

Southern Cross Healthcare Limited
Annual report and financial statements
for the year ended 30 September 2010

Registered Number: 3078718

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Southern Cross Healthcare Limited
Annual report and financial statements
for the year ended 30 September 2010
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Directors' report for the year ended 30 September 2010

The directors present their annual report together with the audited financial statements of the company for the year ended 30 September 2010. The company's registered number is 3078718.

Principal activity

The principal activity of the company during the current and prior year comprised the development and management of care homes.

Business review and future developments

The loss for the financial year amounted to £24,024,000 (2009 profit of £465,000).

The directors have not proposed the payment of a dividend (2009 £nil).

Following events which have taken place after 30 September 2010 the Directors are anticipating that this company will cease to trade and as such have prepared these financial statements on a break-up basis. This basis of preparation is discussed below.

Basis of preparation

As stated above, the directors have prepared these financial statements on a break-up basis. This decision has been made in the context of recent announcements made by the Southern Cross Healthcare Group (hereafter referred to as the "Group"), most notably

- The release of the Q1 2011 interim management statement on 8 February 2011 which showed adjusted EBITDA to have decreased by £9.4m compared to Q1 2010. A further trading update released by the Group on 14 March 2011 stated that the Group had seen a decline in its trading outlook since the issue of the Q1 interim management statement principally due to lower than expected placements and fee levels. The trading update stated that management were addressing these issues through a series of operational and financial restructuring initiatives which would involve the Group's lenders and landlords.
- The release of the Group's interim results for the six-month period ended 31 March 2011 on 19 May 2011 in which a loss before tax of £310.9m was reported. This loss included £267.8m of non-cash accounting charges (goodwill and fixed asset impairments). These impairments and a number of other matters related to the weakness of trading in the Group reflected the existence of material uncertainties which cast significant doubt over the Group's ability to continue as a going concern. At the time of release of these results the Group stated that they had reasonable grounds for believing that key stakeholders would agree on a comprehensive package to restructure Southern Cross' financial affairs.
- A Joint Statement issued by the Group, its lenders and its landlords on 15 June 2011 in which it was stated that the Group and its landlords would work towards a consensual solution to the Group's current financial problems which would be delivered over the coming four months. This process was to be overseen by a Restructuring Committee made up of representatives of a Landlords' Committee and the Group.
- A Restructuring Update issued on 11 July 2011, in which all landlords indicated, through the Restructuring Committee, their intention to leave the Group and explained that a plan was being formulated by the Committee to facilitate the smooth transition of homes to landlords and, where appropriate, their new operators. At that point, it was envisaged that the existing Group would cease to be an operator of homes at the end of the restructuring period. It was also anticipated that landlords, lenders and, where appropriate, other residual stakeholders would agree the necessary measures to facilitate the orderly closure of the Group's

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affairs and that little or no value would be attributable to shareholders. Given these statements, and in agreement with the United Kingdom Listing Authority ("UKLA"), the Board took the decision that trading in the Group's shares be suspended with immediate effect. This remains the case at the date of approval of these financial statements.

In preparing these financial statements on a break-up basis the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against. Details of all specific impairments and provisions are provided in Note 1 to the financial statements on page 19.

All assets and liabilities as at 30 September 2010 have been classified as current.

Principal risks and uncertainties

The key business risks and uncertainties affecting the company have been assessed as being integrated with those of the group and are not identified separately. Further discussion of these risks and uncertainties and of future performance, in the context of the Southern Cross Healthcare Group PLC as a whole, is provided in the group's annual report which does not form part of this report.

Key performance indicators ('KPIs')

As these financial statements are being prepared on a break-up basis and the company is expected to cease trading the Directors are of the opinion that the presentation of KPIs is not necessary for an understanding of the development, performance and position of the business.

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), liquidity risk and credit risk. Risk management is carried out by the Southern Cross Healthcare Group PLC Risk Management Committee under policies approved by the board of directors.

Cash flow interest rate risk

The company's interest rate risk arises from intercompany borrowings, receivables and cash balances and therefore the risk is considered minimal.

Liquidity risk

As regards liquidity, the policy of the Company has throughout the year been to maintain a mix of short and long-term borrowings.

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.

Directors

The directors, who held office during the year and up to the date of signing the financial statements, were as follows:

R Midmer	(Resigned 31 December 2010)
K Foulkes	(Resigned 31 December 2009)
W Buchan	
D Smith	(Appointed 1 January 2011)

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Employees

The company 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 company communicates with its employees through the use of the company'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.

Statement of directors' responsibilities

The directors are responsible for preparing the directors' 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 prepared the 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 company and of the profit or loss of the company 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 International Financial Reporting Standards (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.

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The accounts have been prepared on a break-up basis. In the circumstances there are a number of uncertainties over the valuation of assets and liabilities and limitations in the amount of work that the company has been able to perform in preparing these accounts. These uncertainties are referred to by the company's auditors in their audit report, which also includes references to various disclaimers and limitations to the scope of their work.

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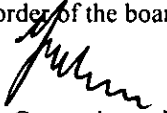
Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006 it is hereby stated, in case of each director in office at the date the directors' report is approved, that

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) 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

By order of the board


F McCormack
Company secretary

1 September 2011

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Independent auditors' report to the members of Southern Cross Healthcare Limited

We have audited the financial statements of Southern Cross Healthcare Limited for the year ended 30 September 2010 which comprise the income statement, the balance sheet, the cash flow statement, the 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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the 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 Chapter 3 of Part 16 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 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: Disclaimer on view given by the financial statements

The audit evidence available to us was limited because, as explained in note 23 to the financial statements, following announcements made by the Southern Cross Healthcare Group after the company's year end, the Board determined that it was appropriate to present the financial statements on a break-up basis, rather than on a going concern basis. As a result of the complexities arising from the implications for the company's financial statements following this decision, we have been unable to obtain sufficient appropriate audit evidence concerning the following matters:

- The financial exposure to the company which may result in the event that cross guarantees are called upon, as disclosed in note 21. The company is party to cross guarantees in relation to bank and other borrowings of other group undertakings amounting to £7.5m as at 30 September 2010.
- Whether onerous lease provisions should be recognised in respect of a number of operating leases in respect of office which the company operates from. As disclosed in note 20, rent payable under these leases currently amounts to £416,000 per annum and the unexpired portion of the leases is between 6 and 9 years.
- The carrying value of 'amounts owed by group undertakings', as disclosed in note 10, included in the balance sheet as at 30 September 2010 at an amount of £2,417,182,000.

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- The carrying value of 'current tax assets' receivable from fellow group companies included in the balance sheet at 30 September 2010 at an amount of £852,000

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2010 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

Emphases of matter – significant uncertainties and basis of preparation

In seeking to form an opinion on the financial statements, we considered the adequacy of the disclosure in respect of the following

- the disclosures in note 16 regarding the deferred tax assets As explained in these notes, because of the uncertainty regarding the nature and timing of transfer of operations to the company's landlords, and the consequent effect on the company's lease obligations, there is a significant uncertainty regarding the recoverability of the company's deferred tax assets included in the balance sheet as at 30 September at £852,000
- the disclosures in note 23 to the financial statements regarding the basis of preparation of the financial statements As explained in note 23, following announcements made by the Southern Cross Healthcare Group after the company's year end, the Board determined that it was appropriate to present the financial statements on a break-up basis, rather than on a going concern basis, and in preparing the financial statements on a break-up basis, the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against All assets and liabilities as at 30 September 2010 have been classed as current

Opinion on other matter prescribed by the Companies Act 2006

Notwithstanding our disclaimer of an opinion on the view given by the financial statements, in our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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Matters on which we are required to report by exception

In respect solely of the limitation of our work resulting from matters arising after the company's year end referred to above

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit, and
- we were unable to determine whether adequate accounting records have been kept

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

- returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made



Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
1 September 2011

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Income statement for the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
Revenue		34,545	32,407
Payroll costs	4	(20,716)	(22,604)
Central costs		(9,546)	(8,516)
EBITDA¹		4,283	1,287
Profit/(loss) on disposal of property, plant and equipment		40	(514)
Impairment of property, plant and equipment	1	(8,662)	-
Impairment of investments in subsidiary undertakings	1	(12,364)	-
Other exceptional items	5	(6,330)	(64)
Depreciation	7	(2,582)	(2,235)
Operating loss	2	(25,615)	(1,526)
Finance income	3	200	776
Finance costs	3	(1,478)	(1,912)
Loss before taxation		(26,893)	(2,662)
Taxation	6	2,869	3,127
(Loss)/profit for the year attributable to the owners of the company		(24,024)	465

¹ EBITDA represents earnings before interest tax and depreciation

There is no other comprehensive income for the year

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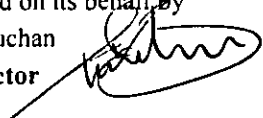
Balance sheet as at 30 September 2010

	Note	2010 £'000	2009 £'000
Assets			
Non-current assets			
Property, plant and equipment	7	-	10,122
Investments in subsidiary undertakings	8	-	12,364
Deferred tax assets	16	-	2,267
Total non-current assets		-	24,753
Current assets			
Cash and cash equivalents	9	-	8,740
Inventories	11	112	112
Property, plant and equipment	7	996	-
Other current assets	10	2,438,103	1,977,789
Current tax asset	6	852	-
Deferred tax assets	16	5,208	-
Total current assets		2,445,271	1,986,641
Total assets		2,445,271	2,011,394
Liabilities			
Current liabilities			
Current tax liability		-	(569)
Financial liabilities	12	(3,487)	(619)
Trade and other payables	13	(2,453,838)	(1,997,584)
Provisions and similar obligations	15	(250)	-
Total current liabilities		(2,457,575)	(1,998,772)
Non current liabilities			
Financial liabilities	12	-	(981)
Deferred government grants		-	(11)
Total non-current liabilities		-	(992)
Total liabilities		(2,457,575)	(1,999,764)
Net (liabilities)/assets		(12,304)	11,630
Equity			
Ordinary shares	17	4,241	4,241
Share premium account		6,054	6,054
(Accumulated deficit)/retained earnings		(22,599)	1,335
Total (deficit)/equity		(12,304)	11,630

The financial statements on pages 8 to 36 were approved by the board of directors on 1 September 2011 and signed on its behalf by

W Buchan

Director



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Cash flow statement for the year ended 30 September 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	18	(5,639)	19,860
Interest received		200	776
Interest paid		(1,478)	(1,912)
Tax (paid)/received		(1,632)	6,914
Net cash (used in)/generated from operating activities		(8,549)	25,638
Cash flows from investing activities			
Proceeds from sale of subsidiary undertakings		-	46
Purchase of property, plant and equipment	7	(4,753)	(3,769)
Proceeds from sale of property, plant and equipment		2,675	307
Net cash used in investing activities		(2,078)	(3,416)
Cash flows from financing activities			
Capital element of finance leases paid		(661)	(710)
New finance leases		57	418
Net cash used in financing activities		(604)	(292)
Net (decrease)/increase in cash and cash equivalents		(11,231)	21,930
Opening cash and cash equivalents	12	8,740	(13,190)
Closing cash and cash equivalents	12	(2,491)	8,740

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Statement of changes in shareholders' (deficit)/equity

	Note	Ordinary shares £'000	Share premium account £'000	(Accumulated deficit)/ retained earnings £'000	Total (deficit)/ equity
At 29 September 2008		4,241	6,054	499	10,794
Profit for the year attributable to the owners of the company		-	-	465	465
Share-based payments (including deferred tax of £139,000)		-	-	371	371
At 27 September 2009		4,241	6,054	1,335	11,630
Loss for the year attributable to the owners of the company		-	-	(24,024)	(24,024)
Share-based payments (including reversal of prior year deferred tax of £139,000)	19	-	-	90	90
At 30 September 2010		4,241	6,054	(22,599)	(12,304)

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Statement of accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards ("IFRS"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

At the start of the financial year the company changed its internal reporting cycles and now reports on a calendar monthly basis. The results for the period ended 30 September 2010 are therefore for a period of 368 days (2009: 364 days).

The Board presents these financial statements on a break-up basis. This decision has been made in the context of recent announcements made by the Southern Cross Healthcare Group (hereafter referred to as the "Group"), most notably:

- The release of the Q1 2011 interim management statement on 8 February 2011 which showed adjusted EBITDA to have decreased by £9.4m compared to Q1 2010. A further trading update released by the Group on 14 March 2011 stated that the Group had seen a decline in its trading outlook since the issue of the Q1 interim management statement principally due to lower than expected placements and fee levels. The trading update stated that management were addressing these issues through a series of operational and financial restructuring initiatives which would involve the Group's lenders and landlords.
- The release of the Group's interim results for the six-month period ended 31 March 2011 on 19 May 2011 in which a loss before tax of £310.9m was reported. This loss included £267.8m of non-cash accounting charges (goodwill and fixed asset impairments). These impairments and a number of other matters related to the weakness of trading in the Group reflected the existence of material uncertainties which cast significant doubt over the Group's ability to continue as a going concern. At the time of release of these results the Group stated that they had reasonable grounds for believing that key stakeholders would agree on a comprehensive package to restructure Southern Cross' financial affairs.
- A Joint Statement issued by the Group, its lenders and its landlords on 15 June 2011 in which it was stated that the Group and its landlords would work towards a consensual solution to the Group's current financial problems which would be delivered over the coming four months. This process was to be overseen by a Restructuring Committee made up of representatives of a Landlords' Committee and the Group.
- A Restructuring Update issued on 11 July 2011, in which all landlords indicated, through the Restructuring Committee, their intention to leave the Group and explained that a plan was being formulated by the Committee to facilitate the smooth transition of homes to landlords and, where appropriate, their new operators. At that point, it was envisaged that the existing Group would cease to be an operator of homes at the end of the restructuring period. It was also anticipated that landlords, lenders and, where appropriate, other residual stakeholders would agree the necessary measures to facilitate the orderly closure of the Group's affairs and that little or no value would be attributable to shareholders. Given these statements, and in agreement with the United Kingdom Listing Authority ("UKLA"), the Board took the decision that trading in the Group's shares be suspended with immediate effect. This remains the case at the date of approval of these financial statements.

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In preparing these financial statements on a break-up basis the carrying value of all assets has been re-assessed and, where appropriate, assets have been impaired or provided against. Details of all specific impairments and provisions are provided in Note 1 to the financial statements on page 19.

All assets and liabilities as at 30 September 2010 have been classed as current.

Adoption of new and revised International Financial Reporting Standards

The following new standards, amendments and interpretations, which are in issue at the balance sheet date but not yet effective, have not been applied in these financial statements.

Effective for periods commencing on or after

IFRS9 'Financial instruments' 1 January 2013

IAS24 Revised 'Related party disclosures' 1 January 2011

Amendment to IFRS7 'Financial instruments Disclosures' 1 July 2011

Amendment to IFRIC14 'Pre-payments of a Minimum Funding Requirement' 1 January 2011

IFRIC18 'Transfer of Assets from Customers' 30 October 2009

IFRIC19 'Extinguishing Financial Liabilities with Equity Instruments' 1 July 2010

Annual improvements 2010 1 January 2011

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the company.

From 28 September 2009, the following standards, amendments and interpretations became effective and were adopted by the company.

IFRS8 'Operating segments'

IAS1 Revised 'Presentation of financial statements'

IAS23 Revised 'Borrowing costs'

IAS27 Revised 'Consolidated and separate financial statements'

IFRS1 Revised 'First time adoption of IFRS'

IFRS3 Revised 'Business combinations'

IFRIC13 'Customer Loyalty Programmes'

IFRIC14 'The Limit on a Defined Benefit Asset'

IFRIC15 'Agreements for the Construction of Real Estate'

IFRIC16 'Hedges of a Net Investment Including Foreign Operations'

Amendment to IAS39 'Financial instruments Recognition and measurement', and IFRS7 'Financial instruments Disclosures' on the reclassification of financial assets.

Amendment to IFRIC9 and IAS39 regarding embedded derivatives.

Amendment to IFRS1 'First time adoption of IFRS' and IAS27 'Consolidated and separate financial statements' on the cost of an investment in a subsidiary, jointly controlled entity or associate.

Annual improvements to IFRSs (2008)

Amendment to IAS32 'Financial instruments Presentation' and IAS1 'Presentation of financial statements on puttable financial instruments and obligations arising on liquidation'.

Amendment to IFRS2, 'Share-based payments' on vesting conditions and cancellations.

Annual improvements 2009

Amendment to IFRS2 'Share-based payments - Group cash-settled share-based payment transactions'

Amendments to IFRS1 for additional exemptions

Amendments to IAS32 'Financial instruments Presentation on classification of rights issues'

Amendment to IAS39 'Financial instruments Recognition and measurement' on eligible hedged items

IFRIC17 'Distribution of Non Cash Assets to Owners'

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The adoption of these standards, amendments and interpretations has not had a significant impact on the company's result for the year or equity

Ultimate parent company support

In prior periods the Southern Cross Healthcare Group PLC has been able to undertake to provide financial support to the company to the extent necessary for the foreseeable future. Given the statements made regarding going concern throughout these financial statements the Group can no longer undertake to provide financial support to the company

Consolidated accounts

The financial statements contain information about Southern Cross Healthcare Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Southern Cross Healthcare Group PLC, a company registered in England and Wales

Significant accounting judgements, estimates and assumptions

In order to prepare these financial statements in accordance with the below accounting policies, 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 financial statements and require the most difficult, subjective and complex judgements about matters that are inherently uncertain and are set out below

Leases

Assets held under finance leases, which transfer to the company 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 normally 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 rental payments, the total committed cost is determined and is calculated and amortised on a straight-line basis over the lease term. The charge for rentals currently payable is the actual amount payable, in the period, by the company 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

Following the decision to prepare these financial statements on a break-up basis all lease obligations are deemed to be current and as such the future minimum rental increases accrual has been reclassified from non-current liabilities to current liabilities

Revenue recognition

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

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

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Payroll costs

Payroll costs represent payroll costs directly incurred at head office and central cost level

Central costs

Central costs represent costs of head office support functions

EBITDA

EBITDA represents earnings before interest, tax and depreciation

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

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

Investments in subsidiary undertakings

In prior years, investments in subsidiary undertakings were stated at cost less provision for impairment, where the provision was made for either permanent and temporary diminution in value

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the carrying value of investments in subsidiary undertakings as at 30 September 2010 has been fully impaired

Property, plant and equipment

In prior periods, property, plant and equipment has been 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

Depreciation in the current and prior year has been 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

Short leasehold property – over life of lease

Fixtures, fittings and equipment – 10% - 33⅓% per annum

Southern Cross Healthcare Limited

Motor vehicles – 25% per annum

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the carrying value of property, plant and equipment as at 30 September 2010 has been impaired

Employee benefit costs

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

Inventories

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

Taxation including deferred tax

The tax expense represents the sum of the current tax and deferred tax.

The current tax 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 company'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 company 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 equity, in which case the deferred tax is also dealt with in equity.

Cash and cash equivalents

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

Southern Cross Healthcare Limited

Finance costs

Finance costs include interest and amortisation of loan arrangement fees. Interest is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

Finance income

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

Other current assets

Other current assets primarily comprise amounts owed by group undertakings and prepayments, which are measured at the best estimate of the income required to settle the obligation.

Trade payables

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

Other payables

Other payables comprise accruals and deferred income, taxation and social security and other payables, which are measured at the best estimate of the expenditure required to settle the obligation.

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the company will comply with all attached conditions. Government grants relating to property, plant and equipment are previously included in non-current liabilities as deferred government grants were being credited to the income statement on a straight-line basis over the expected lives of the related asset. Following the decision to prepare these financial statement on a break-up basis due to the expected cessation of trade, and the resulting impairment of property, plant and equipment, any remaining government grants at 30 September 2010 have been fully credited to the income statement as there is no obligation for these grants to be repaid in the future.

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 expected point at which the lease is expected to be sublet. Calculating provisions for onerous leases requires an estimation of future lease payments and other associated costs over the remaining period of the lease. Furthermore, a suitable discount rate to calculate the present value of the future cash flows must be selected.

Following the decision to prepare these financial statements on a break-up basis all lease obligations are deemed to be current and as such all onerous lease and contract provisions have been reclassified from non-current liabilities to current liabilities.

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.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

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Fair value estimation

The carrying value less impairment provision of trade receivables and other current assets and trade and other payables are assumed to approximate their fair values

Financial risk management

The company's activities expose it to a variety of financial risks market risk (including cash flow interest rate risk), liquidity risk and credit risk Risk management is carried out by the Southern Cross Healthcare Group PLC Risk Management Committee under policies approved by the board of directors

Cash flow interest rate risk

The company's interest rate risk arises from intercompany borrowings, receivables and cash balances and therefore the risk is considered minimal

Liquidity risk

As regards liquidity, the policy of the Company has throughout the year been to maintain a mix of short and long-term borrowings

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

Southern Cross Healthcare Limited

Notes to the financial statements for the year ended 30 September 2010

1 Impairment of property, plant and equipment and investments in subsidiary undertakings

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the balance of property, plant and equipment as at 30 September 2010 has been impaired to the value of £8,662,000

The decision has also been made to fully impair the carrying value of investments in subsidiary undertakings and as a result an impairment of £12,364,000 has been recognised in the income statement for the current year

2 Operating loss

	2010	2009
	£'000	£'000
The following items have been included in arriving at operating loss		
Staff costs (note 4)	20,716	20,604
Depreciation of property, plant and equipment – owned assets	1,863	1,606
Depreciation of assets held under finance lease	719	629
Impairment of property, plant and equipment	8,662	-
Impairment of investments in subsidiary undertakings	12,364	-
Amortisation of government grants	(49)	(20)
Auditor's remuneration – audit services	208	200
Auditor's remuneration – tax related services	97	-
Loss on disposal of investments in subsidiary undertakings	2	33
(Profit)/loss on disposal of property plant and equipment	(8)	514

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3 Net finance costs

	2010 £'000	2009 £'000
Interest payable on amounts owed to group undertakings	(1,140)	(1,342)
Interest payable on finance leases	(116)	(120)
Bank interest payable	(222)	(450)
Finance costs	(1,478)	(1,912)
Other interest receivable	200	776
Finance income	200	776
Net finance costs	(1,278)	(1,136)

4 Employees and directors

The aggregate costs of staff were

	2010 £'000	2009 £'000
Wages and salaries	18,083	19,703
Social security costs	2,025	2,375
Other pension costs	608	526
	20,716	22,604

The average monthly number of management and administrative staff employed by the company during the year was 759 (2009 768)

The directors' emoluments were as follows

	2010 £'000	2009 £'000
Directors' remunerations consists of		
Aggregate emoluments	1,598	1,722
Emoluments (excluding pension contributions) of		
Highest paid director	432	585

A director received compensation of £393,000 for loss of office (2009 £nil)

Southern Cross Healthcare Limited

5 Other exceptional items

	2010	2009
	£'000	£'000
Other exceptional items	6,330	64

Exceptional costs incurred in the current year relate to the internal change programme "New Horizons", which was announced at the end of the previous financial year and other exceptional costs. In respect of New Horizons, £5.3m has been incurred to date with a further £0.3m being provided at 30 September 2010 in accordance with IAS 37 (note 14). The total costs associated with New Horizons are expected to be £6m with the majority of the remaining costs anticipated to be incurred during the first half of FY2011. Other exceptional costs of £1.0m were incurred during the period, the majority of which related to costs incurred in respect of a review of the Group's operating lease portfolio.

Exceptional costs incurred in the prior year relate to legal fees incurred regarding investments acquired in previous years.

6 Taxation

	2010	2009
	£'000	£'000
Current tax		
– current year	(695)	569
– prior year	906	(2,055)
Deferred tax (note 16)		
– current year	(1,518)	(1,050)
– prior year	(1,562)	(591)
Taxation	(2,869)	(3,127)

The current rate applicable to the company for the year ended 30 September 2010 was 28% (2009: 28%).

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The tax for the year differs to the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £'000	2009 £'000
Loss before taxation	(26,893)	(2,662)
Loss before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	(7,530)	(745)
<i>Effects of</i>		
Adjustments to tax charge in respect of previous periods	(656)	(2,646)
Rate difference	104	-
Utilisation of tax losses	(62)	-
Impairment of property, plant and equipment	2,425	-
Impairment of investments in subsidiary undertakings	3,462	-
Movement on provisions	(1,004)	-
Expenses not deductible for tax purposes	392	264
Tax credit for the year	(2,869)	(3,127)

The deferred tax charge in the current year is impacted by the change in the standard rate of corporation tax from 28% to 27% in April 2011. This has reduced the value of the company's tax asset by £104,000. The rate change will impact on the current tax charge going forward.

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7 Property, plant and equipment

	Assets under construction £'000	Short leasehold property £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 29 September 2008	2,963	1,661	6,921	4,416	15,961
Additions	1,317	443	1,392	617	3,769
Transfer to fellow subsidiaries	(741)	-	-	-	(741)
Disposals	-	-	(3)	(86)	(89)
At 27 September 2009	3,539	2,104	8,310	4,947	18,900
Additions	1,566	467	2,412	308	4,753
Transfer to fellow subsidiaries	(2,568)	-	-	-	(2,568)
Impairment	(2,537)	(2,160)	(3,562)	(403)	(8,662)
Disposals	-	-	-	(138)	(138)
At 30 September 2010	-	411	7,160	4,714	12,285
Accumulated depreciation					
At 29 September 2008	-	177	4,507	1,868	6,552
Charge for the year	-	93	1,222	920	2,235
Disposals	-	-	-	(9)	(9)
At 27 September 2009	-	270	5,729	2,779	8,778
Charge for the year	-	141	1,431	1,010	2,582
Disposals	-	-	-	(71)	(71)
At 30 September 2010	-	411	7,160	3,718	11,289
Net book amount					
At 30 September 2010	-	-	-	996	996
At 27 September 2009	3,539	1,834	2,581	2,168	10,122

Following the decision to prepare these financial statements on a break-up basis due to the expected cessation of trade, the balance of property, plant and equipment as at 30 September 2010 has been impaired as the majority of assets will not be able to provide any future economic value to the company. The total value of the impairment is £8,662,000. The remaining balance of £996,000 has been classed as current assets (2009 non-current assets).

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Assets under construction comprises of care homes which are being built by the company. During the year the company transferred newly built care homes with a cost of £2,568,000 (2009: £741,000) to fellow subsidiaries.

The net book value of assets held under finance leases totalled £996,000 at 30 September 2010 (2009: £1,561,000).

8 Investments in subsidiary undertakings

	£'000
Shares in subsidiary undertakings	
Cost	
At 29 September 2008	12,410
Investment costs transferred to another group company	(46)
At 27 September 2009	12,364
Impairment of investment in subsidiary undertakings	(12,364)
At 30 September 2010	-

The company owns 100% of the ordinary share capital of the following subsidiary undertakings at the end of the year, all of which are registered in England and Wales:

Care home operating companies

Active Care Partnerships Limited
 CC Care Limited
 Chiltern Care Homes Limited*
 Southern Cross (Armagh) Limited
 Southern Cross (Hamilton) Limited
 Southern Cross (LSC) Limited
 Southern Cross (RZ) Limited
 Southern Cross (Thames) Limited
 Southern Cross (Tornadee) Limited
 Southern Cross BC Opco Limited
 Southern Cross Care Services Limited
 Southern Cross Healthcare (Cheshire) Limited
 Southern Cross Healthcare (Clyde) Limited*
 Southern Cross Healthcare (Focus) Limited
 Southern Cross Healthcare (Kent) Limited
 Southern Cross Healthcare (South East) Limited
 Southern Cross Healthcare (West) Limited
 Southern Cross Healthcare Facilities Limited
 Southern Cross Healthcare Management Limited
 Southern Cross Healthcare Services Limited
 Southern Cross Management Limited
 Southern Cross Opco Limited
 Southern Cross Opco (2) Limited
 Stanford Homes Limited
 Trinity Care Limited*
 Trinity Care (Brookfield) Limited*

Intermediate holding company

Southern Cross Finance Limited

Dormant companies

Care (Wookey Hole) Limited*
 Doncaster Care Developments Limited*
 Southern Cross (LSD) Limited*
 Southern Cross (Meiklewood) Limited
 Southern Cross (Nerston) Limited
 Southern Cross (Stepps) Limited
 Southern Cross Healthcare Developments Limited*
 Southern Cross Healthcare Properties Limited
 Stoneyford Park Limited*
 Trinity Care (Southampton) Limited*
 Trinity Care Homes Limited*
 Trinity Care Management Limited*
 Woodleigh Property (Dormant) Limited*

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Trinity Care (Crown) Limited*

Trinity Care (Hove) Limited*

Trinity Care (Whitchurch) Limited*

*These companies are held indirectly through another subsidiary undertaking

Following the decision to prepare these financial statements on a break-up basis the carrying value of investments in subsidiary undertakings has been fully impaired resulting in an impairment being recognised in the income statement of £12,364,000

9 Cash and cash equivalents

	2010	2009
	£'000	£'000
Cash at bank and in hand	-	8,740

All cash balances are held by Barclays Bank PLC, whose current credit rating, as determined by Moody's, is P-1

10 Other current assets

	2010	2009
	£'000	£'000
Other receivables	1,564	1,730
Amounts owed by group undertakings	2,417,182	1,968,909
Prepayments and accrued income	19,357	7,150
Other current assets	2,438,103	1,977,789

Amounts owed by group undertakings were formerly underwritten by the undertaking of the Southern Cross Healthcare Group to provide financial support across the Group. Given the statements made regarding going concern throughout these financial statements the Group can no longer undertake to provide this financial support and therefore the recoverability of amounts owed by group undertakings are subject to significant doubt.

The directors note that the auditor's report includes a disclaimer of opinion in respect of the above balance.

11 Inventories

	2010	2009
	£'000	£'000
Consumables	112	112

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12 Financial liabilities

(a) Short term financial liabilities

	2010 £'000	2009 £'000
Bank overdraft	2,491	-
Obligations under finance leases	996	619
	3,487	619

(b) Long term financial liabilities

	2010 £'000	2009 £'000
Obligations under finance leases	-	981

As the Company is preparing these financial statements on a break up basis all financial liabilities are classed as due within one year. In the prior period, the company had finance leases due in less than one year of £619,000), due in one to two years of £504,000) and due in three to five years of £477,000

13 Trade and other payables

	2010 £'000	2009 £'000
Trade payables	16,729	16,775
Taxation and social security	12,633	14,725
Accruals and deferred income	61,104	57,264
Amounts owed to group undertakings	2,355,885	1,893,177
Other payables	7,487	15,643
	2,453,838	1,997,584

Trade and other payables are not subject to interest. Amounts owed to group undertakings are unsecured, repayable upon demand and interest is charged at 4% (2009: 5%)

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14 Financial instruments

Numerical financial instruments disclosures are set out below

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 by category

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

	2010 Loans and receivables £'000	2009 Loans and receivables £'000
Assets as per balance sheet		
Cash and cash equivalents	-	8,740
Other current assets	2,481,746	1,970,639
	2,481,746	1,979,379

	2010 Other financial liabilities £'000	2009 Other financial liabilities £'000
Liabilities as per balance sheet		
Trade and other payables	2,446,351	1,981,941
Short term financial liabilities	3,487	619
Long term financial liabilities	-	981
	2,449,838	1,983,541

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.

Financial assets and liabilities are denominated in sterling.

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15 Provisions and similar obligations

	£'000
At 28 September 2009	-
Additions	(700)
Utilised in the period	450
At 30 September 2010	(250)

A provision of £700,000 has been recognised in the period being direct expenses arising from the "New Horizons" change programme, and has been charged to exceptional costs in accordance with IAS 37. Of this provision, £450,000 has been utilised in the period with the remaining £250,000 due to be fully utilised within one year.

16 Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27% (2009 28%).

The movement on the deferred tax account is as shown below

	2010 £'000	2009 £'000
Opening balance – asset	2,267	626
Income and expense credit	3,080	1,641
Deferred tax charged to equity	(139)	-
Closing balance – asset	5,208	2,267

The movements in deferred tax assets and liabilities during the year are shown below

Deferred tax	Other £'000	Accelerated capital allowances £'000	Total £'000
At 28 September 2009	548	1,719	2,267
Income and expense credit	2,516	564	3,080
Deferred tax charged to equity	(139)	-	(139)
At 30 September 2010	2,925	2,283	5,208

The company is continuing to recognise deferred tax assets in relation to accelerated capital allowances as the company is expected to cease trading in the near future, and upon cessation of trade these accelerated capital

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allowances will crystallise. Given the expected timing of crystallisation, deferred tax assets are now classified as current assets (2009 non-current assets)

17 Ordinary shares

	2010	2009
	£'000	£'000
Authorised share capital		
4,000,000 7% cumulative preference shares of £1 each	4,000	4,000
10,000,000 ordinary shares of £1 each	10,000	10,000
257,217 "A" ordinary shares of 1p each	3	3
	14,003	14,003
Allotted and fully paid		
4,238,265 ordinary shares of £1 each	4,238	4,238
247,817 "A" ordinary shares of 1p each	3	3
	4,241	4,241

The ordinary shares of £1 each and "A" ordinary shares of 1p each pari passu in respect of dividends, winding up and voting rights

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18 Cash flows from operating activities

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

	2010 £'000	2009 £'000
Operating loss	(25,615)	(1,526)
<i>Adjustments for</i>		
(Profit)/loss on disposal of property, plant and equipment	(40)	514
Impairment of property, plant and equipment	8,662	-
Impairment of investments in subsidiary undertakings	12,364	-
Depreciation	2,582	2,235
<i>Changes in working capital</i>		
Increase in inventories	-	(20)
Increase in share-based payments	229	371
Increase in other current assets	(460,314)	(15,896)
Increase in trade and other payables	456,254	34,202
Decrease in government grants	(11)	(20)
Increase in provisions and similar obligations	250	-
Cash (used in)/generated from operating activities	(5,639)	19,860

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19 Share-based payments

The total debit for share-based payments was £229,000 (2009 debit of £267,000) with a debit to deferred tax in reserves of £139,000 (2009 income statement credit of £310,000)

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 senior management. Annual grants are made under the PSP with a value up to 100% of an individual's salary. Vesting of shares is subject to performance conditions based on earnings per share and total shareholder return.

A reconciliation of option movements during the year is given below

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	'000	p	'000	p
Outstanding				
Beginning of period	5,139	£Nil	5,010	£Nil
Granted	1,866	£Nil	2,515	£Nil
Lapsed	(3,334)	£Nil	(2,386)	£Nil
End of period	3,671	£Nil	5,139	£Nil

The fair value of the company's options granted in the year ended 30 September 2010 and the assumptions in the calculation are as follows

Grant date	January 2010	October 2009	July 2009	May 2009	May 2008	January 2008
Share price at grant date	£1.55	£1.27	£1.48	£1.30	£3.83	£4.55
Exercise price	£nil	£nil	£Nil	£Nil	£Nil	£Nil
Number granted	1,735,903	130,000	150,000	2,365,000	370,970	3,719,808
Vesting period (years)	3	3	3	3	3	3
Expected volatility	n/a	n/a	n/a	n/a	29.00%	29.00%
Contracted life (years)	3	3	3	3	3	3
Risk free rate	n/a	n/a	n/a	n/a	4.26%	4.26%
Dividend yield	n/a	n/a	n/a	n/a	2.16%	2.16%
Fair value per option	£1.55	£1.27	£1.48	£1.30	£6.96	£6.96

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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 3.0 months.

No options were exercisable at 30 September 2010.

May, July and October 2009 Awards

The options will become exercisable on attainment of a performance target based on EBITDA before adjustments for future minimum rental increases. 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 20.0 months.

No options were exercisable at 30 September 2010.

January 2010 awards

The options will become exercisable on attainment of a performance target based on EPS. 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 27.0 months.

No options were exercisable at 30 September 2010.

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 directors' appointment.

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A reconciliation of option movements during the period is given below

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	'000	p	'000	p
Outstanding				
Beginning of the period	5,500	£1.36	-	n/a
Granted	-	n/a	5,500	£1.36
End of the period	5,500	£1.36	5,500	£1.36

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	£1.36
Number granted	5,500,000
Vesting period (years)	3
Expected volatility	39.00%
Contracted life (years)	3
Risk free rate	n/a
Dividend yield	n/a
Fair value per option	£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 13.0 months.

No options were exercisable at 30 September 2010.

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20 Financial commitments

The following table is prepared based on current contractual lease obligations however given the statements made regarding going concern throughout these financial statements it is the opinion of the directors that these obligations are unlikely to crystallise in the future

At 30 September 2010 and 27 September 2009 the company had total commitments under non-cancellable operating leases as follows

	2010 £'000	2009 £'000
Within one year	931	962
Within one to three years	1,862	1,924
Within three to five years	1,862	1,924
After more than five years	1,113	1,920
	5,768	6,730

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

	2010 £'000	2009 £'000
Annual rental increases based on RPI	931	962

The directors note that the auditors' report contains a disclaimer of opinion in respect of the leases held by this company. The cash rent currently payable under these leases amounts to £416,000 per annum and the unexpired portion of the leases is between 6 and 9 years

21 Contingent liabilities

The company is party to cross guarantees in relation to bank and other borrowings of other group undertakings amounting to £7.5m (2009 £41.9m), however given that the directors are currently facilitating the orderly closure of the company the likelihood of such cross-guarantees being called upon, and thus the financial exposure to this company, cannot be reliably quantified

The directors note that the auditor's report includes a disclaimer of opinion in respect of the above

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22 Related party transactions

The majority of the transactions of all companies within Southern Cross Healthcare Group PLC in the current and prior year were funded through the bank account held in Southern Cross Healthcare Limited which is central to the group's treasury activities. The main transactions with group companies are disclosed below.

Year ended 30 September 2010

	Working capital movement decrease	Interest paid	Net amounts owed by
	£'000	£'000	£'000
Fellow subsidiary undertakings	(47,840)	(1,140)	61,297

Year ended 27 September 2009

	Working capital movement decrease	Interest paid	Net amounts owed by
	£'000	£'000	£'000
Fellow subsidiary undertakings	(16,947)	(1,342)	75,732

During the year the company received management charges of £34,545,000 (2009: £32,407,000) in total from companies within the Southern Cross Healthcare Group PLC.

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

23 Post balance sheet events

Since the end of the current financial year there have been events and announcements made which have resulted in the directors deciding to prepare these financial statements on a break-up basis.

This decision has been made in the context of the following events and announcements made by the Southern Cross Healthcare Group (hereafter referred to as the "Group"), most notably:

- The release of the Q1 2011 interim management statement on 8 February 2011 which showed adjusted EBITDA to have decreased by £9.4m compared to Q1 2010. A further trading update released by the Group on 14 March 2011 stated that the Group had seen a decline in its trading outlook since the issue of the Q1 interim management statement principally due to lower than expected placements and fee levels. The trading update stated that management were addressing these issues through a series of operational and financial restructuring initiatives which would involve the Group's lenders and landlords.

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- The release of the Group's interim results for the six-month period ended 31 March 2011 on 19 May 2011 in which a loss before tax of £310.9m was reported. This loss included £267.8m of non-cash accounting charges (goodwill and fixed asset impairments). These impairments and a number of other matters related to the weakness of trading in the Group reflected the existence of material uncertainties which cast significant doubt over the Group's ability to continue as a going concern. At the time of release of these results the Group stated that they had reasonable grounds for believing that key stakeholders would agree on a comprehensive package to restructure Southern Cross' financial affairs.
- A Joint Statement issued by the Group, its lenders and its landlords on 15 June 2011 in which it was stated that the Group and its landlords would work towards a consensual solution to the Group's current financial problems which would be delivered over the coming four months. This process was to be overseen by a Restructuring Committee made up of representatives of a Landlords' Committee and the Group.
- A Restructuring Update issued on 11 July 2011, in which all landlords indicated, through the Restructuring Committee, their intention to leave the Group and explained that a plan was being formulated by the Committee to facilitate the smooth transition of homes to landlords and, where appropriate, their new operators. At that point, it was envisaged that the existing Group would cease to be an operator of homes at the end of the restructuring period. It was also anticipated that landlords, lenders and, where appropriate, other residual stakeholders would agree the necessary measures to facilitate the orderly closure of the Group's affairs and that little or no value would be attributable to shareholders. Given these statements, and in agreement with the United Kingdom Listing Authority ("UKLA"), the Board took the decision that trading in the Group's shares be suspended with immediate effect. This remains the case at the date of approval of these financial statements.

24 Ultimate parent company

The immediate parent company is Southern Cross (SX Holdco) Limited, a company registered in England and Wales.

The ultimate parent undertaking and controlling party is Southern Cross Healthcare Group PLC, a company registered in England, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Southern Cross Healthcare Group PLC's consolidated financial statements can be obtained from its registered office:

Southgate House, Archer Street, Darlington, County Durham, DL3 6AH

25 Registered office and domicile

The company's registered office is Southgate House, Archer Street, Darlington, County Durham, DL3 6AH and the company is registered in England and Wales.