

Building relationships...
Ashley House plc Interim Report 2008
for the six months ended 31st October 2008



Ashley House is one of the UK's leading primary care infrastructure companies, with unrivalled experience in delivering projects efficiently, cost effectively and on a sustainable, long term basis.

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Images (clockwise from main picture)

GPs, staff and Ashley House team celebrate the Topping Out Ceremony at Downend Medical Centre, Bristol

Some of the Ashley House planning, architect and design team

Computer Generated Image of Wellsbourne Medical Centre, Brighton

Parents and children in the waiting room at The Groves Medical Centre, New Malden

Work begins at Meriden Surgery, Watford

Highlights

- Strong pipeline of projects
- Headcount increased to deliver the increased pipeline
- Acquisition of interests in 7 NHS LIFT companies completed during the period
- Ashley House is now firmly acknowledged as one of the largest private sector participants in NHS LIFT and well placed for the future
- Pre-tax profit down 58% to £0.75m (2007: £1.8m)
- EPS down 69% to 1.38p per share (2007: 4.51p)
- Strengthened balance sheet, Net Assets £33.0m (Apr 2008: £13.4m)

Chairman's statement

Results

I am pleased to report that the interim results are slightly ahead of the level indicated in the announcement dated 9 December 2008. As set out in that statement, the results for the 6 months to 31 October 2008 were disappointing and reflect slower than anticipated progress on certain new schemes, which has led to lower revenue and profits in this first half. The revenue of £8.1m (2007: £10.0m) produced a pre-tax profit of £0.8m (2007: £1.8m). This represents a reduction at the interim and as previously stated, the Board believe it prudent not to pay an interim dividend, but will seek to maintain the total dividend following the full year results. Of the six schemes due on site during the first half year which were delayed, four will be on site by the end of January making immediate positive revenue and profit contribution.

Business Progress

As shareholders will be aware, during the period we completed the acquisition from Babcock & Brown of the interests in 7 NHS LIFT companies for £45m. Due to the deferred and share elements of the consideration, the net cash impact to Ashley House was only c. £5m. This acquisition has, as predicted, led to a significant increase in workload. To cope with this materially increased pipeline, we have undertaken a planned expansion of our in-house team and have been fortunate in securing a number of key staff with directly relevant experience and this has as expected increased our overhead by 35% in this period. Partly as a result of this and partly due to Ashley House's 17 years of experience in delivering primary care infrastructure, the team have thus far received very positive feedback from our NHS partners underpinning the value of our NHS LIFT involvement as one of the largest private sector participants.

Our only disappointment with the acquisition has been the pace schemes have moved to construction. Since revenues are only recognised once projects typically reach defined stages, delays can have a noticeable effect on financial performance.

NHS LIFT now forms a large part of the Company's workload and this is particularly reassuring in times of financial uncertainty given that the public sector is both client and joint venture partner which means we are not exposed to material credit risk on our debtors. However, full year figures will be affected and pre-tax profits are only likely to grow by 10-20% over the full year to 30 April 2009, as indicated in the announcement dated 9 December 2008. Nevertheless the revenue from delayed schemes is not lost and will be recognised as projects move into the construction phase in the coming months. Whilst we are bearing the impact in this financial year, we firmly believe that we are well positioned to meet the Board's growth expectations.

Despite the difficulties in the broader commercial property market, the Company continues to increase the number of health sector assets it manages on behalf of AH Medical Properties plc (AHMP). Most of these assets have been acquired over the years through the Company's secure third party developer business and the availability of funding is vital for the continuance of this business. The Company is therefore pleased that AHMP has recently secured further debt funding for the next group of new schemes on attractive terms. This provides certainty to the future pipeline of our third party developer schemes and the continuing reliable asset management revenues. We are also seeking to expand our health park activities at a time

when land values have fallen, which will lead to further major schemes with associated design and construction and enhanced asset management income.

Our Clinical Services management division has been focussed on bidding with groups of GPs for new equitable access contracts for new GP practices open for longer hours with enhanced services as introduced in the Darzi Review. We are pleased to report that we have already been successful in achieving preferred bidder status for two areas with our joint venture partners.

Outlook

Demand for our specialist primary and social care infrastructure services remains strong in an environment where the broader construction and property markets are weak, which is leading to lower land and build costs across all our new schemes. Our pipeline of projects has been strengthened following the acquisition of the NHS LIFT interests and the fundamentals for our market are proving robust. With little debt and a strengthened balance sheet following the acquisition, whilst our short term growth expectations have been re-calibrated, the outlook for the Company and our market remains very positive.

Sir William Wells

Chairman
14 January 2009

Condensed consolidated interim income statement

	Note	Unaudited 6 months to 31 October 2008 £000	Unaudited 6 months to 31 October 2007 £000	Audited Year to 30 April 2008 £000
Revenue		8,119	9,978	19,793
Cost of sales		(4,884)	(6,458)	(10,533)
Gross profit		3,235	3,520	9,260
Administrative expenses		(2,516)	(1,837)	(4,338)
Depreciation, amortisation and impairment of non-financial assets		(63)	(97)	(176)
Operating profit		656	1,586	4,746
Investment income		90	188	326
Profit before taxation		746	1,774	5,072
Income tax on profit		(202)	(532)	(1,510)
Profit for the period		544	1,242	3,562
Earnings per share:				
Basic earnings per share	5	1.38p	4.51p	12.93p
Diluted earnings per share	5	1.32p	3.98p	11.56p

Condensed consolidated interim balance sheet

	Unaudited 31 October 2008 £000	Unaudited 31 October 2007 £000	Audited 30 April 2008 £000
ASSETS			
Non-current assets			
Goodwill	270	270	270
Other intangible assets	44,390	–	–
Property, plant and equipment	258	348	291
Available for sale investments	749	1,387	1,321
	45,667	2,005	1,882
Current assets			
Work in progress	1,318	–	1,259
Trade and other receivables	11,095	6,732	9,670
Deferred tax asset	513	845	827
Cash and cash equivalents	2,412	6,666	6,869
	15,338	14,243	18,625
Total assets	61,005	16,248	20,507
LIABILITIES			
Current liabilities			
Trade and other payables	(5,530)	(3,515)	(4,478)
Bank borrowings and overdrafts	(802)	–	(1,330)
Current income tax	(550)	(864)	(1,253)
	(6,882)	(4,379)	(7,061)
Non-current liabilities			
Bank borrowings	(2,118)	–	–
Deferred consideration	(19,000)	–	–
Total non-current liabilities	(21,118)	–	–
Total liabilities	(28,000)	(4,379)	(7,061)
Net assets	33,005	11,869	13,446
EQUITY			
Share capital	436	275	275
Share premium account	29,387	8,040	8,040
Share based payment reserve	793	2,266	2,221
Retained earnings	2,389	1,288	2,910
Total equity	33,005	11,869	13,446

Condensed consolidated interim statement of changes in equity

	Share capital	Share premium account	Share based payment reserve	Retained earnings	Total equity
Balance at 1 May 2007	275	8,040	2,311	1,337	11,963
Changes in equity for first half of 2007					
Profit on ordinary activities after tax	–	–	–	1,242	1,242
Fair value movement on available for sale investment	–	–	–	(463)	(463)
Total recognised income and expense for the period	–	–	–	779	779
Movement on deferred tax	–	–	(45)	–	(45)
Dividends	–	–	–	(828)	(828)
Balance at 31 October 2007	275	8,040	2,266	1,288	11,869
Balance at 1 May 2007	275	8,040	2,311	1,337	11,963
Changes in equity for year					
Profit on ordinary activities after tax	–	–	–	3,562	3,562
Fair value movement on available for sale investment	–	–	–	(529)	(529)
Total recognised income and expense for the year	–	–	–	3,033	3,033
Movement on deferred tax	–	–	(90)	–	(90)
Dividends	–	–	–	(1,460)	(1,460)
Balance at 30 April 2008	275	8,040	2,221	2,910	13,446
Balance at 1 May 2008	275	8,040	2,221	2,910	13,446
Changes in equity for first half of 2008					
Profit on ordinary activities after tax	–	–	–	544	544
Fair value movement on available for sale investment	–	–	–	(572)	(572)
Total recognised income and expense for the period	–	–	–	(28)	(28)
Movement on deferred tax	–	–	(314)	–	(314)
Dividends	–	–	–	(1,607)	(1,607)
Issue of share capital	161	21,347	–	–	21,508
Transfer between reserves on conversion of warrants	–	–	(1,114)	1,114	–
Balance at 31 October 2008	436	29,387	793	2,389	33,005

Condensed consolidated interim cash flow statement

	Unaudited 6 months to 31 October 2008 £000	Unaudited 6 months to 31 October 2007 £000	Audited Year to 30 April 2008 £000
Operating activities			
Profit before taxation	746	1,774	5,072
Adjustments for:			
Depreciation	63	97	176
Loss on sale of fixed assets	2	18	23
Investment income	(90)	(188)	(326)
Operating cash flows before movements in working capital	721	1,701	4,945
(Increase) in work in progress	(59)	–	(2,518)
(Increase)/decrease in trade and other receivables	(307)	660	(2,349)
(Decrease)/increase in trade and other payables	(921)	(361)	603
Cash (used in)/generated from operations	(566)	2,000	681
Income taxes paid	(905)	(504)	(1,121)
Net cash (used in)/from operating activities	(1,471)	1,496	(440)
Investing activities			
Purchase of property, plant and equipment	(17)	(265)	(290)
Purchase of investments	(11,778)	–	–
Investment income	22	–	22
Interest received	68	188	304
Net cash (used in)/from investing activities	(11,705)	(77)	36
Financing activities			
Proceeds from issue of share capital	9,508	–	–
Increase in bank loan	16	–	2,660
Dividends paid	(1,607)	(826)	(1,460)
Net cash from/(used in) financing activities	7,917	(826)	1,200
Net (decrease)/increase in cash and cash equivalents	(5,259)	593	796
Cash and cash equivalents at beginning of period	6,869	6,073	6,073
Net cash and cash equivalents at end of period	1,610	6,666	6,869
Comprising:			
Cash and cash equivalents	2,412	6,666	6,869
Bank overdrafts	(802)	–	–
	1,610	6,666	6,869

Notes to the condensed consolidated interim financial statements

1 Nature of operations and general information

Ashley House plc and subsidiaries' ('the Group') principal activities consist of the design and project management of primary care infrastructure construction and asset management.

Ashley House plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of Ashley House plc's registered office, which is also its principal place of business, is The Priory, Stomp Road, Burnham, Buckinghamshire, SL1 7LW. Ashley House plc's shares are traded on the Alternative Investment Market of the London Stock Exchange.

Ashley House's consolidated interim financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company.

These consolidated condensed interim financial statements have been approved for issue by the Board of Directors on 14 January 2009.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 30 April 2008, prepared under IFRS, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

2 Basis of preparation

These interim condensed consolidated financial statements are for the six months ended 31 October 2008. They have been prepared following the recognition and measurement principles of IFRS. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 April 2008.

These financial statements have been prepared on the going concern basis, under the historical cost convention, except for the revaluation of certain financial instruments.

These condensed consolidated interim financial statements (the interim financial statements) have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 30 April 2009 or are expected to be adopted and effective at 30 April 2009.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these condensed consolidated interim financial statements. In addition to those Accounting policies at 30 April 2008, the Company has also adopted the following additional accounting policies during the period:

Intangible assets

Assets acquired as part of a business combination

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. Where an intangible asset might be separable, but only together with a related tangible or intangible asset, the group of assets is recognised as a single asset separately from goodwill where the individual fair values of the assets in the group are not reliably measurable. Where the individual fair value of the complementary assets are reliably measurable, the Group recognises them as a single asset provided the individual assets have similar useful lives.

The intangible assets will not be subject to annual amortisation and as such an impairment review will be carried out on an annual basis.

Impairment testing of goodwill, other intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Notes to the condensed consolidated interim financial statements

Continued

3 Share issue

On 16 June 2008 15,880,000 shares were issued at a premium of £21.299m. On 29 July 2008 20,000 shares were issued at a premium of £5,000. On 8 September 2008 150,000 shares were issued at a premium of £43,000. (31 October 2007, no shares were issued).

4 Acquisition of Interest in seven NHS Local Improvement Finance Trusts

On 19 May 2008 the Company announced that it had agreed to acquire the interests in seven NHS Local Improvement Finance Trusts ("LIFT") companies from Babcock & Brown. The acquisition was completed on 12 June 2008 and comprised controlling interests in companies which control the management of the private sector shareholder in seven NHS LIFTs, other than one company where the private sector shareholder is jointly controlled with a joint venture partner.

The total consideration comprised:

At completion:

£14m in cash, financed in part by the exercise of the outstanding Babcock & Brown warrant over 7.88m Ashley House plc shares at 120 pence per share, which raised £9.45m, and 8m new Ashley House plc shares, which were worth £12m at 150 pence per share. The costs associated with this transaction were £0.73m.

Deferred consideration:

Babcock & Brown may be entitled to up to a further £19m payable in cash dependent on the performance of the business acquired. The amount payable will be calculated with reference to the number of NHS LIFT schemes that reach financial close and the excess over a minimum amount of gross profit achieved by the NHS LIFT business acquired.

The total consideration payable assuming the full deferred consideration targets are achieved would be £45m.

The acquisition had the following effects on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustments £000	Recognised value on acquisition £000
Intangible assets	1,592	42,798	44,390
Plant property and equipment	17	-	17
Trade and other receivables	1,116	-	1,116
Cash and cash equivalents	2,949	-	2,949
Trade and other payables	(1,973)	-	(1,973)
Bank borrowings and overdrafts	(772)	-	(772)
	2,929	42,798	45,727

The fair value adjustment on intangibles was calculated by the directors on the acquisition date. Only those assets which met the IAS38 definition of intangible assets and which the fair value could be reliably measured were included.

5 Earnings per share

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

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and warrants and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	Earnings £000	Weighted average number of shares	Per share amount Pence
6 months to 31 October 2008			
Profit after tax	544		
Earnings attributable to ordinary shareholders			
Weighted average number of shares (used for basic earnings per share)		39,508,727	
Dilutive effect of options and warrants		1,616,926	
Diluted weighted average number of shares (used for diluted earnings per share)		41,125,653	
Basic earnings per share			1.38p
Diluted earnings per share			1.32p
Year to 30 April 2008			
Profit after tax	3,562		
Earnings attributable to ordinary shareholders			
Weighted average number of shares (used for basic earnings per share)		27,544,379	
Dilutive effect of options and warrants		3,273,706	
Diluted weighted average number of shares (used for diluted earnings per share)		30,818,085	
Basic earnings per share			12.93p
Diluted earnings per share			11.56p

Notes to the condensed consolidated interim financial statements

Continued

5 Earnings per share (continued)

	Earnings £000	Weighted average number of shares	Per share amount Pence
6 months to 31 October 2007			
Profit after tax	1,242		
Earnings attributable to ordinary shareholders			
Weighted average number of shares (used for basic earnings per share)		27,544,379	
Dilutive effect of options and warrants		3,698,810	
Diluted weighted average number of shares (used for diluted earnings per share)		31,243,189	
Basic earnings per share			4.51p
Diluted earnings per share			3.98p

6 Dividends

The dividends paid to equity shareholders over the past two years are set out below:

Year to 30 April 2007		£000's	
Interim dividend	2.0p	476	26 January 2007
Final dividend	3.0p	828	24 August 2007
Total dividend	5.0p	1,304	

Year to 30 April 2008

Interim dividend	2.3p	633	14 January 2008
Final dividend	3.7p	1,607	15 September 2008
Total dividend	6.0p	2,240	

Independent review report to Ashley House plc

Introduction

We have been engaged by the Company to review the financial information in the half-yearly financial report for the six months ended 31 October 2008 which comprises the condensed consolidated interim income statement, condensed consolidated interim balance sheet, condensed consolidated interim statement of changes in equity, condensed consolidated interim cash flow statement and notes 1 to 6. We have read the other information contained in the half yearly financial report which comprises only the Chairman's Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM Rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 2, the annual financial statements of the group are prepared in accordance with the basis of preparation.

Our responsibility

Our responsibility is to express to the Company a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 31 October 2008 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 2.

Grant Thornton UK LLP

Registered Auditor
Chartered Accountants
Oxford
14 January 2009

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J Holmes	Chief Executive Officer
B L Walker	Finance Director
J Arnold-Forster	Non-Executive Director
J Coghlan	Non-Executive Director
A C Cook	Non-Executive Director
G J Frost	Non-Executive Director
A Gibson	Non-Executive Director

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S Ronaldson

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