

**LIBRA CARECO CH2 PROPCO LIMITED**

**Report and Financial Statements**

**30 September 2011**

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## **LIBRA CARECO CH2 PROPCO LIMITED**

### **REPORT AND FINANCIAL STATEMENTS 2011**

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## **LIBRA CARECO CH2 PROPCO LIMITED**

### **REPORT AND FINANCIAL STATEMENTS 2011**

#### **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  
Eversheds House  
70 Great Bridgewater Street  
Manchester M1 5ES

##### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London

# LIBRA CARECO CH2 PROPCO LIMITED

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements from the year ended 30 September 2011

## 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 2 (Cayman) Limited

The Directors intend to continue this activity in the forthcoming year

## BUSINESS REVIEW

At 30 September 2011 the Company owned 124 freehold and leasehold investment properties valued at £266,505,000 (2010 £356,843,000)

## RESULTS

The results for the year ended 30 September 2011 are set out in the profit and loss account on page 8. The principal Key Performance Indicators (KPIs) used by the Company to measure its own performance are shown below

	<u>Year ended</u> <u>30 September 2011</u>	<u>Year ended</u> <u>30 September 2010</u>	<u>Increase /</u> <u>(Decrease)</u>
Turnover	£31.7m	£31.7m	-
Loss before taxation	£7.7m	£7.8m	(1.28%)
Shareholders (deficit) / funds	(£18.0m)	£79.6m	122.61%

Turnover for the year ended 30 September 2011 has been maintained at the level of the previous year. During the year, the Company made provisions for the amounts due from group undertakings for total amounts of £36.2 million and permanent diminution in value of investment property of £0.5m. In conjunction with the fall in the Market Value of the Company's investment properties by £90.3 million to £266.5 million as at 30 September 2011 as a result of the impact of the current financial crisis and the demise of Southern Cross Healthcare Group plc, the principal tenant of the Group on asset values, these cause the increased in the shareholders' deficit at 30 September 2011.

## DIVIDENDS

No dividends in respect of the year are proposed (2010 £nil)

## DIRECTORS

The following Directors served throughout the year except as noted

	<u>Date appointed</u>
P H Thompson	6 November 2010
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

# **LIBRA CARECO CH2 PROPCO LIMITED**

## **DIRECTORS' REPORT**

**(Continued)**

### **PRINCIPAL RISKS AND UNCERTAINTIES**

#### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Directors have the overall responsibilities for the Group in assessing risk and taking appropriate action

##### **Cash flow risk**

The Group used derivative financial instruments to reduce the exposure to interest rate movements in line with the Group's risk management policies as approved by the Board of Directors. The interest rate swap agreement was signed with Credit Suisse on 15 January 2007 as disclosed in note 14 of the LIBRA No 2 Limited's 30 September 2011 financial statements. The Group does not use derivative financial instruments for speculative purposes.

##### **Credit risk**

The Group's principal assets are bank balances and cash, trade and other receivables and tangible fixed assets.

The Group's credit risk is primarily attributable to its trade receivables in relation to rents receivable from third party tenants and fees income from customers for the provision of care services, and will also be in relation to the fees receivable from local authorities and customers receiving care services in the homes to be operated by the group through HC-One, following the restructuring that took place in October 2011 as disclosed in note 15. The amounts presented in the balance sheet are net of allowances for doubtful receivable. Due to austerity measures, some tenants are facing difficult operating conditions resulting in an increased risk that they may be unable to pay their rents. However, a large number of our homes are geographically diverse and our occupational leases are long-term contracts, thus making the income relatively secure.

The Group has no significant concentration of credit risk, with exposure spread over a number of third party tenants and customers. At 30 September 2011, there is no outstanding amount due from tenants and/or customers.

##### **Liquidity risk**

In order to maintain liquidity and to ensure that sufficient funds are available for ongoing operations and future developments, the Group has continued to receive support from its lenders as disclosed in note 1 to the financial statements.

##### **Price risk**

The Group has entered into a number of medium-term rental agreements with its tenants which some tenants are subject to fixed annual price increases and the other tenants are linked to RPI.

The Group also faced uncertainties in relation to average weekly fee increases for the provision of care services.

#### **PROPERTY VALUATIONS**

The Group's property portfolio is the largest component of the Group's net asset value. The value of the Group's property portfolio is affected by the conditions prevailing in the property investment market, the general economic environment, and the growing pressure on the overall public sector spending consequently reducing admissions from local authorities. Accordingly, the Group's net asset value can rise and fall due to external factors beyond management's control.

# LIBRA CARECO CH2 PROPCO LIMITED

## DIRECTORS' REPORT

(Continued)

### PROPERTY VALUATIONS (Continued)

The Group's property portfolio is valued in compliance with international standards by external professionally qualified valuers. The primary source of evidence for valuations should be recent, comparable open market transactions at arm's length terms. The current economic climate means that there have been very few transactions for the types of property owned by the Group. The Company's valuers, Jones Lang LaSalle commented in their valuation certificate as of 30 September 2011 that recent announcements in relation to the demise of Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures were detrimentally affecting market sentiment and, in the opinion of Jones Lang LaSalle, were likely to affect market values going forward. They further commented that as these events with particular reference to Southern Cross were so recent and circumstances continue to change, they were not able accurately to assess the effect there will be on the market with the evidence available to them and had therefore applied their professional judgement.

### 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 recurring 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 January 2012, a further standstill agreement was put in place, expiring 13 April 2012.

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.

### AUDITOR

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 auditor is 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 auditor is 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 auditor in the absence of an Annual General Meeting.

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

J M J M Jensen  
Director  
Date 17 February 2012  
Liberty House  
222 Regent Street  
London  
W1B 5TR

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## **LIBRA CARECO CH2 PROPCO LIMITED**

### **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.

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIBRA CARECO CH2 PROPCO LIMITED**

We have audited the financial statements of Libra CareCo CH2 PropCo Limited for the year ended 30 September 2011, which comprise the Profit and Loss account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' (Deficit) / 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 auditor's 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 auditor**

As explained more fully in the Statement of Directors' Responsibilities, 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 and express an opinion on 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.

### **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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2011 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.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LIBRA CARECO CH2 PROPCO LIMITED (Continued)**

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

In forming our opinion on the financial statements, which is not modified, 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 £7,730,174 for the year ended 30 September 2011 and, as of that date, the Company's current liabilities exceeded its current assets by £284,462,848. 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 14 of the LIBRA No 2 Limited's 30 September 2011 financial statements). 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.

### **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



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

Date 17 February 2012

# LIBRA CARECO CH2 PROPCO LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 30 September 2011

	Notes	Year ended 30 September 2011 £	Year ended 30 September 2010 £
<b>TURNOVER AND GROSS PROFIT</b>	3	<u>31,679,800</u>	<u>31,723,527</u>
Provision for permanent diminution in value of investment property		(477,000)	(386,000)
Administrative expenses	4	<u>(36,526,876)</u>	<u>(35,736,997)</u>
Total administrative expenses		<u>(37,003,876)</u>	<u>(36,122,997)</u>
<b>OPERATING LOSS</b>		<u>(5,324,076)</u>	<u>(4,399,470)</u>
Net interest payable and similar charges	5	<u>(2,406,098)</u>	<u>(3,389,630)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>(7,730,174)</u>	<u>(7,789,100)</u>
Tax on loss on ordinary activities	6	<u>-</u>	<u>-</u>
<b>Loss on ordinary activities after taxation and loss for the financial year</b>	13	<u><u>(7,730,174)</u></u>	<u><u>(7,789,100)</u></u>

Results are derived wholly from continuing operations

# LIBRA CARECO CH2 PROPCO LIMITED

## BALANCE SHEET 30 September 2011

	Notes	2011	2010
		£	£
<b>TANGIBLE FIXED ASSETS</b>			
Investment properties	7	266,505,000	356,843,000
Investments	8	-	-
<b>CURRENT ASSETS</b>			
Debtors	9	-	24,724
<b>CREDITORS: amounts falling due within one year</b>	10	(284,462,848)	(277,234,398)
<b>NET CURRENT LIABILITIES</b>		(284,462,848)	(277,209,674)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		(17,957,848)	79,633,326
<b>NET (LIABILITIES) / ASSETS</b>		(17,957,848)	79,633,326
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	1	1
Capital contribution reserve	13	238,557,517	238,557,517
Revaluation reserve	13	(192,600,322)	(105,311,322)
Profit and loss account	13	(63,915,044)	(53,612,870)
<b>SHAREHOLDERS' (DEFICIT) / FUNDS</b>		(17,957,848)	79,633,326

These financial statements were approved and authorised for issue by the Board of Directors on 17 February 2012  
The Company Registration number is 05555758

Signed on behalf of the Board of Directors



J M J M Jensen  
Director

## LIBRA CARECO CH2 PROPCO LIMITED

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 30 September 2011

	Notes	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Loss for the year	13	(7,730,174)	(7,789,100)
Net deficit on revaluation of properties	13	(89,861,000)	(9,892,000)
Total recognised losses for the year		<u>(97,591,174)</u>	<u>(17,681,100)</u>

### RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT) / FUNDS

Year ended 30 September 2011

	Notes	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Loss for the year	13	(7,730,174)	(7,789,100)
Net deficit on revaluation of properties	13	(89,861,000)	(9,892,000)
Net decrease in shareholders' funds		<u>(97,591,174)</u>	<u>(17,681,100)</u>
Shareholders' funds at the beginning of year		<u>79,633,326</u>	<u>97,314,426</u>
Shareholders' (deficit) / funds at the end of year		<u>(17,957,848)</u>	<u>79,633,326</u>

### NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 30 September 2011

		Year ended 30 September 2011 £	Year ended 30 September 2010 £
Loss on ordinary activities before taxation		(7,730,174)	(7,789,100)
Realisation of property revaluation losses of previous years	13	(2,572,000)	(862,275)
Historical cost loss on ordinary activities before taxation		<u>(10,302,174)</u>	<u>(8,651,375)</u>
Historical cost loss retained for the year		<u>(10,302,174)</u>	<u>(8,651,375)</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2011

### 1. GOING CONCERN

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

The Group has been in breach of the covenants on its term loans since November 2008 and as at 30 September 2011 and at 17 February 2012 the term loan amounts remain outstanding (see note 14 of the LIBRA No 2 Limited's 30 September 2011 financial statements for further details) Since November 2008 the term loans have been under a series of standstill agreements and on 13 January 2012 a further standstill agreement was put in place, expiring on 13 April 2012

During the year, HC-One Limited ("HC-One"), a new subsidiary undertaking of the Group was formed as a new care home operator On 31 October 2011 HC-One took over the operation of 242 care homes through assignment of the operating leases from Southern Cross Healthcare Group plc ("Southern Cross") following the conclusion of its restructuring process (the *Southern Cross Restructuring*)

In order to protect the Group's investment and ensure funds were available to underwrite a substantial investment programme in the quality of care in its care homes, the Directors of the Company and of the Group have retained the rental income monies received from the Group's tenants during 2011 through a series of non full interest payments (which have been acknowledged in the standstill agreements) to the Group's lenders This has enabled the Group to provide a total amount of £30 million to HC-One by way of capital contribution and inter-company loans in October 2011 Furthermore, the rents payable by HC-One were reset at £40 million per annum, which is on average 38% below the previous amount charged to Southern Cross

Unlike Southern Cross, the Group now controls both the property and the operations of 242 care homes and can therefore ensure that HC-One is able to operate those homes without the burden of uneconomic rent obligations As announced by the Libra Group lenders on 1 November 2011, the Group intends the level of rent payable by HC-One to be reviewed periodically in line with the trading performance of the business

The discussions with respect to restructuring the term loan of the Company and of the Group with its lenders are on-going (the *Potential Restructuring*)

The Directors of the Group and of the Company and Capita Asset Services (UK) Limited, the Special Servicer to the senior loan continue to explore methods to maximise recoveries to the lenders, including the sale of the whole or part of the Group and/or the properties (the *Disposal Options*)

Whilst the Group must resolve its outstanding debts in the medium term, in the opinion of the Directors of the Company and of the Group, the financing of the Group's operating company, HC-One is secure and will not be compromised, since the long-term value of the Group can only be achieved through the success of the care home operations at HC-One

The Libra Group lenders have confirmed by a letter that it is their intention to provide the Group with the funds it requires including, without limitation, reasonable (a) day-to-day operating costs and expenses, (b) restructuring and/or disposal costs, (c) other exceptional costs incurred in relation to the Southern Cross Restructuring, the Disposal Options and/or the Potential Restructuring, and (d) ensuring that HC-One has sufficient funds to ensure continuity of care services at the homes and investment for the future Based on this assumption, the Directors have prepared a forecast cash flow up to 30 June 2013 which reveals that the Group remains cash positive throughout the period to that date

Given these circumstances, the Directors do not currently expect the Group to go into insolvent liquidation, although this position could change if the negotiations for which the current standstill agreement allows were to fail 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 and therefore indicate that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business

At the present time, the Directors consider it appropriate to prepare the Group and Company financial statements on the going concern basis In the event that the going concern basis should become inappropriate, the assets of the Group and 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 FINANCIAL STATEMENTS**

**Year ended 30 September 2011**

**2. ACCOUNTING POLICIES**

**Basis of accounting**

The financial statements are prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with all applicable United Kingdom accounting standards, except that, as explained below, investment properties are not depreciated

The accounting policies have been followed consistently during the current and preceding year

**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 cost

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 Jones Lang LaSalle, the qualified external valuers on an individual property basis at Market Value in the current and previous year. 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 investment properties. 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 properties 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, any amounts, which might otherwise have been charged, cannot be separately identified or quantified

**Exemption from consolidation**

The Company is itself a subsidiary undertaking of LIBRA No 2 Limited, a company incorporated and registered in the Cayman Islands, and the Company is exempt from the requirement to prepare group accounts by virtue of section 401 of the Companies Act 2006. These financial statements provide information about the Company as an individual undertaking and not about its group

**Investment**

Fixed asset investment is stated at cost less provision for impairment

**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

## LIBRA CARECO CH2 PROPCO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2011

#### 2. ACCOUNTING POLICIES (Continued)

##### Interest

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

##### 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

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Overriding lease rents received from group undertaking	<u>31,679,800</u>	<u>31,723,527</u>

#### 4. ADMINISTRATIVE EXPENSES

The Company had no employees during the current or preceding year

None of the Directors received emoluments in relation to their services to the Company during the current or preceding year. Directors' emoluments have been borne by NHP Management Limited, a group undertaking during the current and preceding year

Administrative expenses include

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Management fees from NHP Management Limited, a group undertaking	279,122	172,684
Net provision for doubtful debts – group undertakings*	36,199,016	35,550,320
Fees payable to the Company's auditor for the audit of the Company's annual accounts	18,000	17,823
Tax adviser fees payable to the Company's auditor	<u>6,000</u>	<u>6,000</u>

\*Provision for doubtful debts include a total of £31,679,800 for the investment in subordinated loan notes and £4,519,216 in respect of other amounts owed by group undertakings (30 September 2010 £31,720,056 and £3,830,264)

The Company did not incur any non-audit fees during the year (30 September 2010 £nil)

# LIBRA CARECO CH2 PROPCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2011

### 5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Interest receivable on loan notes to group undertaking	1,956,704	3,176,911
Interest payable on loan notes from group undertakings	(4,362,802)	(6,566,526)
Finance costs	-	(15)
	<u>(2,406,098)</u>	<u>(3,389,630)</u>

### 6. TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Corporation tax	-	-
Total tax charge	<u>-</u>	<u>-</u>
Loss before tax	<u>(7,730,174)</u>	<u>(7,789,100)</u>
Tax on loss at standard rate of 27% (2010 28%)	(2,087,147)	(2,180,948)
Factors affecting tax charge		
Non deductible provisions	9,773,735	9,954,090
Decrease in value of property interest	135,465	108,080
Group relief for nil consideration	<u>(7,822,053)</u>	<u>(7,881,222)</u>
Current tax charge for the year	<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



# LIBRA CARECO CH2 PROPCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2011

### 7. TANGIBLE FIXED ASSETS

#### Investment properties

	Freehold investment properties £	Long leasehold investment properties £	Total £
At valuation 30 September 2010	284,812,000	72,031,000	356,843,000
Net deficit on revaluation, transferred to revaluation reserve (note 13)	(77,060,000)	(12,801,000)	(89,861,000)
Provision for permanent diminution in value of investment property	(477,000)	-	(477,000)
At valuation 30 September 2011	207,275,000	59,230,000	266,505,000

Investment properties are stated at market value as at 30 September 2011 as valued by professionally qualified external valuers. The Group's properties were valued by Jones Lang LaSalle, 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, Jones Lang LaSalle have confirmed that the opinions and values stated therein represent their objective view as at 30 September 2011.

Jones Lang LaSalle commented in their valuation certificate as of 30 September 2011 that recent announcements in relation to the demise of Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures were detrimentally affecting market sentiment and, in the opinion of Jones Lang LaSalle, were likely to affect market values going forward. They further commented that as these events with particular reference to Southern Cross were so recent and circumstances continue to change, they were not able accurately to assess the effect there will be on the market with the evidence available to them and had therefore applied their professional judgement.

Jones Lang LaSalle further stated in their valuation certificate that in respect of Southern Cross properties, given the assignment of the existing leases to HC-One Limited they have applied an approach based upon a capitalisation of their opinion of Market Rent. This was because they did not believe the over-rented properties let to Southern Cross could have been assigned at their passing rent.

The Directors have reviewed Jones Lang LaSalle's valuation at 30 September 2011 and are of the opinion that there is a deficit of £477,000 (2010: £386,000) on closed homes which represents a permanent fall in value, which has consequently been charged in the profit and loss account.

# LIBRA CARECO CH2 PROPCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 30 September 2011

### 8. INVESTMENTS

	Share in subsidiary undertaking £	Subordinated loan notes investment in subsidiary undertaking £	Total £
<b>Cost</b>			
At 1 October 2010	382,224	112,087,528	112,469,752
Additions	-	31,679,800	31,679,800
At 30 September 2011	382,224	143,767,328	144,149,552
<b>Provision</b>			
At 1 October 2010	(382,224)	(112,087,528)	(112,469,752)
Provision in the current year	-	(31,679,800)	(31,679,800)
At 30 September 2011	(382,224)	(143,767,328)	(144,149,552)
<b>Net book value</b>			
At 30 September 2011	-	-	-
At 30 September 2010	-	-	-

#### Shares in Subsidiary undertaking

On 1 December 2006, NHP Securities No 1 Limited purchased the entire issued share capital of Care Homes No 2 (Cayman) Limited, a company incorporated in the Cayman Islands. The principal activity of Care Homes No 2 (Cayman) Limited is the investment in overriding leases acquired from the Company.

At 30 September 2011, the Company held investments either directly or indirectly in the following principal subsidiary undertakings:

Name	Country of incorporation	% Holdings	Principal activity
Care Homes No 2 (Cayman) Limited *	Cayman Islands	100%	Investment in care homes properties
NHP Securities No 5 Limited	Jersey	100%	Investment in care home properties
NHP Securities No 8 Limited	Jersey	100%	Investment in care homes properties

\* held directly by Libra CareCo CH2 PropCo Limited

All shares held are ordinary shares

# LIBRA CARECO CH2 PROPCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2011

### 8 INVESTMENTS (Continued)

#### Subordinated Loan notes investment in subsidiary undertaking

At 30 September 2011 a loan note of £143,767,328 (2010 £112,087,528) was invested in Care Homes No 2 (Cayman) Limited, a group undertaking. The loan note has no fixed repayment date and bears interest of LIBOR plus 2% per annum.

The investment in the loan notes in Care Homes No 2 (Cayman) Limited has been written down in full as its current liabilities exceeded its current assets by £142,560,288 at 30 September 2011. Furthermore, Care Homes No 2 (Cayman) Limited 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. As disclosed in note 1, since November 2008, the Senior Loan has been under a series of standstill agreements.

### 9. DEBTORS

	2011 £	2010 £
Other debtors	-	24,724

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

	2011 £	2010 £
Loan notes due to group undertakings	228,996,580	228,996,580
Loan interest payable to group undertakings	49,996,560	43,071,248
Amounts owed to group undertakings	5,463,708	5,160,570
Accruals	6,000	6,000
	<u>284,462,848</u>	<u>277,234,398</u>

#### Loan notes due to group undertakings

On 17 October 2005, the Company issued a loan note of £72,106,107 to NHP Securities No 3 Limited, a group undertaking, which represents part of the consideration payable for assets transferred. The loan note has no fixed repayment date and carries loan interest at LIBOR plus 2% per annum.

On 3 March 2006, the Company issued a loan note of £156,890,473 to LIBRA No 3 Limited, an intermediate parent undertaking to enable it to repay its bridge loan and breakage fees incurred on termination of interest rate swap agreements. The loan note has no fixed repayment date and carries interest at LIBOR plus 2% per annum.

#### Amounts owed to group undertakings

These amounts are due on demand bearing no interest.

# LIBRA CARECO CH2 PROPCO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2011

### 11. DEFERRED TAXATION

	2011		2010	
Deferred taxation	Provided £	Unprovided £	Provided £	Unprovided £
Accelerated capital allowances	-	(1,865,246)	-	(2,014,466)
Revaluation of investment properties	-	(1,279,138)	-	10,157,074
	<u>-</u>	<u>(3,144,384)</u>	<u>-</u>	<u>8,142,608</u>

A deferred tax asset has not been recognised on accelerated capital allowances, as it is considered more likely than not that there will be insufficient taxable profits in the future against which future capital allowances may be utilised

In July 2011, the UK Government announced that the main rate of corporation tax would reduce to 25% with effect from 1 April 2012. This tax rate reduction was substantively enacted at the balance sheet date and therefore deferred tax balances have been calculated using a rate of 25%. The Government also announced subsequent 1% reductions per annum to reach 23% with effect from 1 April 2014. These tax rates have not been substantively enacted and therefore have not been reflected in the financial statements. The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted.

### 12. CALLED UP SHARE CAPITAL

	2011 £	2010 £
Called up, allotted and fully paid:		
1 ordinary shares of £1 each	<u>1</u>	<u>1</u>

### 13. RESERVE

	Capital contribution reserve* £	Revaluation Reserve £	Profit and loss account £
At 1 October 2010	238,557,517	(105,311,322)	(53,612,870)
Net deficit on revaluation of properties	-	(89,861,000)	-
Realisation of property revaluation losses of previous years	-	2,572,000	(2,572,000)
Loss for the year	-	-	(7,730,174)
At 30 September 2011	<u>238,557,517</u>	<u>(192,600,322)</u>	<u>(63,915,044)</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.

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 30 September 2011**

**15. POST BALANCE SHEET EVENT**

- a) On 2 December 2011 an insurance settlement amount has been made by the insurance company for fire damaged at Culloden Court nursing home for £2,320,000. The receipt amount has been applied in accordance to the term of the £1,172 million Term Loan Agreement dated 15 January 2007.
- b) On 13 January 2012 a standstill agreement was put in place until 13 April 2012 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.

**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.

No other related party transaction is noted.

**17. PARENT UNDERTAKINGS AND CONTROLLING PARTIES**

The immediate parent undertaking is Libra CareCo CH2 PropCo Holdco 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 2011, which include the results of the Company, are available from the Companies House at Crown Way, Cardiff, Wales CF14 3UZ.