

**NHP SECURITIES NO.2 LIMITED**

**Report and Financial Statements**

**30 September 2010**



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## **NHP SECURITIES NO.2 LIMITED**

### **REPORT AND FINANCIAL STATEMENTS 2010**

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**REPORT AND FINANCIAL STATEMENTS 2010**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

J M J M Jensen  
P H Thompson

**COMPANY SECRETARY**

L Pang

**REGISTERED OFFICE**

Liberty House  
222 Regent Street  
London W1B 5TR

**BANKERS**

Barclays Bank PLC  
South East Corporate Banking Centre  
P O Box 112  
Horsham  
West Sussex RH12 1YQ

**SOLICITORS**

Eversheds LLP  
Kett House  
Station Road  
Cambridge CB1 2JY

**AUDITORS**

Deloitte LLP  
Chartered Accountants  
London

## **DIRECTORS' REPORT**

The Directors present their annual report and the audited financial statements for the year ended 30 September 2010

The Directors' Report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption

### **PRINCIPAL ACTIVITY**

The principal activity of the Company is the holding of freehold and long leasehold interests in predominantly modern, purpose-built care homes, the overriding leasehold interests of which have been sold to Care Homes No 1 Limited. The Directors intend to continue this activity in the forthcoming year.

### **BUSINESS REVIEW**

At 30 September 2010 the Company owned 15 freehold and 2 long leasehold investment properties valued at £50,922,000 (2009 £51,991,000)

### **RESULTS**

The results for the year to 30 September 2010 are set out in the profit and loss account on page 7

### **DIVIDENDS**

No dividends in respect of the year are proposed (2009 - £ nil)

### **DIRECTORS**

The following Directors served throughout the year except as noted

	<u>Date Appointed</u>	<u>Date Resigned</u>
P H Thompson	6 November 2009	
M J Grant	2 July 2009	6 November 2009
J M J M Jensen	19 December 2008	-

The current Directors of the Company are detailed on page 1

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force to the date of this report

### **GOING CONCERN**

The Company is a guarantor for a loan entered into by another group company and is also reliant on the Group to continue as a going concern due to its losses and net current liability position. Nevertheless, the Group has been in technical breach of its loan covenants since 15 December 2008 due to the fall in property values and the Directors of the Company have been in restructuring negotiations with its lenders since 28 November 2008 and have entered into a series of standstill agreements which suspend the rights of creditors in respect to the Senior Loan and the Mezzanine Loan to enforce their rights under the loan documents and related security. On 13 December 2010, a further standstill agreement was put in place, expiring 14 February 2011.

Since January 2009, the Directors have also been relying on a confirmation from Capita (the special servicer to the Senior Loan under the securitisation structure) that for so long as discussions with respect to a potential reorganisation of the affairs of the Group and a restructuring of its debt obligations are continuing, and on the understanding that such funds shall not be applied in contravention of the terms relating to the Senior Loan, it is the intention of the creditors with respect to the Senior Loan to provide the group with the funds it requires to make payments falling due as a consequence of the group carrying on its business from the Senior Borrowers' cash reserve account within a reasonable time upon request.

Given these circumstances along with other matters disclosed in note 1, the Directors do not currently expect the Company to go into insolvent liquidation but there is a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern, which casts the same doubt as to the Company's ability to continue as a going concern. Nonetheless, at the present time, the Directors consider it appropriate to prepare the financial statements on the going concern basis. See further details in note 1 to the financial statements.

**DIRECTORS' REPORT**

**(Continued)**

**AUDITORS**

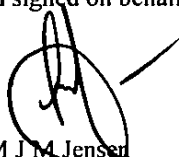
Each of the persons who is a director at the date of approval of this report confirms that

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be re-appointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting

Approved by the Board of Directors  
and signed on behalf of the Board

A handwritten signature in black ink, appearing to be 'J M J M Jensen', written over a circular stamp or seal.

J M J M Jensen  
Director  
Date 8 February 2011  
Liberty House  
222 Regent Street  
London W1B 5TR

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 and loss of the Company for that period. In preparing these financial statements, the Directors are required to

- (a) select suitable accounting policies and then apply them consistently,
- (b) make judgements and accounting estimates that are reasonable and prudent,
- (c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- (d) 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 proper 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 to 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.

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF NHP SECURITIES NO.2 LIMITED**

We have audited the financial statements of NHP Securities No 2 Limited for the year ended 30 September 2010, which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the note of historical cost profits and losses and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, 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 (APB's) Ethical Standards for Auditors.

#### **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 on financial statements**

In our opinion 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 for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Emphasis of matter – Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company incurred a net loss of £502,114 for the year ended 30 September 2010 and, as of that date, the Company's current liabilities exceeded its current assets by £6,499,460. Thus the Company is reliant on the Group to continue as a going concern.

The Group is in breach of the financial covenants in its loan agreement (as described in note 1). The Directors are in discussion with Capita Asset Services (UK) Limited regarding a resolution of the breach. However, the outcome of these discussions and the timing of their conclusion are uncertain.

These conditions, along with other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBERS OF NHP SECURITIES NO.2 LIMITED (CONTINUED)**

**Opinion on other matter prescribed by the Companies Act 2006**

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

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you, if in our opinion

- adequate accounting records have not been kept, or 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, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the Directors' Report



Mark Beddy (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, United Kingdom

Date 8 February 2011



**NHP SECURITIES NO.2 LIMITED****PROFIT AND LOSS ACCOUNT**  
**Year ended 30 September 2010**

	Notes	2010 £	2009 £
<b>TURNOVER AND GROSS PROFIT</b>	3	<u>4,914,341</u>	<u>4,841,461</u>
Administrative expenses	4	<u>(5,581,562)</u>	<u>(4,891,466)</u>
<b>OPERATING LOSS</b>		<u>(667,221)</u>	<u>(50,005)</u>
Net interest receivable and similar income	5	<u>144,868</u>	<u>83,412</u>
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(522,353)</u>	<u>33,407</u>
Tax on (loss) / profit on ordinary activities	6	<u>20,239</u>	<u>-</u>
<b>(Loss) / Profit on ordinary activities after taxation and (loss) /profit for the financial year</b>	13	<u><u>(502,114)</u></u>	<u><u>33,407</u></u>

Results are derived wholly from continuing operations

# NHP SECURITIES NO.2 LIMITED

## BALANCE SHEET 30 September 2010

	Notes	2010	2009
		£	£
<b>TANGIBLE FIXED ASSETS</b>			
Investment properties	7	50,922,000	51,991,000
Investment	8	-	-
<b>CURRENT ASSETS</b>			
Debtors	9	28,079	64,110
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(6,527,539)</u>	<u>(6,041,217)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(6,499,460)</u>	<u>(5,977,107)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		44,422,540	46,013,893
<b>PROVISIONS FOR LIABILITIES</b>	11	<u>(242,470)</u>	<u>(262,709)</u>
<b>NET ASSETS</b>		<u>44,180,070</u>	<u>45,751,184</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	2	2
Capital contribution reserve	13	30,809,580	30,809,580
Revaluation reserve	13	8,741,383	9,810,383
Profit and loss account	13	<u>4,629,105</u>	<u>5,131,219</u>
<b>SHAREHOLDERS' FUNDS</b>		<u>44,180,070</u>	<u>45,751,184</u>

These financial statements were approved and authorised for issue by the Board of Directors on 8 February 2011  
The Company Registration number is 3287983

The financial statements have been prepared in accordance with the special provisions applicable to companies subject to the small companies regime

Signed on behalf of the Board of Directors



J M J M Jensen  
Director



P H Thompson  
Director

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**Year ended 30 September 2010**

	<b>Note</b>	<b>2010 £</b>	<b>2009 £</b>
(Loss) / Profit for the year		(502,114)	33,407
Net deficit on revaluation of land and buildings	13	<u>(1,069,000)</u>	<u>(6,170,000)</u>
Total recognised losses for the year		<u><u>(1,571,114)</u></u>	<u><u>(6,136,593)</u></u>

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**  
**Year ended 30 September 2010**

	<b>Note</b>	<b>2010 £</b>	<b>2009 £</b>
(Loss) / Profit for the year		(502,114)	33,407
Net deficit on revaluation of land and buildings	13	<u>(1,069,000)</u>	<u>(6,170,000)</u>
Net decrease in shareholders' funds		(1,571,114)	(6,136,593)
Shareholders' funds at the beginning of the year		<u>45,751,184</u>	<u>51,887,777</u>
Shareholders' funds at the end of the year		<u><u>44,180,070</u></u>	<u><u>45,751,184</u></u>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**  
**Year ended 30 September 2010**

	<b>2010 £</b>	<b>2009 £</b>
(Loss) / Profit on ordinary activities before taxation	<u>(522,353)</u>	<u>33,407</u>
Historical cost (loss) / profit on ordinary activities before taxation	<u>(522,353)</u>	<u>33,407</u>
Historical cost (loss) / profit retained for the year	<u><u>(502,114)</u></u>	<u><u>33,407</u></u>

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2010

#### 1. GOING CONCERN

The Company is a guarantor for a loan entered into by another group company

As at 30 September 2010, LIBRA No 2 Limited, the Company's intermediate parent undertaking (the "**Mezzanine Borrower**") had a term loan of £70 million (the "**Mezzanine Loan**") and LIBRA No 3 Limited (a subsidiary of the Mezzanine Borrower) (the "**Senior Borrower**") had a term loan of £1,172 million (the "**Senior Loan**") secured on the investment properties and freehold land and buildings (the "**Portfolio**") of the Mezzanine Borrower and its subsidiaries (the "**Group**") As at 8 February 2011, the loan amounts remain outstanding The original final maturity date of the Senior Loan was 15 January 2009 and of the Mezzanine Loan was 15 February 2009 (each, the "**original final maturity date**"), with an option to extend these loans to 15 January 2010 and 15 February 2010 respectively (each, the "**final maturity date**"), in each case provided (among other things) that no default was outstanding at the original final maturity date

However, a fall in property values in the period to 30 September 2008 and a further fall in the period to 15 December 2008 resulted in the breach of, among other things, the loan to value ('LTV') financial covenant with respect to the Senior Loan (resulting in an automatic cross-default with respect to the Mezzanine Loan) As a result, the Group was not in a position to extend the loans to the final maturity date Other breaches of the terms of the loan documents, chiefly concerning information covenants, also resulted in defaults with respect to the Senior Loan and the Mezzanine Loan

Under the terms of the respective loan documents, the Senior Borrower was required to make repayment of the Senior Loan on 15 January 2009 and the Mezzanine Borrower was required to make repayment of the Mezzanine Loan on 15 February 2009 These repayments were not made As a result, the respective borrowers have become liable for an additional 2% default interest with respect to the overdue amounts The default interest amounts have contributed to a breach of the interest cover ratio ('ICR') financial covenant in relation to the Senior Loan (resulting in an automatic cross-default with respect to the Mezzanine Loan)

Since November 2008, the Directors of the Group have been in ongoing discussions with Capita Asset Services (UK) Limited ("**Capita**"), the special servicer to the Senior Loan under the securitisation structure (which operates on a back-to-back basis with the Senior Loan) and have entered into a series of standstill agreements which suspend the rights of the creditors with respect to the Senior Loan and the Mezzanine Loan to enforce their rights under the loan documents and related security On 13 December 2010 a further standstill agreement was put in place, expiring 14 February 2011 On 17 January 2011 the Senior Borrower was unable to satisfy its interest payment in full on the interest payment date The non full interest payment has been acknowledged in the Amendment to Standstill Agreement dated 19 January 2011

The Directors of the Group and Capita continue to explore alternative options to maximise the recoveries of the Senior Loan, including the sale of the whole or part of the Group and/or the properties (the "**Disposal Options**")

On 7 December 2010 the Group's principal tenant, Southern Cross Healthcare plc ("**Southern Cross**"), announced as part of its preliminary full year results that it had engaged Morgan Stanley to review its lease arrangements with landlords Since then, the Directors of the Company and Capita have been in on-going discussions with Southern Cross and its advisors in respect of a potential restructuring of the Southern Cross' obligations to the Group under the lease documents (the "**Southern Cross Discussions**") Such discussions are at a preliminary stage The Senior Borrower and Capita have jointly appointed Ernst & Young LLP as an advisor to assist in the discussions with Southern Cross and to provide on-going advice as to the various options relating to the Group's properties that are leased to Southern Cross

In order to be able to improve flexibility with regard to the Disposal Options and the potential restructuring under the Southern Cross Discussions, the Directors of the Company signed an agreement on 17 January 2011 with the lenders of the Mezzanine Loan enabling the restatement and amendment of the original Mezzanine Loan, which had the effect of waiving certain "hold-out"-rights under the transaction documents held by the Mezzanine Loan lenders, which would otherwise have restricted the Group's ability ultimately to optimise the Disposal Options and the Southern Cross Discussions

## NOTES TO THE ACCOUNTS

### Year ended 30 September 2010

#### 1. GOING CONCERN (Continued)

While the Disposal Options and the Southern Cross Discussions are being progressed, the discussions with respect to restructuring the Senior Loan and the Mezzanine Loan are on hold pending the outcome of the Southern Cross Discussions but may be restarted in due course

As at 30 September 2010, the Directors were advised by their valuers, King Sturge LLP, that the appropriate yield for the Portfolio was 8.77%, and the value of the Portfolio was £827.15 million after allowing for purchaser's costs of 1.75%, valued on the basis of the individual properties being sold as separate businesses. The LTV ratio (the total of the carrying value of the loans and the fair value of the interest rate swaps attached to them as a percentage of market value of the total property portfolio) at that time was 165.23%. Due to a continued fall in property values and the default interest charges, the Group was in a net liability position of £678.71 million as at 30 September 2010.

King Sturge LLP have drawn attention in their valuation certificate as of 30 September 2010 to the fact that recent announcements in relation to Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures are detrimentally affecting market sentiment and, in the opinion of King Sturge, are likely to affect market values going forward.

In late 2010 Capita engaged King Sturge LLP to provide an updated property valuation. According to this valuation, as at 30 December 2010 the appropriate yield for the Group's portfolio remained at 8.77%. Notwithstanding the recent announcements in relation to Southern Cross, the lack of property transactions in the market, government measures, fees pressures and the lack of debt finance, King Sturge LLP has considered that the value of the portfolio has remained at the same level as at 30 September 2010 valuation. As at 17 January 2011 the LTV ratio is 156.65%, calculated based on the latest valuation.

In order for the Group to continue to trade as a going concern, the Directors of each of the entities in the Group need to be satisfied that they will continue to be able to meet their operating costs and expenses as they fall due. The Directors have prepared cash flow forecasts covering the period to 30 April 2012 which indicate that there is a shortfall in the operational cash flow of the Group during that period. The cash flow forecasts also indicate that the ICR test will continue not to be met throughout the testing period.

Since January 2009, the Directors have been relying on a confirmation from Capita, subsequently amended on 20 January 2011, that for so long as the Southern Cross Discussions continue and/or the Disposal Options are continuing and discussions in respect of a potential reorganisation of the affairs of the Group and a restructuring of its debt obligations (the "Potential Restructuring") may be restarted, and provided such funds shall not be applied in contravention of the terms relating to the Senior Loan, it is the intention of the creditors with respect to the Senior Loan to provide the Group with the funds it requires to make payments falling due as a consequence of the Group carrying on its business (including, without limitation, (a) day to day operating costs and expenses, (b) restructuring and/or disposal costs, and (c) other exceptional costs incurred in relation to the Southern Cross Discussions, the Disposal Options and/or the Potential Restructuring) from the Senior Borrower's cash reserve account within a reasonable time upon request.

Given these circumstances, the Directors do not currently expect the Group to go into insolvent liquidation, although this position could change if either the negotiations for which the current standstill agreement allows were to fail or the financial stability of Southern Cross were to deteriorate in the foreseeable future. Given the above, there is a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern, which casts the same doubt as to the Company's ability to continue as a going concern due to the fact that the Company is a guarantor to the loan and it is reliant on the Group, and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nonetheless, at the present time, the Directors consider it appropriate to prepare the Company financial statements on a going concern basis. In the event that a going concern basis should become inappropriate, the assets of the Company would be written down to their recoverable value and provision made for any further liabilities that may arise. At this time it is not practicable to quantify such adjustments.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2010**

**2. ACCOUNTING POLICIES**

**Basis of accounting**

Except as noted above, the financial statements are prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below. The accounting policies have been followed consistently during the current and previous years.

**Turnover**

Turnover represents amounts receivable on overriding lease rents during the year, excluding Value Added Tax. The Company recognises the amount of turnover in accordance with the Overriding Lease Agreement.

**Investment Properties**

The cost of investment properties is purchase cost, together with any incidental costs of acquisition and subsequent capital additions at costs.

Investment properties represent freehold properties held for long term retention. In accordance with SSAP No 19 'Accounting for Investment Properties', these investment properties are valued by King Sturge LLP, the qualified external valuers on an individual property basis at Market Value at 30 September 2010 and 2009. The aggregate revaluation surplus or deficit is transferred to the revaluation reserve whilst any permanent diminution in value is charged to the profit and loss account.

**Depreciation**

***Investment Properties***

In accordance with Statement of Standard Accounting Practice No 19, no depreciation is provided in respect of residual property interests. Under the terms of the Company's leases, such properties are required to be maintained to a high standard by the tenants.

This treatment is a departure from the statutory accounting rules, which requires all fixed assets to be depreciated over their effective useful lives. However, such property interests are not held for consumption, but for investment, and the Directors consider that systematic depreciation would be inappropriate and would not give a true and fair view. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation is one of the factors reflected in the annual revaluation which might otherwise have been charged, cannot be separately identified or quantified.

**Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which have originated at the balance sheet date and which could give rise to an obligation to pay more or less tax in the future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognised in respect of gains and losses on revalued assets unless the company has entered into a binding agreement to sell the assets and the gains or losses have been recognised in the profit and loss account. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Interest**

Interest receivable and interest payable are recognised in the financial statements on an accruals basis.

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2010**

**2. ACCOUNTING POLICIES (Continued)**

**Cash flow statement**

As the Company is a wholly owned subsidiary, it has taken exemption under the terms of Financial Reporting Standard 1 (revised 1996) 'Cash flow statements' from preparing cash flow statement, as it is included in the consolidated financial statements of LIBRA No 2 Limited, which are publicly available

**3. TURNOVER AND GROSS PROFIT**

Turnover comprises the following earned from the Company's ordinary activities which take place wholly within the United Kingdom

	2010 £	2009 £
Overriding lease rents received from group undertaking	4,914,341	4,841,461

**4. ADMINISTRATIVE EXPENSES**

Administrative expenses include

	2010 £	2009 £
Group management fees	114,273	63,675
Provision of doubtful debts – group undertakings	5,452,377	4,799,305
Fees payable to the Company's auditors for the audit of the annual accounts	8,912	12,000
Tax advisers fees payable to the Company's auditors*	6,000	13,418

\* The tax fees include amounts of £nil (2009 £7,418) payable to the Company's auditors in respect of the tax services provided on the 2004 and 2005 tax returns enquiry made by the HM Revenue and Custom

**5. NET INTEREST RECEIVABLE AND SIMILAR INCOME**

	2010 £	2009 £
Loan notes interest receivable from group undertaking	498,302	440,614
Other interest receivable	3,704	-
Interest payable to NHP Limited in respect of loan notes	(357,137)	(357,137)
Finance costs	(1)	(65)
	144,868	83,412

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2010**

**6. TAX ON (LOSS) / PROFIT ORDINARY ACTIVITIES**

	2010 £	2009 £
Corporation tax credit		
- Current year	-	-
Deferred tax credit	20,239	-
Total tax credit	<u>20,239</u>	<u>-</u>
Reconciliation of current year charge		
(Loss) / Profit before tax	(522,353)	33,407
Tax on (loss) / profit at standard rate of 28% (2009 28%)	(146,259)	9,354
Factors affecting tax charge		
Non-deductible expenditure	-	859
Non-deductible provisions	1,526,666	1,343,805
Group relief for nil consideration	<u>(1,380,407)</u>	<u>(1,354,018)</u>
Current tax credit	<u>-</u>	<u>-</u>

The tax charge for the current year is higher than that resulting from applying the standard rate of corporation tax due to certain expenditure being disallowable for tax purposes

The main rate of corporation tax will be reduced from 28% to 27% from 1 April 2011. There will be further 1% reductions in the main corporation tax rate in each of the next three years to bring the rate down to 24% by 1 April 2014 as such the main rate of corporation tax will fall to 27% for 2011-12, with further 1% cuts in the following three years to 26% in 2012-13, 25% in 2013-14, and 24% in 2014-15

**7. TANGIBLE FIXED ASSETS**

**Investment Properties**

	Freehold property interest £	Long leasehold property interest £	Total £
At valuation 1 October 2009	45,018,000	6,973,000	51,991,000
Net deficit on revaluation, transferred to revaluation reserve (note 13)	<u>(949,000)</u>	<u>(120,000)</u>	<u>(1,069,000)</u>
At valuation 30 September 2010	<u>44,069,000</u>	<u>6,853,000</u>	<u>50,922,000</u>

Investment properties are stated at market value as at 30 September 2010 as valued by professionally qualified external valuers. The Group's properties were valued by King Sturge LLP, Chartered Surveyors. The valuations have been prepared in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. In their valuation report, King Sturge have confirmed that the opinions and values stated therein represent their objective view as at 30 September 2010.



**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2010**

**7. TANGIBLE FIXED ASSETS (Continued)**

The King Sturge valuation report as at 30 September 2010 commented that recent announcements in relation to Southern Cross and a continuing lack of liquidity in the financial sector together with austerity measures are detrimentally affecting market sentiment and, in the opinion of King Sturge, are likely to affect market values going forward. They further commented that as these events, with particular reference to Southern Cross, are so recent and circumstances continue to change, they were not able to accurately assess the effect there will be on the market with the evidence available to them and they had therefore applied their professional judgement.

The Directors have reviewed King Sturge LLP's valuation at 30 September 2010 and have considered that no permanent diminution is required on the investment properties.

**8. INVESTMENT**

	<b>Subordinated loan notes investment in group undertaking £</b>
<b>Cost</b>	
At 1 October 2009	12,603,232
Addition	4,913,811
At 30 September 2010	<u>17,517,043</u>
<b>Provision</b>	
At 1 October 2009	(12,603,232)
Provision for the year	(4,913,811)
At 30 September 2010	<u>(17,517,043)</u>
<b>Net book value:</b>	
At 30 September 2010	<u>-</u>
At 30 September 2009	<u>-</u>

At 30 September 2010, a loan note of £17,517,043 (2009 £12,603,232) was invested in Care Homes No 1 limited, a group undertaking. The loan note has no fixed repayment date and bears interest of LIBOR plus 2% per annum.

**9. DEBTORS**

	<b>2010 £</b>	<b>2009 £</b>
Amounts falling due within one year		
Corporation tax	-	36,031
Prepayments and accrued income	28,079	28,079
	<u>28,079</u>	<u>64,110</u>

**NOTES TO THE ACCOUNTS**

**Year ended 30 September 2010**

**10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2010	2009
	£	£
Other creditors	6,000	6,000
Loan notes due to NHP Limited*	4,201,615	4,201,615
Loan note interest payable to group undertaking	2,190,739	1,833,602
Amounts owed to group undertakings	129,185	-
	<u>6,527,539</u>	<u>6,041,217</u>

\*The loan notes, which represent the consideration payable for assets transferred from group undertakings, have no final repayment dates and carry loan interest at 8.5% (2009 – 8.5%) per annum

**11. PROVISIONS FOR LIABILITIES**

	Provided		Unprovided	
	2010	2009	2010	2009
	£	£	£	£
Deferred taxation				
Accelerated capital allowances	242,470	262,709	-	-
Revaluation of investment properties	-	-	2,778,966	5,126,987
	<u>242,470</u>	<u>262,709</u>	<u>5,126,987</u>	<u>5,126,987</u>

Movement in deferred tax	£
At 1 October 2009	262,709
Credit to the profit and loss account	(20,239)
	<u>242,470</u>
At 30 September 2010	<u>242,470</u>

A deferred tax liability has been recognised on accelerated capital allowances

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £2,778,966 (2009 £5,126,987) including indexation, is not recognised as the Company has no intention to sell these properties at this time and there is no binding agreement

**12. SHARE CAPITAL**

	2010	2009
	£	£
Called up, allotted and fully paid:		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 30 September 2010**

**13. RESERVES**

	Capital contribution reserve*	Revaluation reserve	Profit and loss account
	£	£	£
At 1 October 2009	30,809,580	9,810,383	5,131,219
Net deficit on revaluation of land and buildings	-	(1,069,000)	-
Loss for the year	-	-	(502,114)
At 30 September 2010	<u>30,809,580</u>	<u>8,741,383</u>	<u>4,629,105</u>

\* The Company has no obligation to repay these amounts nor to provide any consideration for receiving them

**14. CONTINGENT LIABILITIES AND GUARANTEES**

The Company is one of the guarantors to a £1,172 million term loan facility agreement entered into by LIBRA No 3 Limited, a group undertaking with CS Funding 1 Limited, a group undertaking of Credit Suisse on 15 January 2007. The facility is secured by a fixed and floating charge on group assets and unlimited guarantee from its group undertakings. On 4 April 2007 CS Funding 1 Limited's rights and obligations under the £1,172 million term loan agreement were assigned to Libra NHP (2007) Limited, who in turn assigned £638 million to Titan Europe 2007-1 (NHP) Limited on 24 May 2007.

**15. POST BALANCE SHEET EVENT**

On 13 December 2010 a standstill agreement was put in place until 14 February 2011 which suspends the ability of Capita Asset Services (UK) Limited, the loan servicer to exercise its rights in relation to certain specified events of default. Also, it allows the Group time to negotiate a solution to the problem of the breached covenants without threat of foreclosure. See further details in note 1 to the financial statements.

**16. RELATED PARTY TRANSACTIONS**

In accordance with Financial Reporting Standard No 8 "Related Party Disclosures", transactions with other undertakings within the LIBRA No 2 Limited group have not been disclosed in these financial statements.

**17. PARENT UNDERTAKINGS AND CONTROLLING PARTIES**

The immediate parent undertaking is NHP Limited, a company incorporated in Great Britain and registered in England and Wales.

The ultimate and parent undertaking is Delta Commercial Property LP, a limited partnership incorporated and registered in the Isle of Man.

The results of the Company are consolidated within LIBRA No 2 Limited, its intermediate parent undertaking, a company incorporated and registered in the Cayman Islands. LIBRA No 2 Limited is both the smallest and largest group including the Company for which consolidated accounts are prepared.

Copies of the LIBRA No 2 Limited group consolidated financial statements to 30 September 2010, which include the results of the Company, are available from the Companies House at Crown Way, Cardiff, Wales CF14 3UZ.