

Press Release



6 July 2010

Ashley House plc

Ashley House plc ("Ashley House" or the "Group") the Primary Care infrastructure specialist today announces its preliminary results for the year ended 30 April 2010.

HIGHLIGHTS

FINANCIAL

- Revenue up 5% to £24.9m (2009: £23.8m)
- Pre-Tax Profit before exceptionals fell 55% to £2.5m (2009: £5.5m)
- Earnings per share down 75% to 2.5p (2009: 10.0p)
- Final Dividend 3.0p per share, giving a total for the year of 4p (2009: 4.0p)
- Net Assets up 19% to £46.0m (2009: £38.7m)

OPERATIONAL

- Strong underlying business with forward pipeline of £264m of project value (2009: £245m)
- Successful acquisitions of Sapphire Primary Care Developments and Strategic Property Solutions
- No scheme cancellations despite delays from Government spending reviews

Ashley House plc Chairman Sir William Wells said:

"Trading conditions during the year have been very challenging for both ourselves and our NHS partners. However, we have worked hard to mitigate the effects of the political and financial uncertainty and have developed our revenue streams to give us more confidence of meeting our financial targets going forward. Although we continue to operate in an uncertain market, we believe that we are now better positioned for growth and the future success of the business."

Enquiries:

Ashley House plc

Tel: 01628 600340

Jonathan Holmes, Chief Executive

Tony Walters, Finance Director

Citigate Dewe Rogerson

Tel: 020 7638 9571

Ged Brumby

Numis Securities

Tel: 020 7260 1000

Oliver Cardigan / Simon Blank (Nominated Adviser)

David Poutney (Corporate Broking)

Chairman's statement

Results and dividend

I am pleased to confirm that our final results are in line with the guidance given at our pre-close announcement made on 4 May 2010. Revenue grew to £24.9m (2009 £23.8m) whilst profit before exceptionals and tax fell to £2.5m (2009 £5.5m). Underlying profit was in excess of £4m but reported profit held back principally due to retained schemes being financed within the group as outlined in the pre close announcement.

The year was challenging because concerns within the NHS over public spending led to delays and re-assessment of commitments in most areas. This was compounded by political uncertainty leading up to the May general election. Both of these factors have led to delays to many of the projects we are working on, slowing our revenue growth and reducing profitability.

Despite the delays in schemes we have not had any project cancellations and the business has both grown and remained profitable. Consequently the Board has proposed a final dividend of 3.0p per share, resulting in a total of 4.0p for the year (2009: 4.0p).

Our market

NHS Trusts continue to be cautious about their budgets. Despite commitment from the new Government to the NHS, there remains a lack of clarity around a number of policy areas. Nonetheless current policy seems to be committed to the shift of care towards care out of hospital into GP led settings, a market in which we specialise. We have also been encouraged that our LIFT partnerships with Councils and NHS Trusts appear to be regarded as important delivery vehicles in local estate change.

As we announced in our pre-close statement we have not to date experienced any project cancellations. Even in London where the new Government showed some concern around NHS London's plans for polyclinics it is emerging that where schemes have GP support and deliver clear benefits, in terms of both service and cost, then they are proceeding. This is the case with most of the schemes we have been working on with our partners.

Change in the NHS presents an opportunity for us. Shifting care to community settings means estate needs to change and Ashley House is positioning itself as a partner to help deliver that change. This is not just happening in the NHS but in other areas of public service, hence the importance to us of our involvement in the LIFT market which allows us to work in partnership with Local Authorities and other public bodies. Indeed, as part of our diversification plan, we announced in February the conditional acquisition of the specialist mental health and extra care developer Strategic Partnership Solutions ("SPS"), widening our skills and expertise in an important market closely aligned to the NHS.

Outlook

As a result of the delays and uncertainty in our core market we are continuing to explore opportunities to broaden our service offer and client base and in so doing increase revenues. Growth is expected to continue to be slow during the current financial year given the uncertain environment in which we are operating. Our diversification plan is designed to enable the Group to benefit from NHS and general Public Sector change and this is expected to position the business for future growth.

Sir William Wells
Chairman

Chief Executive's statement

Business Review

This has been a difficult year for Ashley House characterised by exceptional delays to projects caused by both political uncertainty and budget concerns. Further difficulties were experienced as a result of an unsolicited bid approach for our property partner AH Medical Properties plc.

These issues have led to delays though not cancellations and projects continue to reach financial close. At the end of April 2010 we were on site with eight schemes with a total value of £20m compared to six in April 2009 with a value of £11m. Of the five we reported as delayed at the half year, three have now reached financial close and are on site. The remaining two are expected to achieve financial close in the coming weeks, realising c.£1.5m in cash and enabling construction (and the associated revenues) to commence. Our project pipeline has grown in recent months to £264m (January £238m, May £244m), re-enforcing our belief that our business will benefit from the continuing shift of care from secondary to community and GP-led settings.

Our asset management contract with AH Medical Properties plc ("AHMP") has driven strong growth for AHMP, with gross assets growing 34% in the year to close to £120m and rental revenues growing from £6m to £7m. This strong performance has, for the first time, triggered an out-performance fee. In support of AHMP, we have agreed to take half the performance fee in cash and half in AHMP shares.

As mentioned in our February trading update, AHMP received an unsolicited bid approach during the year which resulted in a hiatus in our ability to pass on pipeline schemes to them. This approach has recently been withdrawn and the immediate need for us to harbour assets on our own balance sheet has gone. However, we continue to explore the options open to us and our property partners to avoid a repeat of this situation in future.

The delays have led us to look at the cost and structure of our business. Our market is continuing to evolve and we are developing our business accordingly. We continue to reduce costs in certain areas of the business to allow us to reinvest in growth areas.

Acquisitions

At the end of November last year we acquired the business and assets of Sapphire Primary Care Developments Limited ("Sapphire") from Lloydspharmacy ("Lloyds") for a total consideration of £7.4m. Sapphire was a developer of primary care infrastructure and a competitor of Ashley House. The team and pipeline has now been fully and successfully integrated into the group and several new project wins have followed.

As part of this acquisition, a pharmacy joint venture was created with Lloyds which gives Lloyds first option on pharmacies in our pipeline in exchange for a 25% profit share in those pharmacies. This also gives the Group opportunities for future projects from access to the healthcare teams at Lloydspharmacy estate of over 1,650 pharmacies. We have three joint venture pharmacies open and we hope to grow this number over the coming year.

At the end of the year the group exchanged on a conditional deal to acquire the business of Strategic Property Solutions Limited ("SPS"), a developer of community mental health and associated infrastructure for which Ashley House has seen an increasing demand. The deal is conditional on the granting of planning permission on the lead scheme which is expected to be achieved in the next few weeks. The acquisition brings us experience in a differently funded market as well as the skills and expertise to develop our offering into a growing sector.

Key performance targets

Whilst the business remains profitable, reported profit before tax has fallen. Net assets have grown 19% from £38.7m to £46.0m following the acquisitions of Sapphire and SPS. In the new financial year we expect to get a significant number of schemes (including three from the Sapphire pipeline and one from SPS) to reach financial close. We also expect to realise the profit on the schemes that we were unable to sell to AHMP at the end of the financial year. The factors that reduced the profit in this financial year should not be repeated next year providing more confidence in the profit numbers for the coming year.

We have agreed a new client side approach to working within LIFT with four of our seven LIFT companies including the two biggest

in our stable. This will transform our revenues to a fee based model and will take hard construction out of our results. Construction management revenues will remain. These agreements will also lead to some protection on the length of time it takes us to convert revenues into cash.

Profit next year will therefore come from the extended traditional or 3PD pipeline and from LIFT income both from the client side approach and by getting schemes past financial close. This will be augmented by the asset management income and revenues that will start to come through from the pharmacy joint venture.

Quality

We were delighted that we have recently achieved ISO 14001 accreditation in recognition of the effectiveness of our Environmental Management System. In addition, one of our Harrow LIFT schemes was recognised with an architectural and environment award. We have had 'Investor in People' status for 3 years which has recently been reconfirmed and we gained ISO 9001 accreditation for our management system last year. These accreditations are important for our clients and stakeholders and demonstrate the professionalism across the business.

Staff

Following the acquisition of Sapphire, it was important that the business carried out a small reorganisation to ensure the synergies of the acquisition were achieved. As a result of this there were a number of redundancies and the closure of offices in Newcastle, Abergavenny and Worcester. Our new staff from the acquisition of Sapphire and SPS are already making a valuable contribution to the business. The Board's thanks go to all our people who continue to show their professionalism and dedication to the business in these changing times.

Outlook

Despite challenging market conditions our pipeline remains strong as we continue Ashley House's evolution into an estates partner for both primary and community health and the wider public sector.

Jonathan Holmes
Chief Executive

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED

	Note	2010 £000	2009 £000
Revenue		24,876	23,834
Cost of sales		<u>(16,651)</u>	<u>(12,575)</u>
Gross profit		8,225	11,259
Administrative expenses		(5,632)	(5,726)
Depreciation and impairment		(107)	(114)
Exceptional items		(733)	-
Operating expenses		<u>(6,472)</u>	<u>(5,840)</u>
Operating profit		1,753	5,419
Interest payable		(82)	-
Investment income		65	107
Profit before taxation		<u>1,736</u>	<u>5,526</u>
Tax expense		(486)	(1,361)
Profit after tax for the year attributable to equity holders of the parent		<u>1,250</u>	<u>4,165</u>
Other comprehensive income/(expense)			
Fair value movement on available for sale investments			
current year gains / (losses)		870	(584)
Total comprehensive income for the year attributable to equity shareholders of the parent		<u>2,120</u>	<u>3,581</u>
Basic earnings per share	2	2.45p	10.01p
Diluted earnings per share	2	2.41p	9.65p

All of the activities of the group are classed as continuing.

CONSOLIDATED BALANCE SHEET AS AT 30 APRIL

	Note	2010 £000	2009 £000
Non-current assets			
Goodwill	3	1,289	270
Other intangible	4/5	30,018	24,800
Property, plant and equipment		254	213
Available for sale investments		1,608	738
Deferred tax asset		65	210
		<u>33,234</u>	<u>26,231</u>
Current assets			
Work in Progress		2,818	1,361
Trade and other receivables		24,892	20,905
Cash and cash equivalents		1,010	1,187
		<u>28,720</u>	<u>23,453</u>
Total assets		<u>61,954</u>	<u>49,684</u>
Current liabilities			
Trade and other payables		(9,904)	(7,664)
Bank borrowing		(1,692)	(2,127)
Current income tax		(477)	(1,219)
		<u>(12,073)</u>	<u>(11,010)</u>
Net current assets		<u>16,647</u>	<u>12,443</u>
Non-current liabilities			
Amounts falling due after more than one year		(2,750)	-
Deferred tax liabilities		(1,094)	-
Net assets		<u>46,037</u>	<u>38,674</u>
Equity			
Share capital		577	470
Share premium		33,523	31,627
Merger relief reserve		4,395	-
Other reserve		1,400	-
Share based payments reserve		496	608
Retained earnings		5,666	5,969
Total equity		<u>46,037</u>	<u>38,674</u>

The financial statements were approved by the board of directors and authorised for issue on the 5 July 2010.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £000	Share premium £000	Merger relief reserve £000	Other reserve £000	Share- based payment reserve £000	Retained earnings £000	Total £000
At 1 May 2009	470	31,627	–	–	608	5,969	38,674
Issue of share capital	87	1,896	4,395	–	–	–	6,378
Deferred consideration-equity settled	–	–	–	1,400	–	–	1,400
Movement on deferred tax	–	–	–	–	(145)	–	(145)
Dividends	–	–	–	–	–	(2,423)	(2,423)
Share-based payment charge	–	–	–	–	33	–	33
Transactions with owners	87	1,896	4,395	1,400	(112)	(2,423)	5,243
Profit for the year	–	–	–	–	–	1,250	1,250
Other comprehensive income:							
Fair value movement on available for sale investments current year gains	–	–	–	–	–	870	870
Total comprehensive income for the year attributable to equity holders of the parent	–	–	–	–	–	2,120	2,120
At 30 April 2010	557	33,523	4,395	1,400	496	5,666	46,037
	Share capital £000	Share premium £000	Merger relief reserve £000	Other reserve £000	Share- based payment reserve £000	Retained earnings £000	Total £000
At 1 May 2008	275	8,040	–	–	2,221	2,910	13,446
Issue of share capital	195	23,587	–	–	–	–	23,782
Transfer between reserves on conversion of warrants	–	–	–	–	(1,085)	1,085	–
Movement on deferred tax	–	–	–	–	(617)	–	(617)
Dividends	–	–	–	–	–	(1,607)	(1,607)
Share-based payment charge	–	–	–	–	89	–	89
Transactions with owners	195	23,587	–	–	(1,613)	(522)	21,647
Profit for the year	–	–	–	–	–	4,165	4,165
Other comprehensive income:							
Fair value movement on available for sale investments current year losses	–	–	–	–	–	(584)	(584)
Total comprehensive income for the year attributable to equity holders of the parent	–	–	–	–	–	3,581	3,581
At 30 April 2009	470	31,627	–	–	608	5,969	38,674

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED

	2010	2009
	£000	£000
Operating activities		
Profit for the year before taxation	1,736	5,526
Adjustments for:		
Depreciation and impairment	377	114
Share based payment charge	33	89
Dividend received	(65)	(44)
Interest paid	82	-
Interest income	-	(63)
Operating cash flows before movements in working capital	2,163	5,622
Increase in work in progress	(819)	(102)
(Increase) in trade and other receivables	(3,987)	(8,191)
Increase in trade and other payables	737	920
Cash used by operations	(1,906)	(1,751)
Income taxes paid	(1,228)	(1,395)
Interest paid	(82)	-
Net cash used in operating activities	(3,216)	(3,146)
Investing activities		
Purchase of property, plant and equipment	(122)	(19)
Acquisition of subsidiary (net of cash)	390	-
Acquisition of jointly controlled entity net of cash	-	(12,824)
Dividend received	65	44
Interest received	-	63
Net cash used in investing activities	333	(12,736)
Financing activities		
Increase in borrowings	1,565	25
Proceeds from disposal of available for sale financial assets	1,636	-
Proceeds from issuance of ordinary share capital	1,928	11,782
Dividends paid to company's shareholders	(2,423)	(1,607)
Net cash from financing activities	2,706	10,200
Net decrease in cash and cash equivalents	(177)	(5,682)
Cash and cash equivalents at beginning of the year	1,187	6,869
Cash and cash equivalents at the end of the year	1,010	1,187

NOTES TO THE FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The preliminary announcement has been prepared in accordance with applicable standards as stated in the financial statements for the year ended 30 April 2010.

2 EARNINGS PER ORDINARY SHARE

The calculation of the basic earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

	Profit £000	2010 Weighted average number of shares	Per share amount pence	Profit £000	2009 Weighted average number of shares	Per share amount pence
Basic earnings per share						
Profit attributable to ordinary shareholders	1,250	51,095,363	2.45	4,165	41,611,475	10.01
Dilutive effect of securities						
Options		630,131	(0.03)		923,475	(0.22)
Warrants		84,800	(0.01)		603,199	(0.14)
Diluted earnings per share	<u>1,250</u>	<u>51,810,294</u>	<u>2.41</u>	<u>4,165</u>	<u>43,138,149</u>	<u>9.65</u>

The average share price during the year was 75.6 pence per share, which meant that the dilutive securities shown in the table above were those which have exercise prices of 30, 40, 75 pence per share.

The directors propose the payment of a dividend of £1,671,000 (3 pence per share) following an interim dividend of £557,000 (1 pence per share) in the financial year 2010 in relation to the current year.

As the distribution of dividends by Ashley House plc requires approval at the Shareholders' meeting, no liability in this respect is recognised in the 2010 consolidated Group accounts. No tax expense consequences are expected to arise as a result of this transaction at the level of Ashley House plc.

3 GOODWILL

	2010 £000	2009 £000
Cost		
As at 1 May	270	270
Additions in the year		
- Sapphire Primary Care Developments Limited (SPCD) – see note 10	1,094	–
- Strategic Property Solutions Limited (SPS)- see note 10	195	–
	<u>1,289</u>	<u>–</u>
As at 30 April	<u>1,559</u>	<u>270</u>
Impairment		
Impairment charge	(270)	–
Net book value	<u>1,289</u>	<u>270</u>

Ashley House plc has reviewed the Goodwill on the activities of its Neil Niblett subsidiary, which were hived up in previous years, and following the closure of the office it was decided that no further economic benefit would be generated from the asset and therefore an impairment charge should be taken against its brought forward carrying value.

4 OTHER INTANGIBLES

The intangible asset of £30m principally relates to the LIFTCo intangibles discussed below and the purchase of two separate interests as outlined in Note 5 below.

	£000
Cost	
As at 1 May 2009	24,800
Additions in year	5,218
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- SPS acquisition	1,205
- SPCD acquisition	3,898
- IPC+ Limited	115
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As at 30 April 2010	30,018
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Impairment	
As at 1 May 2009 and 30 April 2010	-
Net book value as at 30 April 2010	30,018

	£000
Cost	
As at 1 May 2008	-
Additions in year	24,800
As at 30 April 2009	24,800
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Impairment	
As at 30 April 2009	-
Net book value as at 30 April 2009	24,800

LIFTCo Intangibles

The carrying value of the interests acquired has been reviewed with reference to the forecast earnings expected to be generated from them over the next 10 years. The existing 7 NHS LIFT agreements which underpin the value of the business have a further 16 years to run on average. Since the acquisition, Ashley House has been successfully approved as one of only 7 private sector partners in Express LIFT, which represents an opportunity to secure further new NHS LIFT exclusive mandates.

The forecast earnings are based on the existing pipeline of projects acquired, which at acquisition had a build value of £300m.

The discount rate used was 14% which represents the average weighted cost of capital for the Ashley House Group.

The carrying value and any impairment to the intangible asset is reviewed annually on a similar basis, taking into account the expected future earnings, the amount of time left on the contracts in existence and the Group's cost of capital as a discount rate.

Value in use has been used to determine recoverable amount.

5 ACQUISITION OF INTEREST IN JOINTLY CONTROLLED AND NEWLY ACQUIRED SUBSIDIARIES

Acquisition of SPS "Strategic Property Solutions" Limited

As part of Ashley House's strategy of diversification and developing new and recurring revenue streams, the Group announced in January 2010 that it had entered into a contract to acquire the development pipeline of Strategic Property Solutions Limited ("SPS"). SPS is a developer of community mental health and associated infrastructure for which the Group has seen an increasing demand within its growing pipeline of major integrated developments. SPS's pipeline consists of assisted living schemes for mental health patients and the acquisition brings new technical expertise to the Group as it seeks to broaden its ability to secure opportunities in related mental health and social services care sectors. Two key employees of SPS transferred to Ashley House in January and are actively engaged in providing assistance on a number of the Group's existing schemes.

	Book value £000	Fair value adjustments £000	Fair value £000
Non-current assets			
Intangible (note 9)	–	3,898	3,898
Property plant & equipment	26	–	26
Available for sales investment	1,219	417	1,636
Current assets			
Work in progress	607	31	638
Trade and other receivables	6,912	(6,912)	–
Cash and cash equivalents	1,347	(147)	1,200
Total assets	<u>10,111</u>	<u>(2,713)</u>	<u>7,398</u>
Liabilities			
Deferred tax liability	–	(1,094)	(1,094)
Trade and other payables	(210)	210	–
Total liabilities	<u>(210)</u>	<u>(884)</u>	<u>(1,094)</u>
Net assets	<u>9,901</u>	<u>(3,597)</u>	<u>6,304</u>
Goodwill			<u>1,094</u>
Purchase consideration and costs of acquisition			<u>7,398</u>

Deferred consideration of £2.0m has been split £1.25m due within one year, and £0.75m due after more than one year. The amount will be paid in cash as and when specific developments are completed.

The intangible asset of £3.9m is directly attributable to the future pipeline acquired with the business. A discounted cashflow has been prepared by management, discounted back at the Group's weighted average cost of capital (14%). Management expect that the intangible will have a finite life span in excess of 10 years. The intangible represents the management's expectation of the future return on achieving the completion of its current pipeline of developments.

The acquisition contributed £2,000 to the group's profit for the year. Revenue and profit before taxation would have been increased by £370,000 and £467,000 respectively had the acquisition occurred on 1 May 2009.

6 PUBLICATION OF NON-STAUTORY ACCOUNTS

The above does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. It is an extract from the full accounts for the year ended 30 April 2010 on which the auditor has expressed an unqualified opinion. The accounts will be posted to shareholders and subsequently filed at Companies House.