comprises representatives of the major functions of the Group, namely Finance, Treasury, Legal, Operations, Human Resources, Estates, Health and Safety, Information Technology and Planning Each representative is known as a Risk Champion for their own business function

The GRMC is responsible for 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 Risk Management Policy provides the framework for managing risk and aims to meet the requirements of good corporate governance The management of the risks identified in our business, in an appropriate way, is fundamental to our approach

The following definitions are included within the policy

Risk Events that may prevent the achievement of the strategic objectives of the Group,

Risk management The process of identification and treatment of risks facing the Group so that strategic objectives may be met, and

Risk assessment The systematic process of analysing risk

Policy Objectives
Southern Cross is committed to effective risk management, the objectives in respect of risk management are as follows
- to set Group policy and strategy for risk management,
- to identify threats to the achievement of the Group's business objectives,
- to assess, manage and control the Group's exposure to risk,
- to educate and train Risk Champions in risk management,
- to ensure risk management culture is embedded within the organisation, and
- to ensure timely communication of risks to both internal and external sources

Reporting
It is the responsibility of the Risk Champions to report risk to the Chairman of the GRMC at each meeting of the Committee Reports will include findings from the self-audit tools, issues identified by Internal Audit and risks identified as a result of specific incidents that occur unexpectedly in the normal course of business The GRMC will filter these as appropriate and report to the main Board through the Audit Committee A Group Risk Register is maintained in respect of all major risks

Internal Audit
Throughout the year, the Internal Audit Department carried out audits at the homes and also of head office functions Deloitte LLP were also engaged to carry out audits of head office functions The results of these audits were reported to the Audit Committee, which communicated any significant concerns to the Board Operational Management also performed regular audits at home level which considered compliance with regulations and Group policies, health and safety legislation and other operational matters To help ensure compliance, the Group has a Quality Assurance Department that assists in training operational management on internal compliance techniques and ensures that a uniform approach is adopted across the Group

Management Information Systems
The Group has a comprehensive management information system for regular and timely reporting into the Board Every four weeks the financial reporting system produces reports on the results for the year and the period to date, together with key performance indicators (comparing them against budgeted performance), working capital movements, and detailed cash flow information The management reporting system also includes information on internal, external, regulatory and compliance audits, health and safety and other operational matters The Board reviews this information at each of its meetings

Effectiveness of Internal Controls
An assessment is made of the financial, operational, compliance and risk management controls Internal Audit assisted the Board in its review In addition to its other work, Internal Audit tested the mitigating controls identified by the GRMC in relation to the Group's key risks in order to give assurance as to their effectiveness The Committee also required Risk Champions to certify the effectiveness of the controls identified as mitigating the risks they are responsible for

There were no significant control failures during the year

The Board confirms that it has reviewed the effectiveness of the system of internal controls, in accordance with the guidance 'Internal Control Revised Guidance for Directors on the Combined Code', and is satisfied that the Group complies with that guidance

Investor Relations
The Board supports the view that effective communications with its shareholders, the 'sell side' research analysts and the wider investment community is a critical element of corporate governance The Chairman has overall responsibility for ensuring effective communication with the Group s shareholders and to ensure the Board develops an understanding of the views of major shareholders

The Group's Annual and Interim Reports are the primary method by which information is communicated to our shareholders In addition there is also regular dialogue with individual institutional shareholders In accordance with the EU Transparency Directive the Group issues quarterly Interim Management Statements, and presentations for analysts and institutional shareholders are held after the announcement of interim and preliminary results These presentations are recorded and can be accessed via the Group's website All Non-Executive Directors are given the opportunity to attend these meetings and receive copies of any briefings on the Group produced by analysts or brokers The Chairman and the Senior Independent Director are available to meet with major shareholders at any time and a number of such meetings took place during the year

The Group's Annual General Meeting is 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 its Shareholders, the Group's website has been developed to incorporate an investor relations section A profile of the Group, statutory financial statements, all announcements and the corporate calendar are included

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 year under review the Company has been in compliance with the provisions set out in Section 1 of the 2008 Combined Code, except that during the period 29 September 2008 to 8 October 2008, half the Board was not made up of Non-Executive Directors

By order of the Board

William McLeish
Company Secretary
8 December 2009

Remuneration Report

Introduction

The Remuneration Committee presents its annual report which is unaudited except for those parts which are stated as being audited

The following principles were applied by the Committee in setting remuneration policy

Our remuneration packages should be

Competitive The Remuneration packages should be sufficiently competitive to recruit and retain the correct calibre of individual while endeavouring to balance total reward towards performance-linked elements

Linked to Performance A significant proportion of senior management rewards are determined by the Group's success over the medium to long-term

Aligned to Shareholders A large part of the total reward package is to be paid in shares and is related to share price performance

Key Elements of Remuneration (Executive Directors)

Element	Objective	How Much	Conditions
Base salary	To reflect status and responsibilities	Benchmarked to peer group	None
Benefits	To support Executives' well-being	Car Allowance and insurance benefits	None
Annual bonus	To align Executives with business objectives	Up to a maximum of 100% of salary	70% based on Group profit performance, 30% based on personal objectives
Pension (DC)	To provide for retirement	15% of salary	None
Long-term incentives			
Share options	To align total reward with shareholder objectives	Current awards are disclosed below Future awards up to a maximum of 100% of salary will be made under the approved PSP/CSOP scheme	Various, as disclosed below Primary condition (where applicable) is 5% compound growth in Adjusted EBITDA over vesting period

Assessing what is 'Competitive'

In order to understand the marketplace for senior executives, the Group asked its remuneration advisers to benchmark Directors' remuneration packages against those of a peer group As the peer group is small, packages were also benchmarked against FTSE 250 and FTSE 350 constituent companies In considering the appropriate cohort for comparison purposes the Committee considered both the size and complexity of the business

Balance of Remuneration

In setting remuneration policy the Committee also considered the need to balance reward for short term performance with the objective of delivering shareholder value over the medium term and the Board's desire to see sustainable improvements in results over the medium to long-term

Other Senior Executives

The Committee also recognises that the top executives below Board level have an important influence in the Group's ability to achieve its objectives Accordingly the Committee also reviews the remuneration packages for these senior employees to ensure that they remain competitive and that, in relative terms, the correct balance is struck between the Board and the rest of the employees

The Committee believes that appropriate rewards are available to those below board level to recognise and retain our best employees

Linking Reward to Group Performance

The Group's strategy is described by the Chairman and by the Chief Executive in their reports on pages 2 to 13 The Board measures its progress towards achievement of its business objectives by identifying key performance indicators (KPIs), which are detailed on page 34, setting targets for these and monitoring their achievement The Executive Directors bonuses are designed to reflect their personal accountability for achievement of objectives within their area of responsibility

Long Term Incentives

At its AGM in February 2009, shareholders approved share option agreements for Jamie Buchan and Richard Midmer These, one-off, agreements were proposed to address the particular circumstances faced by the Group following its refinancing in 2008 Historically, awards have been made to Executive Directors under the Group's approved PSP plan

Earlier this year the Group sought approval (from HMRC) for a Company Share Option Plan (CSOP) The rules of the PSP were amended to incorporate the approved CSOP, thereby improving the tax efficiency of the plan It is intended that future awards to Executive Directors will be made under the combined approved Performance Share Plan/CSOP

Environmental, Social and Governance Issues
The Committee is able to consider environmental, social and governance issues in setting performance targets for Executive Directors although no direct link between these issues and Directors' remuneration has been made to date Notwithstanding this the Committee believes that the current incentive structure does not present any risk in these areas

Share Ownership
The Group believes that the awards granted to Executive Directors help ensure considerable alignment of interest between the Directors and Shareholders In addition to this, the Group introduced a new policy during the year under which Executive Directors should acquire (and hold) shares in the Company equal in value to one and a half times their basic salary (two times in the case of the Chief Executive) – this shareholding to be built up over a period of time not longer than five years Other Executive Committee members should acquire shares in the Company equal in value to one times their basic salary

The Remuneration Committee and its Role
During the year, the Remuneration Committee comprised four Non-Executive Directors (namely, Christopher Fisher, Baroness Morgan of Huyton, Nancy Hollendoner and Ray Miles)

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

The Committee meets formally at least twice a year and otherwise as required During the year the Committee's work included the following items
- reviewing the competitiveness of Executive Director reward structures The Committee takes advice from Hewitt New Bridge Street (HNBS) In particular advice was sought in relation to the share option plans for the Executive Directors,
- reviewing Executive Directors' and Senior Executives' salaries In this regard, the Committee received benchmarking data from HNBS The Committee also considered management's plans for pay elsewhere in the Group,
- determining awards under Share Option plans,
- determining awards under the Performance Share Plan,
- reviewing and amending the style and content of the remuneration report to shareholders,
- setting targets for the executive bonus plan and determining outcomes, and
- determining and agreeing the Group's executive shareholding policy

Remuneration Policy
The Group'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

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 2009 Directors' salaries for the 2010 financial year are unchanged from this year's level

Annual Performance-related Bonus
Subject to attainment of certain performance targets (based on Adjusted EBITDA), Executive Directors are entitled to receive a bonus of up to 70% of basic salary The Directors are also eligible to receive a further bonus equal to 30% of basic salary, subject to achievement of agreed personal objectives

In respect of the 2009 financial year, the committee determined that a bonus of £215,000 should be paid to the Chief Executive while the bonuses to be paid to Richard Midmer and Kamma Foulkes were £184,800 and £132,000 respectively As a percentage of salary these bonus payments were 50%, 48% and 44% respectively

A bonus plan for the 2010 financial year has been agreed on the same basis as the 2009 plan and personal objectives have been set and agreed with the Executive Directors

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 plan are, generally, made annually, on the basis of an allocation of notional ordinary shares – equivalent in value to a maximum of 100% of annual basic salary as at the award date However, if the Remuneration Committee decides that exceptional circumstances exist in relation to the recruitment or retention of an employee, then the maximum award will be equivalent to 200% of annual basic salary On 24 March 2009, the Committee approved an amendment to the plan which had the effect of adding an HMRC approved section to the plan The approved (CSOP) section allows parallel awards to be made which can benefit from beneficial tax treatment to the extent that the Group's share price at the time of exercise has increased by comparison to the price at the date of award The gross value of awards under the amended plan is the same as it would have been under the original plan

Remuneration Report continued

Performance Share Plan continued

2008 Awards (under original PSP plan)

On 17 January 2008, 3,719,808 awards were granted with an exercise price of £Nil A further grant of 370,970 awards with an exercise price of £Nil was made on 14 May 2008 The vesting conditions for these awards is summarised below

Vesting of awards made under the PSP takes place at the expiry of the three-year period following the date of the grant and is subject to attainment of agreed performance targets which, for the outstanding awards, will be tested at the end of the 2010 financial year

70% of the award will vest on attainment of a performance target based on 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 the Total Shareholder Return (TSR) performance target

In respect of the EPS performance target, 100% of relevant awards will vest if the PSP EPS for the 2010 financial year exceeds 38 28p per share and no awards will vest if PSP EPS is below 32 97p per share, with straight-line vesting between these two points

TSR is measured against the constituents of the FTSE 250 Index, excluding investment trusts 100% of this will vest if the Company's TSR growth is in the upper quartile and 33% will vest if growth is at the median, with straight-line vesting between the two points If the Company's TSR growth is below the median, then the awards that are subject to the TSR performance target will not vest

The calculation below shows how the Group has performed against the PSP EPS measure during the year

	52 weeks ended 27 Sept 2009 Earnings £'m	Per share amount p
Loss attributable to ordinary Shareholders	(22 1)	(11 75)
Charge for future minimum rental increases	51 8	27 54
Annual bonuses paid to individuals within the PSP	1 8	0 95
Charge in respect of share options (net of deferred tax of £0 1m)	0 2	0 11
Taxation impact of the above	(15 1)	(8 03)
Profit for the purposes of calculating earnings per share under the PSP	16 6	8 82

2009 Awards (under new combined PSP/CSOP plan)

On 29 May 2009, options over 2,365,000 shares were granted with an exercise price of £Nil Further options over 150,000 and 130,000 shares both with an exercise price of £Nil were made on 1 July 2009 and 5 October 2009 respectively On like dates, parallel awards were made under the approved section of the plan (being respectively, 732,282, 21,897 and 23,622) The exercise price for these CSOP options is 127p, 137p and 127p respectively

A summary of the vesting conditions for these options follows

Options can be exercised under the plan at the expiry of the three-year period following the date of the grant and are subject to attainment of agreed performance targets which, for these awards, will be tested at the end of the 2011 financial year

100% of the options can be exercised on attainment of a performance target based on Adjusted EBITDA Specifically the condition is that Adjusted EBITDA (as defined on page 34) for the 2011 financial year requires to be £90 4m for full vesting to occur At Adjusted EBITDA of £81 4m, 10% of the award will vest There is straight-line vesting between these points In terms of the approved option, the option can be exercised to the extent that the share price on the exercise date exceeds the option price At the time of vesting, to the extent that there is a gain on the option granted under the Approved Section, PSP options will be forfeited to the same value, thus maintaining the gross value of the award at the same level as it would have been had no CSOP award been made

General

In the event of a takeover, the normal position is that shares would vest on a pro-rata basis, subject to application of the performance conditions However, the rules allow the Remuneration Committee to increase the number of shares to such higher number as it decides, provided that such number does not exceed the number of shares determined by reference to the performance conditions

The Remuneration Committee considered the targets for each award to be appropriate Targets for future awards will be considered in the context of the Group's performance at the time of the award

The Committee intends to consider a further award under the PSP in January 2010

Share Option Plans
At the AGM on 16 February shareholders approved Share Option Plans for both the Chief Executive and the Group Finance Director The options were granted on 17 February 2009

The plans are similar in design but differ in specific clauses relating to the exercise date, number of shares under option, exercise prices and performance conditions, reflecting the different timing and circumstances of each Director's appointment No payment is required for the grant of the options The options are not transferable, except on death, and they are not pensionable

The Committee can decide to satisfy the options by the payment of a cash amount or the transfer of shares equal in value to the gain made on the exercise of the option The Chief Executive's options will lapse on 1 January 2019 while the Group Finance Director's options will lapse on 1 July 2018, both to the extent that they have not been exercised

In both cases the options are exercisable three years after the date of appointment, other than Option 4 of the Group Finance Director's plan, which is not exercisable until after 1 January 2012

The Chief Executive's share options are subject to the following performance conditions The options will only be exercisable provided the share price is in excess of 130p at the time of exercise and adjusted EPS has grown by 5% compound between the 2008 financial year (adjusted EPS 19 60p) and the financial year ending on 30 September 2011 This EPS performance condition also applies to Option 4 of the Finance Director's share option award If the EPS performance condition is not satisfied, the Committee may allow up to one third of the options affected to be exercised in the period up to 31 March 2012 if it is their opinion, acting fairly and reasonably, that the underlying financial performance of the Group satisfies allowing such exercise

In the event of a takeover, to the extent that the Performance Conditions are satisfied, the Options may be exercised within one month (or such longer period as the Committee may permit)

SAYE
At its last AGM, Shareholders approved an all employee Sharesave plan No invitations to participate in the plan were issued in the year under review

Amendment of Share Plans
No share plan can be amended unless shareholder approval is obtained, except for minor alterations to benefit the administration of the Plan to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or any Group Member

Pension Benefits
All current Executive Directors are entitled to money purchase benefits equal to 15% of annual salary Bonuses and awards made under any share plans are not pensionable

Service Contracts
The Executive Directors' service agreements provide that the notice required to terminate their employment is 12 months given either by the Director or the Company In the event of termination, Directors are expected to seek to mitigate their loss and the Committee looks to apply this principle as rigorously as possible

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 current terms of the Executive Directors' service agreements, Jamie Buchan is entitled to receive a basic salary of £430,000 per annum, whilst Richard Midmer is entitled to receive a basic salary of £385,000 per annum and Kamma Foulkes is entitled to receive a basic salary of £300,000 per annum Richard Midmer and Kamma Foulkes are also entitled to a car allowance All Executive Directors are entitled to life and healthcare insurance

John Murphy left the Group on 30 September 2008 and Bill Colvin left on 8 October 2008 Bill Colvin did not receive any compensation payment in respect of the unexpired portion of his service agreement Under the terms of the compromise agreement signed with John Murphy he received a cash payment of £128,330 (equivalent to four months' salary plus full car allowance), a payment to his pension plan of £52,500, and a year's entitlement to health cover

On 2 October 2009, the Company announced that Kamma Foulkes was to step down from her position with the Company with effect from 31 December 2009 At that time she will resign from the Board In compensation for the unexpired portion of her service agreement she will receive a cash payment of £393,000 under the terms of her compromise agreement The Committee also agreed, within the rules of the PSP plan, to consider her a 'good leaver' in respect of her 2008 PSP award

Remuneration Report continued

Service Contracts continued

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

Director	Effective date	Un-expired term	Notice period
J Buchan	1 January 2009	Indefinite	12 months
R Midmer	1 July 2008	Indefinite	12 months
K Foulkes	3 July 2008	Indefinite	12 months

Outside Appointments

Executive Directors are permitted to accept or retain (pre-existing) a non-executive appointment outside the Group, subject to permission from the Committee and provided there are no conflicts of interest Such appointments can enhance Directors' experience and add value to the Group Fees for such appointments are normally retained by the individual Director In the 52 weeks until 27 September 2009, Jamie Buchan and Richard Midmer retained £22,500 and £40,000 respectively in respect of non-executive appointments Kamma Foulkes did not receive any fees for non-executive appointments

Non-Executives

The Non-Executive Directors have 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 from the date of the first AGM following appointment In respect of Ray Miles, Christopher Fisher and Baroness Morgan of Huyton, this initial term will expire on 30 January 2010 Following recommendations from the Nomination Committee the Board resolved to re-appoint all three directors Furthermore, having retired by rotation, Ray Miles and Nancy Hollendoner will stand for re-election at the forthcoming AGM

The Remuneration Committee makes recommendations on the level of fees payable to the Non-Executive Directors which are set by the Board as a whole Under his letter of appointment, the Chairman receives an annual fee of £125,000 In December 2008, the Committee approved a one-off payment to the Chairman of £90,000 to reflect his additional temporary responsibilities in the six months prior to the appointment of the new Chief Executive on 1 January 2009, apportioned between FY2008 and FY2009 The other Non-Executive Directors receive an annual fee of £45,000 In addition, the chairmen of the Audit, Remuneration and Quality Committees receive an annual fee of £7,500 All Non-Executive Directors receive reimbursement of business expenses incurred in the proper performance of their duties Fees for the Chairman and other Non-Executive Directors remain at the level set at the time of the flotation in 2006

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

Directors' Remuneration (audited)

	Salary or fees £ 000	Annual bonus £ 000	Benefits in kind £ 000	Compensation for loss of office £ 000	Total emoluments **2009 £'000**	Total emoluments 2008 £ 000	Pension contributions **2009 £'000**	Pension contributions 2008 £ 000
Executive								
J Buchan*	323	215	1	–	**539**	–	**48**	–
R Midmer	385	185	15	–	**585**	485	**58**	14
K Foulkes**	303	132	13	–	**448**	78	**41**	11
Non-Executive								
R Miles***	170	–	–	–	**170**	152	–	–
C Fisher	53	–	–	–	**53**	56	–	–
Baroness Morgan of Huyton	53	–	–	–	**53**	45	–	–
N Hollendoner	53	–	–	–	**53**	36	–	–
Previous Directors								
W Colvin****	22	–	–	–	**22**	429	–	–
J Murphy	–	–	–	128	**128**	366	**52**	52
J Lock	–	–	–	–	–	180	–	10
G Sizer	–	–	–	–	–	169	–	22
P Scott	–	–	–	–	–	99	–	–
	1,362	532	29	128	**2,051**	2,095	**199**	**109**

Appointed 1 January 2009

The salary of K Foulkes comprises £300 000 in salary and £3 000 of pension contributions taken as additional salary

The salary of R Miles comprises £125 000 in salary and £45 000 in respect of the bonus referred to above apportioned to the current financial year

* The salary of W Colvin comprises £9 000 in salary £12 000 in respect of holiday pay and £1 000 of pension contributions taken as additional salary

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

	2009 Number of ordinary shares of 1p each	2008 Number of ordinary shares of 1p each
J Buchan*	**135,579**	–
R Midmer	**59,173**	59,173
K Foulkes	**32,751**	32,751
R Miles	**163,837**	163,837
C Fisher	**70,000**	50,000
Baroness Morgan of Huyton	**2,222**	2,222
N Hollendoner	**15,919**	15,919

Comparative figures are stated as at date of appointment

Share Plans (audited)
As at 27 September 2009 the interests of Directors in share plans are

	Opening	Lapsed	Vested	Granted	Closing	Exercise Price	Earliest vesting date	Expiry date
PSP								
K Foulkes	39,130	–	–	–	39,130	Nil	17/01/11	17/07/11
Share Options								
R Midmer	–	–	–	1,000,000	1,000,000	£0 84	1/07/11	1/07/18
R Midmer	–	–	–	500,000	500,000	£1 26	1/07/11	1/07/18
R Midmer	–	–	–	500,000	500,000	£1 68	1/07/11	1/07/18
R Midmer	–	–	–	500,000	500,000	£2 50	1/01/12	1/01/19
J Buchan	–	–	–	1,800,000	1,800,000	£1 00	1/01/12	1/01/19
J Buchan	–	–	–	600,000	600,000	£1 50	1/01/12	1/01/19
J Buchan	–	–	–	600,000	600,000	£2 00	1/01/12	1/01/19

The Company's closing share price on 27 September 2009 was 131p, whilst the highest and lowest, during the period, was 150p and 55p, respectively

Dilution
The current intention is to use newly issued shares to satisfy the exercise of all employee awards and executive options

In accordance with ABI guidelines, the Company can issue a maximum of 10% of its issued share capital in a rolling 10 year period to employees under share plans An additional guideline of 5% applies to discretionary or executive plans As the major awards to Executive Directors were specifically approved by shareholders, the Committee may not observe this guideline in future The table below shows the potential dilution if shares were issued to satisfy all current commitments

Share Dilution	Current total dilution	Additional dilution during year
All share plans (maximum 10%)	6 44%	4 26%
Discretionary share plans (maximum 5%)	4 26%	4 26%

Remuneration Report continued

TSR Chart of Southern Cross Healthcare Group PLC (% Basis)

The above chart shows the Group's relative TSR performance compared against the TSR performance of the FTSE 250 index constituents, excluding Investment Trusts This was considered the most appropriate comparator group at the date of the awards based on the Company's market capitalisation

Christopher Fisher
Chairman of the Remuneration Committee
8 December 2009

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

We have audited the Group financial statements of Southern Cross Healthcare Group PLC for the 52 week period ended 27 September 2009 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective Responsibilities of Directors and Auditors
As explained more fully in the Directors' Responsibilities Statement set out on pages 35 to 36, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the Audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on Financial Statements
In our opinion the group financial statements
- give a true and fair view of the state of the Group's affairs as at 27 September 2009 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on Other Matters Prescribed by the Companies Act 2006
In our opinion
- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements, and
- the information given in the statement on Corporate Governance with respect to Rules 7 2 5 and 7 2 6 of the Disclosure and Transparency Rules issued by the Financial Services Authority is consistent with the financial statements

Matters on Which we are Required to Report by Exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the parent company

Under the Listing Rules we are required to review
- the Directors' statement, set out on pages 34 to 36, in relation to going concern and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Other Matter
We have reported separately on the parent company financial statements of Southern Cross Healthcare Group PLC for the year ended 27 September 2009 and on the information in the Directors' Remuneration Report that is described as having been audited

R Casson

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
8 December 2009

Consolidated Income Statement

For the 52 weeks ended 27 September 2009

	Note	**52 weeks ended 27 Sept 2009 £'m**	52 weeks ended 28 Sept 2008 £ m
Revenue	3	**937 1**	889 4
Home payroll costs	3	**(533 7)**	(500 6)
Home running costs	3	**(112.8)**	(113 1)
Home EBITDAR[1] before central costs	3	**290.6**	275 7
Rent			
Charge for rental amounts currently payable		**(187.3)**	(171 1)
Charge for future minimum rental increases		**(51.8)**	(50 5)
Total rent	3	**(239.1)**	(221 6)
Home EBITDA[2] before central costs		**51.5**	54 1
Central costs		**(30 8)**	(26 5)
Adjusted EBITDA[3] before charge for future minimum rental increases		**72.5**	78 1
Charge for future minimum rental increases	21	**(51 8)**	(50 5)
EBITDA		**20.7**	27 6
Loss on disposal of property, plant and equipment and subsidiary undertakings	4	**(4 1)**	(9 6)
Impairment of freehold assets held for sale	4	**(7.7)**	(4 5)
Depreciation	10	**(21 6)**	(17 6)
Amortisation	12	**-**	(1 1)
Operating loss	3,5	**(12.7)**	(5 2)
Finance costs	6	**(7 9)**	(11 2)
Exceptional finance costs	6	**-**	(6 9)
Total finance costs	6	**(7 9)**	(18 1)
Finance income	6	**0 8**	0 4
Loss before taxation		**(19 8)**	(22 9)
Taxation (charge)/credit	7	**(2.3)**	4 9
Loss attributable to ordinary shareholders of the company		**(22.1)**	(18 0)

	Note	**Pence per share**	Pence per share
Loss per share attributable to equity shareholders of the company			
Basic	9	**(11.75)**	(9 57)
Diluted	9	**(11 75)**	(9 57)

All of the above activities relate to continuing operations

1 EBITDAR represents earnings before interest tax depreciation amortisation loss on disposal of property plant and equipment and subsidiary undertakings impairment of freehold assets held for sale and rent

2 EBITDA represents earnings before interest tax depreciation amortisation loss on disposal of property plant and equipment and subsidiary undertakings and impairment of freehold assets held for sale

3 Adjusted EBITDA represents EBITDA after adding back the charge for future minimum rental increases

Consolidated Balance Sheet

As at 27 September 2009

	Note	27 Sept 2009 £'m	28 Sept 2008 £m
ASSETS			
Non-current assets			
Property, plant and equipment	10	**111 4**	121 3
Goodwill	11	**219.2**	218 5
Deferred tax assets	23	**14 7**	41 2
Other non-current assets	14	**3 4**	3 3
Total non-current assets		**348 7**	384 3
Current assets			
Cash and cash equivalents	15	**31 8**	2 2
Trade receivables	16	**37 7**	44 6
Inventories	17	**1 1**	2 4
Property assets held for sale	13	**46 5**	36 1
Other current assets	16	**8 9**	9 7
Total current assets		**126 0**	95 0
Total assets	3	**474 7**	479 3
LIABILITIES			
Current liabilities			
Short-term financial liabilities	19	**(21 5)**	(97 4)
Corporation tax payable		**(0 4)**	(8 8)
Trade and other payables	18	**(97 5)**	(91 2)
Total current liabilities		**(119 4)**	(197 4)
Non-current liabilities			
Long-term financial liabilities	19	**(41 7)**	(1 3)
Provisions and similar obligations	20	**(12 9)**	(9 4)
Deferred government grants		**(2.9)**	(3 4)
Future minimum rental increase accrual	21	**(209 5)**	(157 7)
Total non-current liabilities		**(267 0)**	(171 8)
Total liabilities	3	**(386 4)**	(369 2)
Net assets		**88 3**	110 1
Equity			
Ordinary shares	24	**1 9**	1 9
Share premium		**161 5**	161 5
Accumulated deficit		**(75 1)**	(53 3)
Total equity		**88 3**	110 1

The financial statements on pages 50 to 79 were approved by the Board of Directors on 8 December 2009

J Buchan
Chief Executive

R Midmer
Finance Director

Consolidated Cash Flow Statement

For the 52 weeks ended 27 September 2009

	Note	**52 weeks ended 27 Sept 2009 £'m**	52 weeks ended 28 Sept 2008 £'m
Cash flows from operations			
Cash generated from operations	25	**87.5**	71 4
Interest received		**0.8**	0 3
Interest and bank loan arrangement fees paid		**(13 1)**	(11 5)
Tax received/(paid)		**15 6**	(10 6)
Net cash generated from operations		**90.8**	49 6
Cash flows from investing activities			
Purchase of subsidiary undertakings net of cash acquired		**(0 7)**	(55 2)
Sales of subsidiary undertakings		**–**	130 3
Purchase of property, plant and equipment		**(45.3)**	(62 0)
Receipts from the sale of property, plant, equipment and other assets	4	**20 4**	51 6
Net cash (used in)/generated from investing activities		**(25 6)**	64 7
Cash flows from financing activities			
Repayment of borrowings		**(75 9)**	(250 6)
New borrowings		**41 1**	140 7
Capital element of finance leases	27	**(0.8)**	(0 6)
Dividends paid	8	**–**	(16 5)
Net cash used in financing activities		**(35.6)**	(127 0)
Net increase/(decrease) in cash and cash equivalents		**29 6**	(12 7)
Opening cash and cash equivalents		**2.2**	14 9
Closing cash and cash equivalents	15	**31 8**	2 2

Note Included within the purchase of property plant and equipment is development expenditure on new properties totalling £18 1m (2008 £25 0m)

Consolidated Statement of Changes in Shareholders' Equity

For the 52 weeks ended 27 September 2009

	Share capital £m	Share premium account £m	Accumulated deficit £'m	Total equity £'m
Balance at 1 October 2007	1 9	161 5	(18 6)	144 8
Share-based payments	-	–	(0 2)	(0 2)
Ordinary dividends paid	–	–	(16 5)	(16 5)
Loss attributable to ordinary shareholders	–	–	(18 0)	(18 0)
Balance at 28 September 2008	1 9	161 5	(53 3)	110 1
Share-based payments (including deferred tax of £0 1m) (note 31)	-	–	0 3	0 3
Loss attributable to ordinary shareholders	-	–	(22 1)	(22 1)
Balance at 27 September 2009	**1 9**	**161.5**	**(75.1)**	**88 3**

Notes to the Consolidated Financial Statements

For the 52 weeks ended 27 September 2009

1 General Information
Southern Cross Healthcare Group PLC ('the Company') and its subsidiaries (together 'the Group') are engaged in the development and operation of care homes for the elderly and the provision of specialist services for people with physical and/or learning disabilities

The Company is a public limited company incorporated and domiciled in the United Kingdom The address of its registered office is Southgate House, Archer Street, Darlington, County Durham DL3 6AH

The Group prepares its financial information for the financial year ending on the nearest Sunday to 30 September of a given calendar year

The consolidated financial statements of the Group represents the following

52 weeks ended 27 September 2009
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 29 September 2008 to 27 September 2009

52 weeks ended 28 September 2008
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 1 October 2007 to 28 September 2008

The principal subsidiaries within the Group are disclosed in note 34

2 Accounting Policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all the periods presented, unless otherwise stated

2 1 Basis of Preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to Companies reporting under IFRS The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value

From 29 September 2008 the following standards, amendments and interpretations became effective and were adopted by the Group
- IAS27 Amendment – Consolidated and separate financial statements
- IAS39 and IFRS7 Amendment – Reclassification of financial assets
- IFRIC13 Customer loyalty programmes
- IFRIC14 The limit on a defined benefit asset, minimum funding requirements and their interaction

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

The following standards, amendments and interpretations are not yet effective and have not been adopted early by the Group
- IFRS1 Revised – First time adoption of international financial reporting standards
- IFRS2 Amendment – Share-based payments Vesting conditions and cancellations
- IFRS2 Amendment – Share-based payments Group cash-settled share-based payment transaction
- IFRS3 Revised – Business combinations
- IFRS8 Operating segments
- IFRS9 Financial instruments
- IAS1 Revised – Presentation of financial statements
- IAS1 Amendment – Presentation of financial statements Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS23 Amendment – Borrowing costs
- IAS24 Amendment – Related party disclosures
- IAS27 Revised – Consolidation and separate financial statements
- IAS32 Amendment – Presentation on classification or rights issues
- IAS39 Amendment – Eligible hedged items
- IFRIC9 Amendment – Embedded derivatives
- IFRIC15 Agreements for construction of real estates
- IFRIC16 Hedges of a net investment in a foreign operation

Amendments to the following standards arising from the April 2009 Annual Improvements process IFRS2, IFRS5, IFRS8, IAS1, IAS7, IAS17, IAS18, IAS36, IAS38, IAS39, IFRIC9 and IFRIC16

IAS24 Amendment is effective for the Group from 1 October 2011 IFRS1 Amendment, IFRS2 Amendment, IAS27 and IAS32 Amendment are effective for the Group from 1 October 2010 The other standards, amendments and revisions are effective for the Group from 28 September 2009 The adoption of these standards, amendments and interpretations is not expected to have a material impact on the Group's profits or equity The adoptions may affect the disclosures in the Group's financial statements

2 Accounting Policies continued

2.2 Significant Accounting Judgements, Estimates and Assumptions

In order to prepare these consolidated financial statements in accordance with the accounting policies below, management has used estimates and judgements to establish the amounts at which certain items are recorded Critical accounting estimates and judgements are those which have the greatest impact on the consolidated financial statements and require the most difficult, subjective and complex judgements about matters that are inherently uncertain and are set out below

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition Goodwill represents the goodwill for a portfolio of homes, which have been allocated to a group of cash generating units which are split on a segmental basis

Goodwill is tested annually for impairment and carried at cost less accumulated impairment charges Testing for impairment requires an estimation of the value in use of the segment to which the goodwill is allocated Estimating the value in use amount requires management to make an estimate of the expected future cash flows from the segment and to select a suitable discount rate to calculate the present value of those cash flows Further details are given in note 11 Impairment losses on goodwill are not reversed

b) Property Assets Held for Sale

Property assets are freehold properties acquired through acquisitions or developed by the Group that are expected to be sold within one year All property assets held for resale are measured at the lower of carrying value and fair value, less costs to sell Determining the fair value of the property assets requires valuation and estimation techniques to be used When assessing the fair value of each property, management consider a number of factors including estimated sale price, internal valuations and future expected yields Any impairment charges are recognised in the income statement

c) Onerous Leases and Contracts

Provisions are made for future operating lease payments of vacant care homes for the full remaining lease term or up to the point at which the lease is expected to be sublet and for amounts in respect of an onerous contract In calculating provisions for future lease payments of vacant care homes, the Group has estimated future lease payments and other associated costs over the remaining period of the lease, and the best estimate of amounts required to settle the contract Furthermore, a suitable discount rate to calculate the present value of the future cash flows has been selected

d) Leases

Judgement is required in the initial classification of leases as either operating leases or finance 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

All other leases are considered to be operating leases The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification, with the lease of land classified as an operating lease 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 increases in rental payments, the total committed cost is determined 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

Sale and leaseback transactions

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognised as income over the lease term Any loss on the sale is immediately recognised as an impairment loss when the sale occurs

If the leaseback is classified as an operating lease, any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value Otherwise, the sale and leaseback are accounted for as follows

- if the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used,
- if the sale price is above fair value, the excess over fair value is deferred and amortised over the useful life of the asset,
- if the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, the difference is recognised immediately as a loss on the sale

Notes to the Consolidated Financial Statements continued

2 Accounting Policies continued

2 3 Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 28 September 2008 and 27 September 2009 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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition Where the fair values of net assets acquired are based on provisional assessments pending final determination of certain assets and liabilities, provisional goodwill is recorded 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 undertaken 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 (i e 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

2 4 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

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group

2 5 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

2 6 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

2.7 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

2.8 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

2 9 EBITDA and Adjusted EBITDA

EBITDA represents earnings before interest, tax, depreciation, amortisation, loss on disposal of property, plant and equipment and subsidiary undertakings and impairment of freehold assets held for sale Adjusted EBITDA represents EBITDA after adding back 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)

2 10 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

2 11 Share-based Compensation

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

2 Accounting Policies continued

2 12 Derivative Financial Instruments

The Group uses derivative financial instruments such as interest rate caps and collars 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 Fair value movements are recognised in the income statement

2 13 Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses Cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use Borrowing costs attributable to assets under construction are recognised as an expense as incurred No depreciation is charged on assets under construction

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 on a straight-line basis 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 – 33⅓% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date Impairment reviews are carried out at a cash generating unit level, except where management become aware of a specific asset that is impaired within a cash generating unit

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount Gains and losses on disposals are recognised in the income statement

2 14 Intangibles

Other Intangibles

Intangible assets are carried at cost less accumulated amortisation and impairment charges

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 have been fully amortised

2 15 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

2 16 Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined using the first-in first-out (FIFO) method Where necessary, impairment is made for obsolete, slow moving and defective stocks

2 17 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 in force during the period

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 average 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

Notes to the Consolidated Financial Statements continued

2 Accounting Policies continued

2 18 Cash and Cash Equivalents

Cash and cash equivalents includes cash and balances in accounts at no or short notice

2.19 Finance Costs

Finance costs include interest and amortisation of loan arrangement fees Loan arrangement fees are amortised evenly using the effective rate method

2 20 Finance Income

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

2 21 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 less provision for impairment 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 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

2 22 Other Payables

Other payables primarily comprise holiday pay liabilities, other taxes and interest payable, which are measured at the best estimate of the expenditure required to settle the obligation

2 23 Government Grants

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

2 24 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

2 25 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method

2 26 Share Capital

Ordinary shares are classified as equity Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds

2 27 Dividend Distribution

Final dividend distribution to the Company's Shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's Shareholders Interim dividends are recognised when paid

Financial Risk Management

2 28 Financial Risk Factors

The Group's activities expose it to a variety of financial risks market risk (including cash flow interest rate risk), liquidity risk, and credit risk
The Group's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance

Risk management is carried out by the Group Risk Management Committee under policies approved by the Board of Directors

2 Accounting Policies continued

2 29 Market Risk

Cash Flow 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 floating rate debt and interest rate caps and collars

The Group has performed calculations to analyse its interest rate exposure taking into consideration refinancing, renewal of existing positions and alternative financing Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift The scenarios are run only for liabilities that represent the major interest-bearing positions

The impact on post tax profit of a 1% shift would be a maximum increase of £0 6m (2008 £0 8m) or decrease of £0 6m (2008 £0 8m), respectively

2 30 Liquidity Risk

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 and revolving credit facilities

2 31 Credit Risk

Credit risk is managed on a Group basis Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to residents, including outstanding receivables For banks and financial institutions, only institutions with a short-term credit rating, as determined by Moody's, of P-1 are accepted

2.32 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or sell assets to reduce debt

The Group's short-term objective is to reduce its debt During the year the Group has continued to pursue its policy of reducing debt by disposing of freehold assets, making repayments of bank loans and not proposing to pay a final dividend Further information regarding the Group's financial liabilities and undrawn facilities are set out in note 22 and the movement in net debt position is shown in note 27

2 33 Fair Value Estimation

Interest rate cap and collar contracts have been marked to market to produce fair value figures

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values The fair value of long-term borrowings approximate to the carrying value reported in the balance sheet, as the majority are variable rate borrowings

2 34 Operating Lease Rental Increases

The majority of the Group's homes are subject to operating rental lease agreements which incorporate future increases to rental amounts currently payable The Group's longer-term cash position depends upon it continuing to increase Adjusted EBITDA ahead of future increases to rental amounts currently payable

Notes to the Consolidated Financial Statements continued

3 Segmental Analysis

At 27 September 2009, the Group has two identifiable business segments Elderly Care and Specialist All operations of the Group are carried out in the United Kingdom and therefore no geographical segmentation is disclosed Consequently, the Group has considered business segmentation as the primary segmentation, with two reportable segments, Elderly Care and Specialist

Revenue, loss before taxation and total equity of the Group are wholly attributable to the operation of care homes and arise solely within the United Kingdom Included below is segmental analysis of average occupancy and available beds

52-week period ended 27 September 2009

	Elderly Care Number	Specialist Number	Total Number
Available beds – average			
Acquisitions	370	–	370
Continuing operations	36,364	930	37,294
Segment available beds	36,734	930	37,664
Occupied beds			
Acquisitions	178	–	178
Continuing operations	32,080	768	32,848
Segment occupied beds	32,258	768	33,026

	Elderly Care %	Specialist %	Total %
Occupancy – average			
Acquisitions	48 1	–	48 1
Continuing operations	88 2	82 6	88 1
Segment occupancy	87 8	82 6	87 7

	£	£	£
Average weekly fee			
Acquisitions	616	–	616
Continuing operations	532	1,097	545
Segment average weekly fee	533	1,097	546

Average occupancy for the Group's mature homes (excluding new developments, or refurbished homes that have been trading for less than 12 months) was 88 4% (2008 90 5%)

52-week period ended 28 September 2008

	Elderly Care Number	Specialist Number	Total Number
Available beds – average			
Acquisitions	2,271	52	2,323
Continuing operations	33,316	987	34,303
Segment available beds	35,587	1,039	36,626
Occupied beds			
Acquisitions	2,004	45	2,049
Continuing operations	29,877	858	30,735
Segment occupied beds	31,881	903	32,784

	Elderly Care %	Specialist %	Total %
Occupancy – average			
Acquisitions	88 2	86 5	88 2
Continuing operations	89 7	86 9	89 6
Segment occupancy	89 6	86 9	89 5

	£	£	£
Average weekly fee			
Acquisitions	471	1,111	485
Continuing operations	512	944	524
Segment average weekly fee	510	952	522

3 Segmental Analysis continued
Primary Reporting Format – Business Segments
The segment results for the 52-week period ended 27 September 2009 are as follows

52-week period ended 27 September 2009

	Elderly Care £'m	Specialist £'m	Total £'m
Revenue			
Acquisitions	5.7	–	5 7
Continuing operations	887.6	43.8	931 4
Segment revenue	893.3	43.8	937 1
Home payroll costs			
Acquisitions	(4.0)	–	(4 0)
Continuing operations	(501.8)	(27 9)	(529 7)
Segment Home payroll costs	(505 8)	(27 9)	(533 7)
Home running costs			
Acquisitions	(0.2)	–	(0 2)
Continuing operations	(108.0)	(4.6)	(112.6)
Segment Home running costs	(108.2)	(4 6)	(112.8)
Home EBITDAR before central costs			
Acquisitions	1.5	–	1 5
Continuing operations	277.8	11.3	289 1
Segment Home EBITDAR before central costs	279.3	11.3	290 6
Home EBITDAR before central costs (%)			
Acquisitions	26 3	–	26.3
Continuing operations	31 3	25.8	31 0
Segment Home EBITDAR before central costs (%)	31.3	25.8	31 0
Total rent			
Acquisitions	(2.4)	–	(2.4)
Continuing operations	(227 8)	(8 9)	(236 7)
Segment rent	(230 2)	(8 9)	(239 1)
Home EBITDA before central costs			
Acquisitions	(0 9)	–	(0 9)
Continuing operations	50 0	2 4	52 4
Segment Home EBITDA before central costs	49 1	2 4	51 5
Other expenses			
Loss on disposal of property, plant and equipment and subsidiary undertakings	(3.5)	(0 6)	(4 1)
Impairment of freehold assets held for sale	(5 1)	(2.6)	(7 7)
Depreciation	(20 4)	(1 2)	(21 6)
Central payroll costs	(21 8)	(0 8)	(22.6)
Unallocated expenses			
Central costs			(8 2)
Operating loss			(12.7)

During the period ended 27 September 2009, the Group purchased property, plant and equipment totalling £30 2m, of which £26 6m was in respect of the Elderly Care segment, £1 7m was in relation to the Specialist Care segment and £1 9m was unallocated Development expenditure for the period ended 27 September 2009 was £16 7m, which was in respect of the Elderly Care segment

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

	Elderly Care £'m	Specialist £'m	Total £'m
Home EBITDA before the charge for future minimum rental increases and central costs			
Acquisitions	(0 1)	–	(0 1)
Continuing operations	99 0	4.4	103 4
Segment Home EBITDA before the charge for future minimum rental increases and central costs	98 9	4.4	103.3

Notes to the Consolidated Financial Statements continued

3 Segmental Analysis continued
The segment results for the 52-week period ended 28 September 2008 are as follows

52-week period ended 28 September 2008

	Elderly Care £m	Specialist £'m	Total £'m
Revenue			
Acquisitions	49 1	2 6	51 7
Continuing operations	795 6	42 1	837 7
Segment revenue	844 7	44 7	889 4
Home payroll costs			
Acquisitions	(27 5)	(1 8)	(29 3)
Continuing operations	(444 9)	(26 4)	(471 3)
Segment Home payroll costs	(472 4)	(28 2)	(500 6)
Home running costs			
Acquisitions	(8 4)	(0 4)	(8 8)
Continuing operations	(99 1)	(5 2)	(104 3)
Segment Home running costs	(107 5)	(5 6)	(113 1)
Home EBITDAR before central costs			
Acquisitions	13 2	0 4	13 6
Continuing operations	251 6	10 5	262 1
Segment Home EBITDAR before central costs	264 8	10 9	275 7
Home EBITDAR before central costs (%)			
Acquisitions	26 9	15 4	26 3
Continuing operations	31 6	24 9	31 3
Segment Home EBITDAR before central costs (%)	31 3	24 4	31 0
Total rent			
Acquisitions	(12 9)	(0 1)	(13 0)
Continuing operations	(199 4)	(9 2)	(208 6)
Segment rent	(212 3)	(9 3)	(221 6)
Home EBITDA before central costs			
Acquisitions	0 3	0 3	0 6
Continuing operations	52 2	1 3	53 5
Segment Home EBITDA before central costs	52 5	1 6	54 1
Other expenses			
Loss on disposal of property, plant and equipment and subsidiary undertakings	(9 6)	–	(9 6)
Impairment of freehold assets held for sale	(4 3)	(0 2)	(4 5)
Depreciation	(16 5)	(1 1)	(17 6)
Amortisation	(1 1)	–	(1 1)
Central payroll costs	(18 9)	(0 7)	(19 6)
Unallocated expenses			
Central costs			(6 9)
Operating loss			(5 2)

During the period ended 28 September 2008, the Group purchased property, plant and equipment totalling £36 5m, of which £32 8m was in respect of the Elderly Care segment, £1 5m was in relation to the Specialist Care segment and £2 2m was unallocated

Development expenditure for the period ended 28 September 2008 was £16 1m, which was in respect of the Elderly Care segment

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

	Elderly Care £m	Specialist £m	Total £m
Home EBITDA before the charge for future minimum rental increases and central costs.			
Acquisitions	3 0	0 3	3 3
Continuing operations	98 0	3 3	101 3
Segment Home EBITDA before the charge for future minimum rental increases and central costs	101 0	3 6	104 6

3 Segmental Analysis continued
The segment assets and liabilities at 27 September 2009 are as follows

As at 27 September 2009

	Elderly Care £'m	Specialist £'m	Total £'m	Unallocated £'m	Total £'m
Assets	438 0	36 7	474 7	–	474 7
Liabilities	(331.0)	(13.0)	(344 0)	(42.4)	(386.4)

Segment assets and liabilities are reconciled to entity assets and liabilities as follows

	Assets £'m	Liabilities £'m
Segment assets/liabilities	474 7	(344 0)
Unallocated		
Current tax	–	(0 4)
Current borrowings	–	(0 6)
Non-current borrowings	–	(41 0)
Derivatives	–	(0 4)
Total	474 7	(386 4)

The segment assets and liabilities at 28 September 2008 are as follows

As at 28 September 2008

	Elderly Care £m	Specialist £m	Total £'m	Unallocated £m	Total £'m
Assets	442 1	37 1	479 2	0 1	479 3
Liabilities	(296 7)	(13 7)	(310 4)	(58 8)	(369 2)

Segment assets and liabilities are reconciled to entity assets and liabilities as follows

	Assets £m	Liabilities £m
Segment assets/liabilities	479 2	(310 4)
Unallocated		
Current tax	–	(8 8)
Current borrowings	–	(48 7)
Non-current borrowings	–	(1 3)
Derivatives	0 1	–
Total	479 3	(369 2)

4 Sale of Subsidiary Undertakings, Property, Plant and Equipment, Other Assets and Impairment of Freehold Assets Held for Sale
Sale of Property, Plant and Equipment
During the year the Group disposed of freehold assets for net cash consideration totalling £16 7m The related assets had a net book value of £16 5m, resulting in a profit on disposal of £0 2m Professional costs in respect of freehold asset disposals completed in the previous year, and other provisions, were £3 3m

On 3 September 2009, the Group completed the disposal of the business and certain assets of the Sunchoice division, for consideration of £3 7m, and realised a loss on disposal of £1 0m

Impairment of Freehold Assets Held for Sale
The Group has reviewed the carrying values of its freehold properties Following this review, a number of properties were found to have a fair value lower than their carrying value As a result the carrying value of the related freeholds has been written down by £7 7m

Notes to the Consolidated Financial Statements continued

5 Operating Loss

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £ m
The following items have been included in arriving at operating loss		
Staff costs (note 28)	**548.2**	510 9
Operating lease rentals	**239 1**	221 6
Depreciation of property, plant and equipment – owned assets (note 10)	**21.0**	17 1
Depreciation on assets held under finance leases (note 10)	**0 6**	0 5
Consumables expensed through home running costs	**11.9**	10 2
Amortisation of intangibles (note 12)	–	0 8
Reversal of negative goodwill (note 12)	–	0 3

Depreciation of property, plant and equipment includes £0 5m in relation to amortisation of government grants (2008 £0 4m)

Auditors' Remuneration

During the year, the Group obtained the following services from their Auditors at costs detailed below

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £ m
Fees payable to the Group's Auditor for the audit of the Group's annual financial statements (including the consolidated financial statements)	**0 2**	0 2
Fees payable to the Group's Auditor for other services		
– the auditing of financial statements of undertakings of the Group pursuant to legislation	**0 1**	0 1
– all other services	**0 1**	–

Other services related to fees in respect of advice on the Group's share option plan and other advice

6 Finance Costs and Finance Income

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £ m
Interest payable on bank borrowings	**6 0**	10 0
Interest payable on loan notes	–	0 2
Amortisation of loan arrangement fees	**0 7**	0 1
Movement on fair value of financial instruments	**0.5**	0 2
Other finance costs	**0 7**	0 7
Finance costs	**7 9**	11 2
Loan arrangement fees and associated costs	–	6 9
Exceptional finance costs	–	6 9
Interest received on tax repayment	**(0.6)**	–
Bank interest receivable	**(0.2)**	(0 4)
Finance income	**(0.8)**	(0 4)
Finance costs – net	**7 1**	17 7

7 Taxation

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £'m
Current tax		
– Current period	-	10 6
– Prior period (realisation of taxable losses)	(21 4)	–
– Prior period (other)	(2.8)	0 5
Deferred tax (note 23)		
– Current period	(3 9)	(12 4)
– Prior period (realisation of taxable losses)	21 4	(3 6)
– Prior period (reversal of deferred tax asset)	9 7	–
– Prior period (other)	(0 7)	–
Taxation charge/(credit)	**2 3**	(4 9)

The current tax prior period credit of £21 4m relates to the realisation of losses in respect of the 52 weeks ended 28 September 2008 and 30 September 2007 as a result of preparing subsidiary financial statements under IFRS

The deferred tax prior period charge relates to the realisation of losses, as referred to above, totalling £21 4m, and a further charge of £9 7m in respect of losses arising as a result of preparing subsidiary financial statements under IFRS, where the future economic benefit cannot be measured reliably

The tax charge for the period is higher than the average standard rate of corporation tax in the United Kingdom (28%) (2008 29%), due to the reversal of some of the deferred tax asset

The tax for the period differs from the standard rate of corporation tax in the United Kingdom as follows

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £m
Loss before taxation	(19 8)	(22 9)
Loss before taxation multiplied by the standard rate of corporation tax in the United Kingdom of 28% (2008 29%)	(5 5)	(6 6)
Effects of		
Amounts in respect of prior periods	6.2	–
Expenses not deductible for tax purposes	0.2	0 3
Impairment	2.2	–
Loss on disposal	0.8	–
Rate differences	–	0 5
Utilisation of tax losses	(0 4)	–
Other	(1 2)	0 9
Tax charge/(credit) for the period	**2.3**	(4 9)

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

8 Dividends Paid and Proposed

The Directors declared an interim dividend of £Nil (2008 3 75p) per ordinary share, totalling £Nil (2008 £7 1m and this was paid on 20 June 2008)

The Directors have decided not to recommend a final dividend for the year ended 27 September 2009

Notes to the Consolidated Financial Statements continued

9 Loss per Ordinary Share

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

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

The following reflects the share data used in the basic and diluted earnings per share calculations

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £'m
Basic weighted average number of shares (excluding treasury shares)	**188,067,377**	188,067,377
Dilutive potential ordinary shares		
Employee share options	**Nil**	Nil
Diluted weighted average number of shares	**188,067,377**	188,067,377

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, including loan arrangement fees written off, 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 27 Sept 2009			52 weeks ended 28 Sept 2008		
	Earnings £'m	**Basic per share amount p**	**Diluted per share amount p**	Earnings £m	Basic per share amount p	Diluted per share amount p
Loss attributable to ordinary Shareholders	**(22 1)**	**(11 75)**	**(11 75)**	(18 0)	(9 57)	(9 57)
Charge for future minimum rental increases	**51 8**	**27 54**	**27 54**	50 5	26 85	26 85
Loan arrangement fees written off	**–**	**–**	**–**	6 9	3 67	3 67
Taxation impact of above	**(14 5)**	**(7 71)**	**(7 71)**	(16 6)	(8 85)	(8 85)
Profit attributable to ordinary shareholders before charges for future minimum rental increases and loan arrangement fees written off and taxation impact thereof	**15.2**	**8 08**	**8 08**	22 8	12 10	12 10

10 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						
At 1 October 2007	13 4	68 4	20 9	3 5	14 5	120 7
Additions	–	29 3	5 4	1 8	16 1	52 6
Acquisitions	0 5	0 3	2 4	0 1	–	3 3
Transfers	2 3	0 8	0 5	–	(3 6)	–
Disposals	(7 2)	–	–	(0 1)	(5 2)	(12 5)
At 28 September 2008	9 0	98 8	29 2	5 3	21 8	164 1
Additions	–	25 2	1 8	0 5	19 4	46 9
Transfers	(4 4)	2 0	2 6	–	(34 8)	(34 6)
Disposals	–	(0 3)	(0 3)	–	(0 2)	(0 8)
At 27 September 2009	**4 6**	**125 7**	**33 3**	**5.8**	**6.2**	**175.6**
Accumulated depreciation						
At 1 October 2007	0 2	21 8	1 6	1 6	–	25 2
Charge for the period	–	15 8	1 0	0 8	–	17 6
At 28 September 2008	0 2	37 6	2 6	2 4	–	42 8
Charge for the period	–	19 5	1 1	1 0	–	21 6
Disposals	–	(0 1)	(0 1)	–	–	(0 2)
At 27 September 2009	**0.2**	**57 0**	**3 6**	**3 4**	**–**	**64 2**
Net book amount						
At 27 September 2009	**4 4**	**68 7**	**29 7**	**2 4**	**6 2**	**111 4**
At 28 September 2008	8 8	61 2	26 6	2 9	21 8	121 3

The net book value of assets held under finance leases totalled £1 6m at 27 September 2009 (2008 £2 0m) The assets related to motor vehicles and other fixtures and fittings

Transfers of assets under construction of £34 8m relates to development properties that have been completed during the year and transferred to assets held for sale of £30 2m, their associated fit-out costs of £2 0m, and improvements to leasehold properties of £2 6m

11 Goodwill

Group	£m
Cost	
At 1 October 2007	208 8
Acquisition of Bondcare Group	2 6
Acquisition of Portland Group	5 2
Other acquisitions	1 9
At 28 September 2008	218 5
Other acquisitions	0 7
At 27 September 2009	**219.2**

Other acquisitions represent professional costs and associated fees in respect of acquisitions completed in the previous financial year

Impairment Test for Goodwill

Goodwill is allocated to the Group's two business segments as shown below

	27 Sept 2009 £'m	28 Sept 2008 £'m
Elderly care	**204 0**	203 4
Specialist	**15 2**	15 1
Services relating to corporate finance and acquisitions	**219.2**	218 5

Notes to the Consolidated Financial Statements continued

11 Goodwill continued
The Group conducts an annual impairment test on the carrying value of goodwill, based on the recoverable amount of cash generating units ('CGUs') to which goodwill has been allocated The recoverable amounts of CGUs are determined from in-house calculations The key assumptions in the value-in-use calculations are the discount rate applied, the long-term operating margin and the long-term growth rate of net operating cash flows In all cases, the Group prepares cash flow forecasts derived from the approved budgets and extrapolates cash flows on an estimated growth rate of 3%, excluding inflation

The pre-tax rate used to discount the forecast cash flows for all CGUs is 9% This rate represents a pre-tax rate that reflects the market value of money at the balance sheet date and the risks specific to the CGU The growth rate applied does not exceed the growth rate for the industry and country in which the Group operates

The long-term operating margin assumed for a CGU's operations is primarily based on past performance at home level except where management have a strong belief that a different profit margin can be achieved

As at 27 September 2009 and 28 September 2008, no impairment charge to goodwill has been required

It is believed that any reasonably foreseeable movement on assumptions will not lead to an impairment and therefore sensitivity analysis has not been presented

12 Other Intangible Assets
Amortisation in the year charged to the income statement was £Nil (2008 £1 1m)

	Resident contracts £'m
Cost	
At 1 October 2007, 28 September 2008 and 27 September 2009	4 9
Accumulated amortisation	
At 1 October 2007	(4 1)
Charge for the period	(0 8)
At 28 September 2008 and 27 September 2009	**(4 9)**
Net book amount	
At 27 September 2009	**-**
At 28 September 2008	-
At 30 September 2007	0 8

Resident contracts relate to intangible assets acquired through business combinations and represent the value of resident contracts, in place, at the time of acquisition Other intangible assets have been fully amortised

13 Property Assets Held for Sale

	No of homes	£ m
Cost		
At 1 October 2007	22	141 0
Additions	16	82 8
Disposals	(27)	(183 2)
Impairment	–	(4 5)
At 28 September 2008	11	36 1
Transfer from assets under construction	4	30 2
Transfer from freehold assets	8	4 4
Disposals	(3)	(16 5)
Impairment	–	(7 7)
At 27 September 2009	**20**	**46 5**

Property assets held for sale consists of 20 freehold properties with a carrying value of £46 5m which the Group expects to sell in the near future Four of these properties have been developed by the Group, with the remaining properties being acquired through share deals Ten of the homes are included within the Elderly Care segment and ten homes within the Specialist segment

The Group has reviewed the carrying value of properties held for sale on an individual property basis Following this review, a number of properties were found to have a fair value lower than their carrying value As a result the carrying value of the properties has been impaired by £7 7m

14 Other Non-Current Assets

	27 Sept 2009 £'m	28 Sept 2008 £ m
Other non-current assets	**3.4**	3 3

Other non-current assets relate to landlord rental security deposits

15 Cash and Cash Equivalents

	27 Sept 2009 £'m	28 Sept 2008 £ m
Cash at bank and in hand	**31.8**	2 2

As at 27 September 2009, the Group had £23 1m of cash held on short-term deposits The Group's credit risk on cash and cash equivalents is limited because the counterparties are well established banks, whose current short-term credit ratings, as determined by Moody's, are all P-1

16 Trade Receivables and Other Current Assets

	27 Sept 2009 £'m	28 Sept 2008 £'m
Trade receivables	**45.8**	50 6
Less provision for impairment of receivables	**(8.1)**	(6 0)
Trade receivables – net	**37 7**	44 6
Other receivables	**1 7**	3 2
Prepayments and accrued income	**7.2**	6 5
Other current assets	**8 9**	9 7

The carrying value of trade receivables and other current assets is stated after a provision for impairment of receivables has been made The provision for impairment for trade receivables is calculated on an individual account by account assessment based on past and current credit history There is no concern over the credit quality of amounts past due not impaired since the risk is spread over a number of unrelated counterparties which include local Government The Directors consider that the carrying value of trade receivables and other current assets approximates to their fair value

Movement on the Group provision for impairment of trade receivables is as follows

	27 Sept 2009 £'m	28 Sept 2008 £ m
Opening	**6 0**	6 8
Provision for receivables impairment	**3.6**	0 9
Receivables written off during the year as uncollectible	**(1 5)**	(1 7)
Closing	**8.1**	6 0

The other classes within trade and other receivables do not contain impaired assets

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above The Group does not hold any collateral as security

Ageing of Trade Receivables
The ageing analysis of trade receivables and the associated provision for impairment is shown below

	27 Sept 2009		28 Sept 2008	
	Gross value £'m	Provision for impairment £'m	Gross value £ m	Provision for impairment £'m
Not yet due	**15 9**	**–**	15 2	–
Past due 0-60 days	**17 7**	**(0 2)**	20 9	(0 4)
Past due 61-119 days	**4 6**	**(0 5)**	6 1	(1 1)
Past due 120 days	**7 6**	**(7 4)**	8 4	(4 5)
	45.8	**(8 1)**	50 6	(6 0)

Notes to the Consolidated Financial Statements continued

17 Inventories

	27 Sept 2009 £'m	28 Sept 2008 £ m
Consumables	**1.1**	2 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 27 September 2009 or the 52 weeks ended 28 September 2008

18 Trade and Other Payables – Current

	27 Sept 2009 £'m	28 Sept 2008 £'m
Trade payables	**16 6**	13 4
Other tax and social security payable	**14.8**	11 2
Other payables	**30 4**	30 5
Accruals	**35 7**	36 1
	97 5	91 2

19 Financial Liabilities – Borrowings
a) Short-term Borrowings

	27 Sept 2009 £'m	28 Sept 2008 £ m
Bank loans (secured) – net of arrangement fees totalling £0 9m (2008 £1 0m)	**20 9**	96 7
Obligations under finance leases	**0 6**	0 7
	21 5	97 4

b) Long-term Borrowings

	27 Sept 2009 £'m	28 Sept 2008 £'m
Bank loans (secured) – net of arrangement fees totalling £0 8m (2008 £Nil)	**40 7**	–
Obligations under finance leases	**1 0**	1 3
	41 7	1 3

Bank Loans

The bank loans are secured by a fixed and floating charge over the assets of the Group Interest on the bank loans was charged at margins between 0 85% and 3 25% above LIBOR

Of the total bank loans falling due within one year, £Nil (2008 £48 0m) relates to term loans, £2 0m (2008 £35 1m) relates to short-term facilities drawn to fund acquisitions and which have been repaid since the year end, £19 8m (2008 £8 6m) relates to loans drawn to fund ongoing developments and £Nil (2008 £6 0m) was drawn on the revolving credit facility Since the year end the expiry date of the facility which funds £19 8m of ongoing developments has been extended until 30 June 2011

At 27 September 2009, the Group had the following interest rate instruments in place

a) Interest rate caps which cap the interest paid on £21 0m of the Group's variable rate debt at 4 62% plus margin and which expire in June 2011
b) Interest rate collars which mean that the Group will pay a maximum of 4 5% plus margin and minimum of 2 57% plus margin on £21 0m of the Group's variable debt and which expire in June 2011

Finance Leases

As at 27 September 2009, the Group had finance leases due in less than one year of £0 6m (2008 £0 7m), due in one to two years of £0 5m (2008 £0 5m) and due in three to five years of £0 5m (2008 £0 8m)

20 Provisions and Similar Obligations

	Provisions £m
At 1 October 2007	11 3
Utilised in the period	(1 9)
At 28 September 2008	9 4
Additions	4 0
Utilised in the period	(0 5)
At 27 September 2009	**12.9**

Provisions relate to amounts provided in respect of vacant properties and onerous contracts The provision relating to an onerous contract is expected to be settled after more than one year

Provisions 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 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 unlikely

Utilisation in the year represents amounts paid under operating leases on related properties

21 Future Minimum Rental Increase Accrual

	27 Sept 2009 £'m	28 Sept 2008 £m
Future minimum rental increase accrual	**209 5**	157 7

The future minimum rental increase accrual represents the cumulative difference between operating lease charges under IFRS and the amounts actually payable up to the period end

An analysis of the movement during the period is given below

	27 Sept 2009 £'m	28 Sept 2008 £m
Opening balance	**157.7**	107 2
Charged to income statement	**51.8**	50 5
Closing balance	**209.5**	157 7

22 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 financing of the Group's operations The Group also enters into derivative transactions 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

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

Notes to the Consolidated Financial Statements continued

22 Financial Instruments continued
Numerical Disclosures
Interest Rate Risk
The Group has both interest bearing assets and liabilities Interest bearing assets comprise only cash balances, which earn interest at a floating rate of interest linked to UK Bank base rate The Group's policy and processes for managing interest rate risk are explained in the accounting policies (note 2 29)

After taking into account interest rate caps and collars entered into by the Group, the interest rate profile of the Group's financial liabilities is

Sterling	27 Sept 2009 £'m	28 Sept 2008 £'m
Floating rate borrowings		
Bank borrowings	**63.3**	67 7
Fixed rate liabilities		
Bank borrowings	**–**	30 0
Finance leases	**1.6**	2 0
	1 6	32 0
Total borrowings	**64 9**	99 7
Fixed rate weighted average interest rate, excluding no interest-paid items (%)	**8 14%**	5 09%
Fixed rate weighted average interest period, excluding no interest-paid items (years)	**3 0**	0 8

The floating rate financial liabilities have comprised

- Sterling denominated bank borrowings and overdrafts that bear interest at rates between 0 85% and 3 25% above UK bank base rates

Maturity of Financial Liabilities and Undrawn Commitments
The maturity profile of the Group's financial liabilities is as follows

	27 Sept 2009 £'m	28 Sept 2008 £'m
Within one year	**123 4**	195 0
In more than one year, but less than two years	**43 6**	1 1
In more than two years, but less than five years	**12.1**	6 8
More than five years	**4 1**	6 1
	183 2	209 0

Included within the above is £5 0m of interest (2008 £5 3m)

The Group's undrawn commitments expiry date profile is as follows

	27 Sept 2009 £'m	28 Sept 2008 £ m
Within one year	**–**	43 6
In more than one year, but less than two years	**34 5**	–
	34.5	43 6

Financial instruments by category
The accounting policies for financial instruments have been applied to the line items below

	2009		
	Loans and receivables £'m	Designated as at fair value through profit and loss £'m	Total £'m
Assets as per balance sheet			
Cash and cash equivalents	**31.8**	**–**	**31.8**
Trade receivables	**37 7**	**–**	**37 7**
Other current assets	**1 7**	**–**	**1 7**
Other non-current assets	**3.4**	**–**	**3 4**
	74 6	**–**	**74 6**

22 Financial Instruments continued

	2009 Liabilities at fair value through profit and loss £'m	Other financial liabilities £'m	Total £'m
Liabilities as per balance sheet			
Short-term financial liabilities – borrowings	–	22.4	22 4
Long-term financial liabilities – borrowings	–	42 5	42 5
Trade and other payables	–	69 4	69 4
Derivative financial instruments – interest rate cap and collar	0 4	–	0 4
	0 4	134 3	134 7

	2008 Loans and receivables £m	Designated as at fair value through profit and loss £m	Total £m
Assets as per balance sheet			
Cash and cash equivalents	2 2	–	2 2
Trade receivables	44 6	–	44 6
Other current assets	3 2	–	3 2
Other non-current assets	3 3	–	3 3
Derivative financial instruments – interest rate cap and collar	–	0 1	0 1
	53 3	0 1	53 4

	2008 Liabilities at fair value through profit and loss £m	Other financial liabilities £m	Total £'m
Liabilities as per balance sheet			
Short-term financial liabilities – borrowings	–	98 4	98 4
Long-term financial liabilities – borrowings	–	1 3	1 3
Trade and other payables	–	66 5	66 5
	–	166 2	166 2

The Directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values

The interest rate cap and collar is included within accruals (note 18)

Interest rate cap and collar 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

Notes to the Consolidated Financial Statements continued

23 Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008 28%)

The movement on the deferred tax account is as shown below

	27 Sept 2009 £'m	28 Sept 2008 £'m
Opening balance	**(41.2)**	(25 1)
Income and expense charge/(credit) (note 7)	**26 6**	(16 0)
Tax charged directly to equity	**(0 1)**	–
On acquisition	**-**	(0 1)
Closing balance	**(14 7)**	(41 2)

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 £33 3m (2008 £23 6m) were not recognised

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
At 29 September 2008	(44 1)	(2 0)	4 9	(41 2)
Income and expense credit	–	(5 9)	2 0	(3 9)
Tax charged directly to equity	–	–	(0 1)	(0 1)
Prior period adjustments	44 1	(8 2)	(5 4)	30 5
At 27 September 2009	**-**	**(16 1)**	**1 4**	**(14 7)**

24 Called Up Share Capital

	27 Sept 2009 Number	28 Sept 2008 Number
Authorised		
Ordinary shares of 1p each	**300,000,000**	300,000,000
	£'m	£ m
Ordinary shares of 1p each	**3**	3
	Number	Number
Allotted, called up and fully paid		
Ordinary shares of 1p each	**188,067,377**	188,067,377
	£'m	£ m
Ordinary shares of 1p each	**1 9**	1 9

25 Cash Flows from Operations

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

	27 Sept 2009 £'m	28 Sept 2008 £'m
Operating loss	**(12.7)**	(5 2)
Adjustments for		
Loss on disposal of property, plant and equipment and subsidiary undertakings	**4.1**	9 6
Impairment of freehold assets held for sale	**7 7**	4 5
Depreciation	**21 6**	17 6
Amortisation	**-**	1 1
Share-based payments	**0 2**	(0 2)
Changes in working capital (excluding effects of acquisitions and sale of subsidiaries and other businesses)		
Decrease/(increase) in inventories	**0.2**	(0 3)
Decrease/(increase) in trade and other receivables	**6 0**	(3 6)
Increase/(decrease) in payables	**9 1**	(3 2)
Increase in future minimum rental accrual	**51 8**	50 5
Government grants	**-**	2 5
Decrease in provisions	**(0 5)**	(1 9)
Cash generated from operations	**87 5**	71 4

26 Reconciliation of Net Cash Flow to Movement in Net Debt

	27 Sept 2009 £'m	28 Sept 2008 £m
Net increase/(decrease) in cash for the period	**29 6**	(13 4)
On acquisition	**-**	(21 2)
Cash outflow from decrease in debt	**35 6**	110 5
	65.2	75 9
Non-cash items		
New finance leases	**(0 4)**	(1 5)
Rolled-up interest	**(0 4)**	-
Movement in net debt	**64.4**	74 4
Opening net debt	**(97 5)**	(171 9)
Closing net debt	**(33 1)**	(97 5)

27 Analysis of Net Debt

	At 29 Sept 2008 £m	Cash flow £m	Non cash items £m	At 27 Sept 2009 £'m
Cash	2 2	29 6	-	**31.8**
Bank loans due within one year	(97 7)	34 8	41 1	**(21.8)**
Finance leases due within one year	(0 7)	0 1	-	**(0 6)**
Bank loans due after more than one year	-	-	(41 5)	**(41 5)**
Finance leases due after more than one year	(1 3)	0 7	(0 4)	**(1.0)**
	(99 7)	35 6	(0 8)	**(64 9)**
Net debt	(97 5)	65 2	(0 8)	**(33 1)**

Non-cash items represent inception of finance leases, rolled-up interest and reclassification of loans further to the renegotiation of the Group's banking facilities on 30 October 2009

Notes to the Consolidated Financial Statements continued

28 Staff Costs

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £ m
Staff costs for the Group during the period		
Wages and salaries	**508.5**	473 5
Social security costs	**38.9**	36 8
Other pension costs	**0.8**	0 6
	548.2	510 9
Staff costs for the Group by function		
Home payroll costs – excluding agency and other staff-related costs	**525.7**	491 1
Central payroll costs	**22.5**	19 8
	548.2	510 9

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 £8 0m and £9 5m for the periods ended 27 September 2009 and 28 September 2008 respectively

Average monthly number of people (including Executive Directors) employed

	52 weeks ended 27 Sept 2009 Number	52 weeks ended 28 Sept 2008 Number
By activity		
Care and ancillary	**35,222**	33,818
Management and administration	**1,477**	1,403
	36,699	35,221

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 42 to 48 under the heading Directors' remuneration, which form part of these financial statements

The total remuneration of the Directors comprises

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £ m
Aggregate emoluments	**1 9**	2 0
Compensation for loss of office	**0 1**	0 1
Company contributions to money purchase pension schemes	**0.2**	0 1
	2.2	2 2

Details of the highest paid Director are given in the remuneration report under the heading Directors' remuneration (audited)

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

29 Contingent Liabilities

The Group has provided guarantees to certain of the Group's landlords and holders of loan notes As at 27 September 2009, these guarantees totalled £11 5m (2008 £10 1m)

30 Financial Commitments

At 27 September 2009, and 28 September 2008 the Group had total commitments under non-cancellable operating leases as follows

	27 Sept 2009 £'m	28 Sept 2008 £ m
Within one year	**246.6**	239 4
Within one to five years	**986.4**	957 6
Over five years	**4,694.2**	4,748 7
	5,927.2	5,945 7

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 ('RPI'), subject to negotiated caps and floors

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

	27 Sept 2009 £'m	28 Sept 2008 £ m
Annual rental increases based on RPI subject to cap and floor arrangement	**61.1**	58 9
Fixed annual rental increases	**142.8**	140 1
Five-yearly, fixed, rental increases	**33 9**	33 3
Annual rental increases based on RPI	**8.8**	7 1
	246 6	239 4

31 Share-based Payments

The total charge for share-based payments was £0 2m (2008 credit £0 2m), all of which relates to equity-settled transactions

2006 Performance Share Plan

The Southern Cross Healthcare Group 2006 Performance Share Plan (the 'PSP') was amended on 24 March 2009 by adding an HMRC-approved section to the plan The PSP is available to Executive Directors and approximately 1,000 members of management Annual grants are made under the PSP with a value of up to 100% of an individual's salary Vesting of shares is subject to performance conditions based on earnings per share and, in respect of the 2008 awards, total shareholder return Further details of the vesting conditions are given in the remuneration report on page 44

A reconciliation of option movements during the period is given below

	52 weeks ended 27 Sept 2009		52 weeks ended 28 Sept 2008	
	Number '000	**Weighted average exercise price p**	Number 000	Weighted average exercise price p
Outstanding				
Beginning of period	**5,010**	**£Nil**	1,972	£Nil
Granted	**2,515**	**£Nil**	4,091	£Nil
Lapsed	**(2,386)**	**£Nil**	(1,053)	£Nil
End of period	**5,139**	**£Nil**	5,010	£Nil

The fair value per option granted and the assumptions used in the calculation are as follows

Grant date	**July 2009**	**May 2009**	May 2008	January 2008
Share price at grant date	**£1 48**	**£1 30**	£3 83	£4 55
Exercise price	**£Nil**	**£Nil**	£Nil	£Nil
Number granted	**150,000**	**2,365,000**	370,970	3,719,808
Vesting period (years)	**3**	**3**	3	3
Expected volatility	**n/a**	**n/a**	29 00%	29 00%
Contracted life (years)	**3**	**3**	3	3
Risk free rate	**n/a**	**n/a**	4 26%	4 26%
Dividend yield	**n/a**	**n/a**	2 16%	2 16%
Fair value per option	**£1.48**	**£1.30**	£6 96	£6 96

Notes to the Consolidated Financial Statements continued

31 Share-based Payments continued
January and May 2008 Awards
Options were valued using the Monte Carlo option-pricing model

Expected volatility is based on historical volatility of shares in the same sector over the past four 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 16 0 months

No options were exercisable at 27 September 2009

May and July 2009 Awards
The options will become exercisable on attainment of a performance target based on Adjusted EBITDA As such, the expected volatility is not applicable and the fair value per option is the share price at the grant date

The weighted average remaining contractual life of options outstanding at the end of the period was 32 0 months

No options were exercisable at 27 September 2009

Share Option Plans
Share Option Plans are available to the Chief Executive and Group Finance Director The plans are similar in design but differ in specific clauses, reflecting the different timing and circumstances of each Director's appointment Further details are given in the remuneration report on page 45

A reconciliation of option movements during the period is given below

	52 weeks ended 27 Sept 2009		52 weeks ended 28 Sept 2008	
	Number '000	**Weighted average exercise price p**	Number 000	Weighted average exercise price p
Outstanding				
Beginning of period	**–**	**n/a**	–	n/a
Granted	**5,500**	**1 36**	–	n/a
End of period	**5,500**	**1 36**	–	n/a

The fair value of the options granted and the assumptions used in the calculation are as follows

Grant date	February 2009
Share price at grant date	£0 92
Exercise price (weighted average)	£1 36
Number granted	5,500,000
Vesting period (years)	3
Expected volatility	39%
Contracted life (years)	3
Risk free rate	n/a
Dividend yield	n/a
Fair value per option (weighted average)	£0 18

Options were valued using the Binomial lattice model

Expected volatility is based on historical volatility of shares in the same sector over the past four 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 25 0 months

No options were exercisable at 27 September 2009

32 Related Party Transactions
Except for transactions with subsidiary undertakings, there were no related party transactions during the period ended 27 September 2009 Details of principal subsidiary undertakings are given in note 34

33 Events After the Balance Sheet Date

Freehold Disposals

On 10 November 2009, the Group completed the sale and long-term leaseback of the internally developed care home at Taunton for cash consideration of £4 8m, which is equal to the book value of the property The annual rent payable in respect of the property is £0 4m The proceeds from the sale were used to part repay the drawings on the Group's development facility

On 13 November 2009, the Group exchanged contracts on Wookey Hole and Cathedral View, two homes which were closed following the opening of the Group's new home in Wells The sale of these homes completed on 20 and 23 November 2009 respectively, for cash consideration of £0 9m, which is equal to the book value of the assets The proceeds will be used to further pay down the term loan facility

Sale of Subsidiary Undertakings

On 13 November 2009, the Group completed the sale of Southern Cross (Paisley) Propco Limited and freehold interest for cash consideration of £4 6m, realising a profit on disposal of £0 1m

On 13 November 2009, the Group completed the sale of Portishead Fundco Limited, Portishead Newco Limited and freehold interest for £7 4m, which was equal to the book value

Financing

Following the above sales, the Group has reduced its borrowings under its syndicated term loan from £40 0m at the year end to £33 5m, including a voluntary repayment of £1 1m The Group has also voluntarily repaid the £1 9m of borrowings that remained outstanding under the acquisition facility The Group's development facility loan, which was drawn to £19 8m at the year end, has also been reduced to £6 2m, following the disposal of two of the developments and a voluntary repayment of £1 5m

On 25 November 2009, the Group agreed an extension to its development facility Under the agreement, the development facility becomes payable on 30 June 2011, being the same date as the Group's syndicated term loan and revolving credit facility

34 Principal Subsidiary Undertakings

The principal subsidiary undertakings as at 27 September 2009, all of which have a year end of 27 September 2009, and 100% of the ordinary shares are owned and registered in England and Wales (unless otherwise stated SC = registered in Scotland) and have been consolidated in the Group financial statements, are as follows

Care Home Operating Companies	Intermediate Holding Companies
APTA Healthcare (UK) Limited	APTA Healthcare Limited
Ashbourne (Eton) Limited	Ashbourne Holdings Limited
Ashbourne Group UK Limited (SC)	Ashbourne Limited
Ashbourne Homes Limited (SC)	CCSX Holdings Limited
Exceler Health Care Group Limited	CCSX Limited
Exceler Healthcare Services Limited	CCSX Ventures Limited
Southern Cross BC Opco Limited	Southern Cross (Highfield Holdco) Limited
Southern Cross Cymru Limited	Southern Cross (SX Holdco) Limited
Southern Cross Care Homes No 2 Limited	Southern Cross Bidco Limited
Southern Cross (Focus) Limited	Southern Cross Care Homes Holdings Limited
Southern Cross Healthcare Services Limited	Southern Cross Care Homes Limited
Southern Cross Home Properties Limited	Southern Cross Finance Limited
Southern Cross (LSC) Limited	Southern Cross Healthcare Investments No 1 Limited
Southern Cross Opco Limited	Southern Cross Healthcare Investments No 2 Limited
Trinity Care Limited	Southern Cross Healthcare Limited

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

We have audited the parent company financial statements of Southern Cross Healthcare Group PLC for the 52 week period ended 27 September 2009 which comprise the Company balance sheet, the Company statement of changes in shareholders' equity, the statement of accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006

Respective Responsibilities of Directors and Auditors
As explained more fully in the Directors Responsibilities Statement set out on pages 35 and 36, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the Audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on Financial Statements
In our opinion the parent company financial statements
- give a true and fair view of the state of the company's affairs as at 27 September 2009,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on Other Matters Prescribed by the Companies Act 2006
In our opinion
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements

Matters on Which we are Required to Report by Exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other Matter
We have reported separately on the Group financial statements of Southern Cross Healthcare Group PLC for the year ended 27 September 2009

R Casson

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
8 December 2009

Company Balance Sheet
As at 27 September 2009

	Note	27 Sept 2009 £'m	28 Sept 2008 £'m
ASSETS			
Non-current assets			
Investments	2	–	–
Other receivables – amounts due from subsidiary undertakings	3	**232.4**	225 6
Total non-current assets		**232.4**	225 6
Total assets		**232.4**	225 6
LIABILITIES			
Current liabilities			
Other payables	4	**(3 2)**	(4 4)
Total current liabilities		**(3 2)**	(4 4)
Non-current liabilities			
Provisions and similar obligations	5	**(7 1)**	(4 3)
Total non-current liabilities		**(7 1)**	(4 3)
Total liabilities		**(10 3)**	(8 7)
Net assets		**222.1**	216 9
Equity			
Ordinary shares	6	**1 9**	1 9
Share premium		**161 5**	161 5
Retained earnings		**58 7**	53 5
Total equity		**222.1**	216 9

The financial statements on pages 81 to 84 were approved by the Board of Directors on 8 December 2009 and signed on their behalf by

J Buchan
Chief Executive

R Midmer
Finance Director

Company Statement of Changes in Shareholders' Equity
For the 52 weeks ended 27 September 2009

	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £'m
Balance at 1 October 2007	1 9	161 5	35 2	198 6
Profit attributable to ordinary shareholders	–	–	34 8	34 8
Ordinary dividends paid	–	–	(16 5)	(16 5)
Balance at 28 September 2008	1 9	161 5	53 5	216 9
Profit attributable to ordinary shareholders	–	–	5 2	5 2
Balance at 27 September 2009	**1 9**	**161.5**	**58.7**	**222.1**

Statement of Accounting Policies

The Company's accounting policies are the same as those set out in the statement of accounting policies of the Group financial statements, except as noted below

Cash Flow Statement
The Company is a holding company and does not hold any bank accounts Transactions such as dividend payments to Shareholders are paid by subsidiary companies and charged through intercompany accounts Therefore no cash flow statement has been presented

Fixed Asset Investments
Fixed asset investments are included at cost, less any provision for impairment

Notes to the Financial Statements

For the 52 weeks ended 27 September 2009

1 Income Statement

Southern Cross Healthcare Group PLC Company has not presented its own income statement as permitted by Section 408 of the Companies Act 2006 The profit attributable to ordinary shareholders for the financial period dealt with in the accounts of the Company is £5 2m (2008 £34 8m)

The audit fee in respect of the Company was £7,000 (2008 £7,000) The Company has no employees (2008 none) Directors are remunerated by other Group companies in the current period and prior period

2 Investments

Company	£ 000
At 27 September 2009 and 28 September 2008	3

The principal subsidiary undertakings as at 27 September 2009, all of which have a year end of 27 September 2009, and 100% of the ordinary shares are owned and registered in England and Wales (SC = registered in Scotland) unless otherwise stated and have been consolidated in the Group financial information, are given in note 34 of the Group financial statements

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

The Directors believe that the carrying value of the investments is supported by their underlying net assets

3 Other Receivables

Amounts due after more than one year

	27 Sept 2009 £'m	28 Sept 2008 £ m
Amounts due from subsidiary undertakings	**232 4**	225 6

Amounts due from subsidiary undertakings are unsecured Interest is charged at a rate of 5% (2008 7%)

The fair value of trade and other receivables is equal to the amounts shown above

4 Other Payables

	27 Sept 2009 £'m	28 Sept 2008 £ m
Corporation tax	**3 2**	4 4

5 Provisions and Similar Obligations

	Provisions £ m
At 29 September 2008	4 3
Additions	2 8
At 27 September 2009	**7 1**

Provisions relate to amounts provided in respect of an onerous contract, which is expected to be settled in more than one year

Notes to the Financial Statements continued

6 Called Up Share Capital

	27 Sept 2009 Number	28 Sept 2008 Number
Authorised		
Ordinary shares of 1p each	**300,000,000**	300,000,000
	£'m	£'m
Ordinary shares of 1p each	**3**	3
	Number	Number
Allotted and fully paid		
Ordinary shares of 1p each	**188,067,377**	188,067,377
	£'m	£'m
Ordinary shares of 1p each	**1 9**	1 9

7 Dividends Paid and Proposed

The Directors declared an interim dividend of £Nil (2008 3 75p) per share, totalling £Nil (2008 £7 1m and paid on 20 June 2008)

The Directors have decided not to recommend a final dividend for the year ended 27 September 2009 (2008 £Nil)

8 Related Party Transactions

Transactions with subsidiary undertakings for the period ended 27 September 2009

	Tax relief received £'m	Dividend received £'m	Interest received £'m	Amounts owed to £'m
Subsidiary undertakings	(4 5)	–	11 3	232 4

Transactions with subsidiary undertakings for the period ended 28 September 2008

	Tax relief received £'m	Dividend received £'m	Interest received £'m	Amounts owed to £'m
Subsidiary undertakings	–	28 3	15 1	225 6

Three-year Record

The following table shows the most recent three-year record under IFRS

	52 weeks ended 27 Sept 2009 £'m	52 weeks ended 28 Sept 2008 £'m	52 weeks ended 30 Sept 2007 £'m
Revenue	**937.1**	889 4	731 9
Home payroll costs	**(533.7)**	(500 6)	(409 0)
Home running costs	**(112.8)**	(113 1)	(92 7)
Home EBITDAR[1] before central costs	**290.6**	275 7	230 2
Rent			
Charge for rental amounts currently payable	**(187.3)**	(171 1)	(138 9)
Charge for future minimum rental increases	**(51 8)**	(50 5)	(43 5)
Total rent	**(239.1)**	(221 6)	(182 4)
Home EBITDA[2] before central costs	**51 5**	54 1	47 8
Central costs	**(30 8)**	(26 5)	(26 0)
Other operating income	**–**	–	1 5
Adjusted EBITDA[3] before charge for future minimum rental increases	**72 5**	78 1	66 8
Charge for future minimum rental increases	**(51 8)**	(50 5)	(43 5)
EBITDA	**20 7**	27 6	23 3
(Loss)/profit on disposal of property, plant and equipment and subsidiary undertakings	**(4 1)**	(9 6)	0 8
Impairment of freehold assets held for sale	**(7 7)**	(4 5)	–
Depreciation	**(21 6)**	(17 6)	(13 2)
Amortisation	**–**	(1 1)	1 0
Operating (loss)/profit	**(12 7)**	(5 2)	11 9
Finance costs	**(7 9)**	(11 2)	(10 2)
Exceptional finance costs	**–**	(6 9)	–
Total finance costs	**(7 9)**	(18 1)	(10 2)
Finance income	**0 8**	0 4	1 3
(Loss)/profit before taxation	**(19 8)**	(22 9)	3 0
Taxation (charge)/credit	**(2.3)**	4 9	(1 1)
(Loss)/profit attributable to ordinary shareholders	**(22.1)**	(18 0)	1 9

1 EBITDAR represents earnings before interest tax depreciation amortisation and loss on disposal of property plant and equipment and subsidiary undertakings impairment of freehold assets held for sale and rent

2 EBITDA represents earnings before interest tax depreciation amortisation loss on disposal of property plant and equipment and subsidiary undertakings and impairment of freehold assets held for sale

3 Adjusted EBITDA represents EBITDA after adding back the charge for future minimum rental increases

Shareholder Information

2009/2010 Financial Calendar
Interim results – 10 May 2010
Financial year end – 30 September 2010

Registered Office
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Registered Number
05328138

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London E14 4AD

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Independent Auditors
PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne NE1 8HW

Solicitors
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Princes Exchange
Princes Square
Leeds LS1 4BY

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

Bankers
Barclays Bank
1 Churchill Place
Canary Wharf
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Shareholder Enquiries
If you have any enquiries as a Shareholder, please contact Richard Midmer, Group Finance Director, on 01325 351100 or via email rmidmer@schealthcare co uk

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