Company Registration No. 05555758

LIBRA CARECO CH2 PROPCO LIMITED

Report and Financial Statements
30 September 2010

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 from the year ended 30 September 2010

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 2010 the Company owned 124 freehold and leasehold investment properties valued at £356,843,000 (2009 £367,121,000)

RESULTS

The results for the year ended 30 September 2010 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

	Year ended 30 September 2010	Year ended 30 September 2009	Increase / (Decrease)
Turnover	£31 7m	£30 8m	2 92%
Loss before taxation	£7 8m	£5 9m	32 20%
Shareholders funds	£79 6m	£97 3m	(18 19%)

Turnover for the year ended 30 September 2010 had increased by 2 92% mainly due to higher overriding rent received from group undertaking During the year, the Company made provisions for the amounts due from group undertakings for total amounts of £35 6 million and permanent diminution in value of investment property of £0 4million In conjunction with the fall in the Market Value of the Company's investment properties by £10 3 million to £356 8 million as at 30 September 2010 as a result of the impact of the current financial crisis on asset values, these cause the reduction in the shareholders' funds at 30 September 2010

DIVIDENDS

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

DIRECTORS

The following Directors served throughout the year except as noted

	Date appointed	Date Resigned
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

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 13 of the financial statements The Group does not use derivative financial instruments for speculative purposes

Credit risk

Credit risk is attributable to receivables in relation to rents receivable from third party tenants 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 a concentration of credit risk as the principal tenant is Southern Cross Healthcare Group Plc ("Southern Cross") At 30 September 2010, there is no outstanding rent due from Southern Cross The Directors have been in on-going discussions with Southern Cross in respect of a potential restructuring of its obligations under the lease documents Such discussions are at a preliminary stage See note 1 to the financial statements for further details

Liquidity risk

In order to maintain liquidity and to ensure that sufficient funds are available for ongoing operations and future developments, the Group has reserved £4 3m in an interest bearing cash reserve account and £0 3m in capital expenditure reserve account at 30 September 2010

Price risk

The Group has entered into a number of medium-term rental agreements with its tenants which are subject to fixed annual price increases

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

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 arms length terms The current economic climate means that there have been few transactions for the types of property owned by the Group The Company's valuers commented in their valuation report as at 30 September 2010 that the recent announcements in relation to Southern Cross, a continuing lack of liquidity in the financial sector together with austerity measures were detrimentally affecting market sentiment and 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 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

DIRECTORS' REPORT

(Continued)

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 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

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

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 stimates 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 LIBRA CARECO CH2 PROPCO LIMITED

We have audited the financial statements of Libra CareCo CH2 PropCo 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 18 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 £7,789,100 for the year ended 30 September 2010 and, as of that date, the Company's current liabilities exceeded its current assets by £277,209,674 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 LIBRA CARECO CH2 PROPCO 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

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

Date 8 February 2011

PROFIT AND LOSS ACCOUNT
Year ended 30 September 2010

	Notes	Year ended 30 September 2010 £	Year ended 30 September 2009 £
TURNOVER AND GROSS PROFIT	3	31,723,527	30,776,223
Provision for permanent diminution in value of investment property		(386,000)	-
Administrative expenses	4	(35,736,997)	(29,501,323)
Exceptional costs	5	-	(105,168)
Total administrative expenses		(36,122,997)	(29,606,491)
OPERATING (LOSS) / PROFIT		(4,399,470)	1,169,732
Net interest payable and similar charges	6	(3,389,630)	(7,109,089)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(7,789,100)	(5,939,357)
Tax on loss on ordinary activities	7	-	-
Loss on ordinary activities after taxation and loss for the financial year	14	(7,789,100)	(5,939,357)

Results are derived wholly from continuing operations

BALANCE SHEET
30 September 2010

	Notes		2010		2009
		£	£	£	£
TANGIBLE FIXED ASSETS					
Investment properties	8		356,843,000		367,121,000
Investments	9		-		-
CURRENT ASSETS					
Debtors	10	24,724		24,724	
CREDITORS: amounts falling due within one year	11	(277,234,398)		(269,831,298)	
NET CURRENT LIABILITIES			(277,209,674)		(269,806,574)
TOTAL ASSETS LESS CURRENT LIABILITIES			79,633,326		97,314,426
NET ASSETS			79,633,326		97,314,426
CAPITAL AND RESERVES					
Called up share capital	13		1		1
Capital contribution reserve	14		238,557,517		238,557,517
Revaluation reserve	14		(105,311,322)		(96,281,597)
Profit and loss account	14		(53,612,870)		(44,961,495)
SHAREHOLDERS' FUNDS			79,633,326		97,314,426

These financial statements were approved and authorised for issue by the Board of Directors on 8 February 2011
The Company Registration number is 05555758

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

	Note	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Loss for the year	14	(7,789,100)	(5,939,357)
Net deficit on revaluation of properties	14	(9,892,000)	(31,530,000)
Total recognised losses for the year		(17,681,100)	(37,469,357)

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

	Note	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Loss for the year	14	(7,789,100)	(5,939,357)
Net deficit on revaluation of properties	14	(9,892,000)	(31,530,000)
Net decrease in shareholders' funds		(17,681,100)	(37,469,357)
Shareholders' funds at the beginning of year		97,314,426	134,783,783
Shareholders' funds at the end of year		79,633,326	97,314,426

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

		Year ended 30 September 2010 £	Year ended 30 September 2009 £
Loss on ordinary activities before taxation		(7,789,100)	(5,939,357)
Realisation of property revaluation losses of previous years	14	(862,275)	-
Historical cost loss on ordinary activities before taxation		(8,651,375)	(5,939,357)
Historical cost loss retained for the year		(8,651,375)	(5,939,357)

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 the 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

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 King Sturge LLP, 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

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

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 2010 £	Year ended 30 September 2009 £
Overriding lease rents received from group undertaking	31,723,527	30,776,223

4. ADMINISTRATIVE EXPENSES

The Company had no employees during the current or preceding year

None of the Directors received emoluments directly from the Company during the current or preceding year

Administrative expenses include

	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Management fees from NHP Management Limited, a group undertaking	172,684	73,721
Provision for doubtful debts – group undertakings	35,550,320	29,397,588
Fees payable to the Company's auditors for the audit of the annual accounts	17,823	24,000
Tax adviser fees payable to the Company's auditors	6,000	6,000

5. EXCEPTIONAL COST

The following exceptional cost has been incurred or provided for and included in the administrative expenses

	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Tenant's receivership support costs	-	105,168
	-	105,168

One of the tenants went into receivership in March 2008 The Company had given its financial support by way of working capital so that the operations of the care homes could continue operating as normal The care homes in the receivership were assigned during the year

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

6. NET INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Interest receivable on loan notes to group undertaking	3,176,911	2,840,286
Interest payable on loan notes from group undertakings	(6,566,526)	(9,949,373)
Finance costs	(15)	(2)
	(3,389,630)	(7,109,089)

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	Year ended 30 September 2010 £	Year ended 30 September 2009 £
Corporation tax	-	-
Total tax charge	-	-
Loss before tax	(7,789,100)	(5,939,357)
Tax on loss at standard rate of 28% (2009 28%)	(2,180,948)	(1,663,020)
Factors affecting tax charge		
Non deductible provisions	9,954,090	8,231,325
Decrease in value of property interest	108,080	-
Group relief for nil consideration	(7,881,222)	(6,568,305)
Current tax charge for the year	-	-

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

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

8. TANGIBLE FIXED ASSETS

Investment properties

	Freehold investment properties £	Long leasehold investment properties £	Total £
At valuation 30 September 2009	296,302,000	70,819,000	367,121,000
Net deficit on revaluation, transferred to revaluation reserve (note 14)	(11,104,000)	1,212,000	(9,892,000)
Provision for permanent diminution in value of investment property	(386,000)	-	(386,000)
At valuation 30 September 2010	284,812,000	72,031,000	356,843,000

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

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 are of the opinion that there is a deficit of £386,000 on an investment property which represents a permanent fall in value, which has consequently been charged in the profit and loss account

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

9. INVESTMENTS

	Share in subsidiary undertaking £	Subordinated loan notes investment in subsidiary undertaking £	Total £
Cost			
At 1 October 2009	382,224	80,367,472	80,749,696
Additions	-	31,720,056	31,720,056
At 30 September 2010	382,224	112,087,528	112,469,752
Provision			
At 1 October 2009	(382,224)	(80,367,472)	(80,749,696)
Provision in the current year	-	(31,720,056)	(31,720,056)
At 30 September 2010	(382,224)	(112,087,528)	(112,469,752)
Net book value			
At 30 September 2010	-	-	-
At 30 September 2009	-	-	-

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 2010, 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

Subordinated Loan notes investment in subsidiary undertaking

At 30 September 2010 a loan note of £112,087,528 (2009 £80,367,472) 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

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

10. DEBTORS

	2010	2009
	£	£
Other debtors	24,724	24,724

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010	2009
	£	£
Loan notes due to group undertakings	228,996,580	228,996,580
Loan interest payable to group undertakings	43,071,248	35,854,842
Amounts owed to group undertakings	5,160,570	4,973,876
Accruals	6,000	6,000
	277,234,398	269,831,298

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

12. DEFERRED TAXATION

	2010		2009	
	Provided	Unprovided	Provided	Unprovided
Deferred taxation	£	£	£	£
Accelerated capital allowances	-	(2,014,466)	-	(2,089,076)
Revaluation of investment properties	-	10,157,074	-	27,203,952
	-	8,142,608	-	25,114,876

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

The deferred tax liability on the potential capital gain arising in relation to the revalued freeholds of £10,157,074 (2009 £27,203,952) including indexation, is not recognised as the Company has no intention to sell these properties at this time and there is no binding agreement

13. CALLED UP SHARE CAPITAL

	2010	2009
	£	£
Called up, allotted and fully paid:		
1 ordinary shares of £1 each	1	1

NOTES TO THE ACCOUNTS
Year ended 30 September 2010

14. RESERVE

	Capital contribution reserve* £	Revaluation Reserve £	Profit and loss account £
At 1 October 2009	238,557,517	(96,281,597)	(44,961,495)
Net deficit on revaluation of properties	-	(9,892,000)	-
Realisation of property revaluation losses of previous years	-	862,275	(862,275)
Loss for the year	-	-	(7,789,100)
At 30 September 2010	238,557,517	(105,311,322)	(53,612,870)

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

15. 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

16. 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

17. 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

18. 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 2010, which include the results of the Company, are available from the Companies House at Crown Way, Cardiff, Wales CF14 3UZ